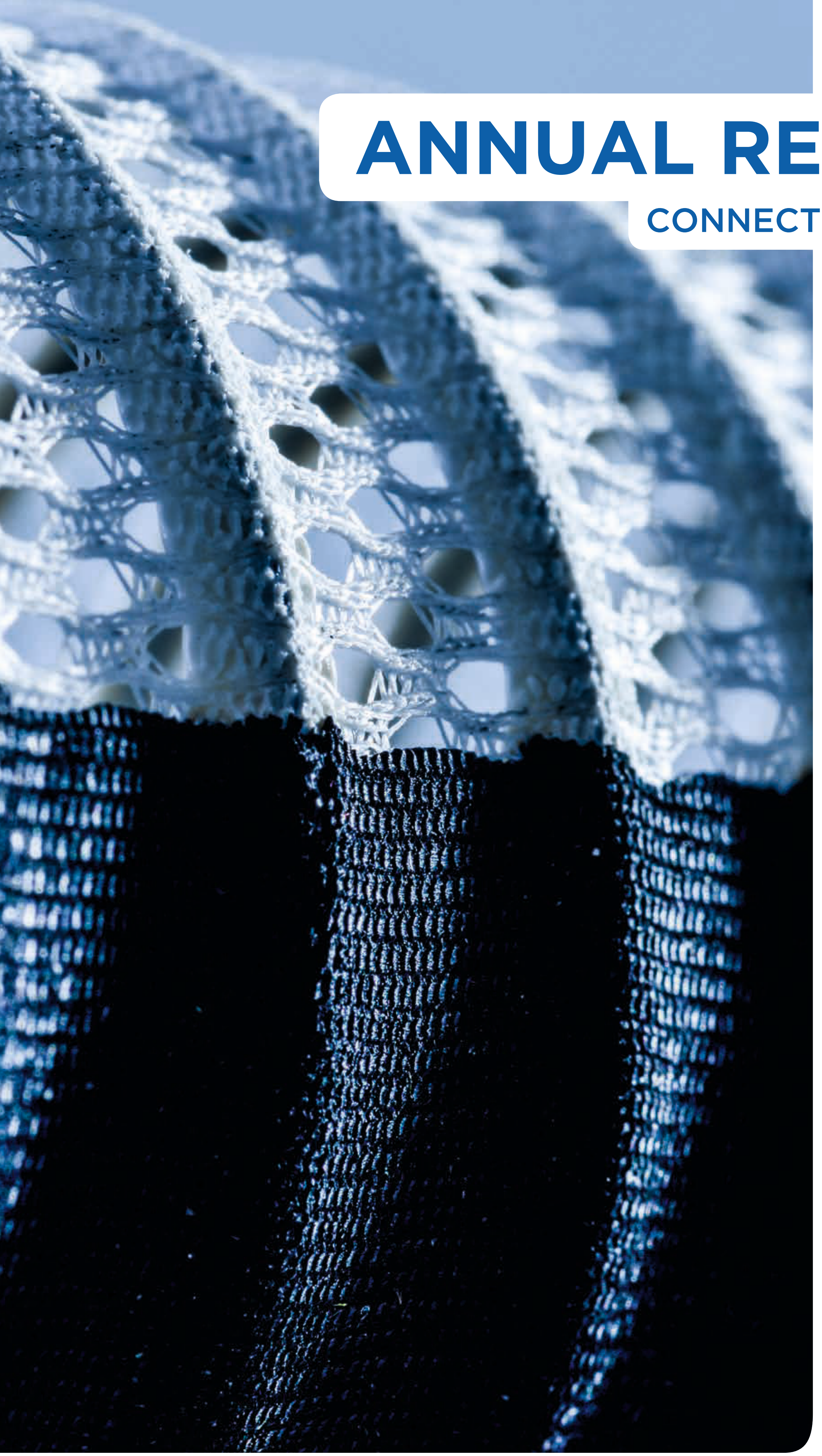
MASTERFLEX SE

ANNUAL REPORT

CONNECTING VALUES



2018

MASTERFLEX GROUP
Connecting Values

VISION
INNOVATION
FUTURE

As an internationally established group of companies with German roots, the Masterflex Group specialises in solving connection problems. For decades, we have focused successfully on the development, production and consultant-oriented marketing of high-quality hoses and complete connection systems. With our material and technology know-how, we process demanding high-performance plastic for products which set international standards.

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

GLOBAL MARKETS IN FOCUS

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

INNOVATION IS OUR DRIVING FORCE

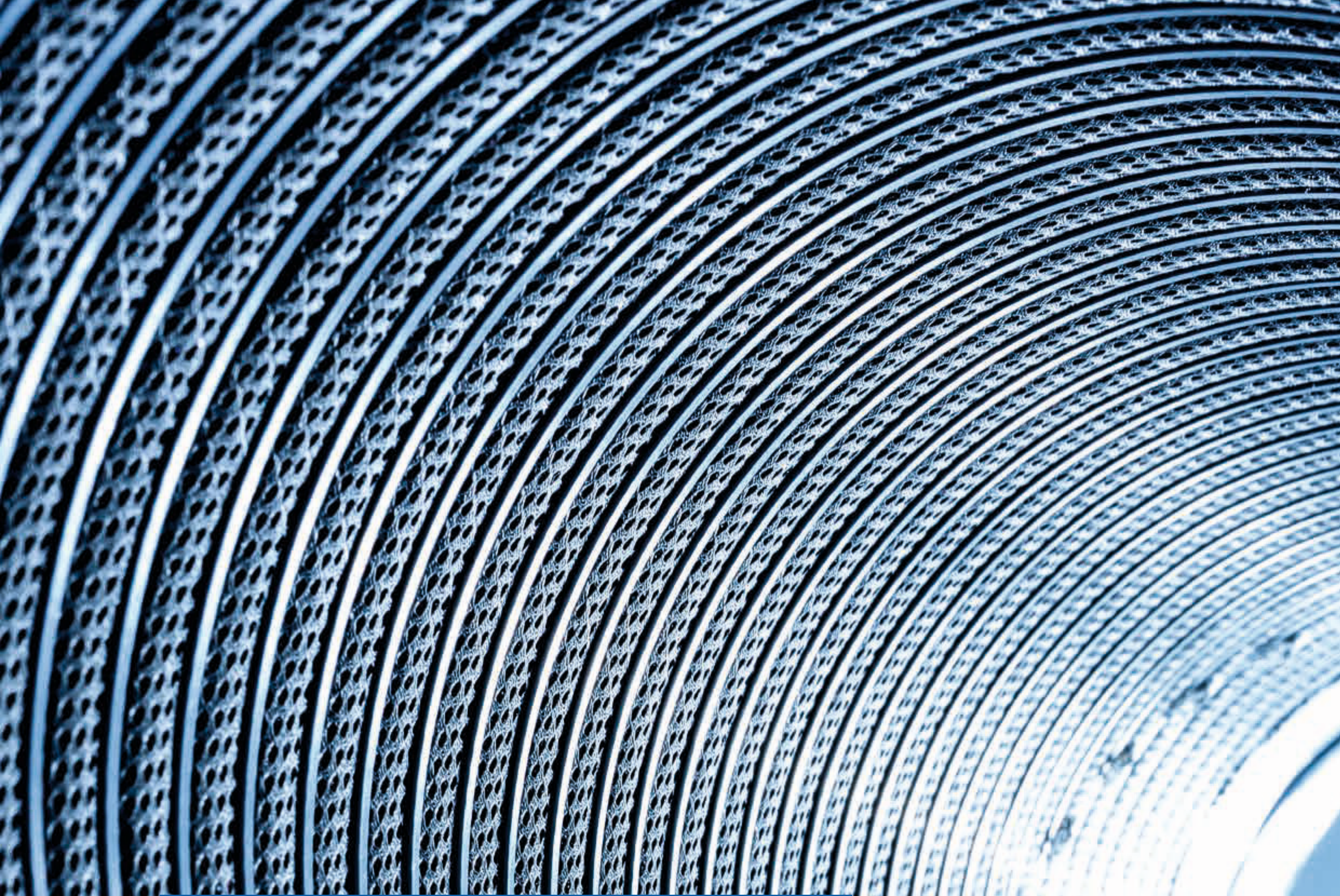
We continuously develop new hoses and connecting elements. The stimulation for this often feeds from close customer contact. From the variety of high-performance plastics and fabrics, our technicians design, test and produce products that can replace conventional connections. In this way, we have been the technology leader in the market for special flexible connection systems for several years.

OPERATIONAL EXCELLENCE

We want to continue to make our growth profitable. Measures for scaling and to increase efficiency in all areas of the Masterflex Group will substantially reinforce this.

DIGITAL TRANSFORMATION

The focus is on our new digital brand AMPIUS with which our customers not only convey media but also collect data and use it to control their plant. In addition, this includes our network and automation activities, which will allow our operations to be yet further improved.



CONNECTING VALUES

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

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

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

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

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

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

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

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

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

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

KEY FIGURES

MASTERFLEX AT A GLANCE

in €k	31.12.2018	31.12.2017	Change
Consolidated revenue	77,243	74,675	3.4%
EBITDA	9,592	10,263	-6.5%
EBIT (operative)	6,251	7,081	-11.7%
EBIT	6,101	6,601	-7.6%
EBT	5,042	5,420	-7.0%
Consolidated earnings from continued business units	3,274	4,365	-25.0%
Consolidated earnings from discontinued business units	-58	-62	6.5%
Consolidated net income (Interests of shareholders of Masterflex SE)	3,373	4,311	-21.8%
Consolidated equity	40,223	37,396	7.6%
Consolidated balance sheet total	75,173	72,967	3.0%
Consolidated equity ratio	53.5%	51.3%	
Employees (number)	669	642	4.2%
EBIT margin (operative)	8.1%	9.5%	
Net return on sales	4.2%	5.8%	
Consolidated earnings per share (€)			
from continued business units	0.36	0.46	-21.7%
from discontinued business units	-0.01	-0.01	0.0%
from continued and discontinued business units	0.35	0.45	-22.2%

CONTENT

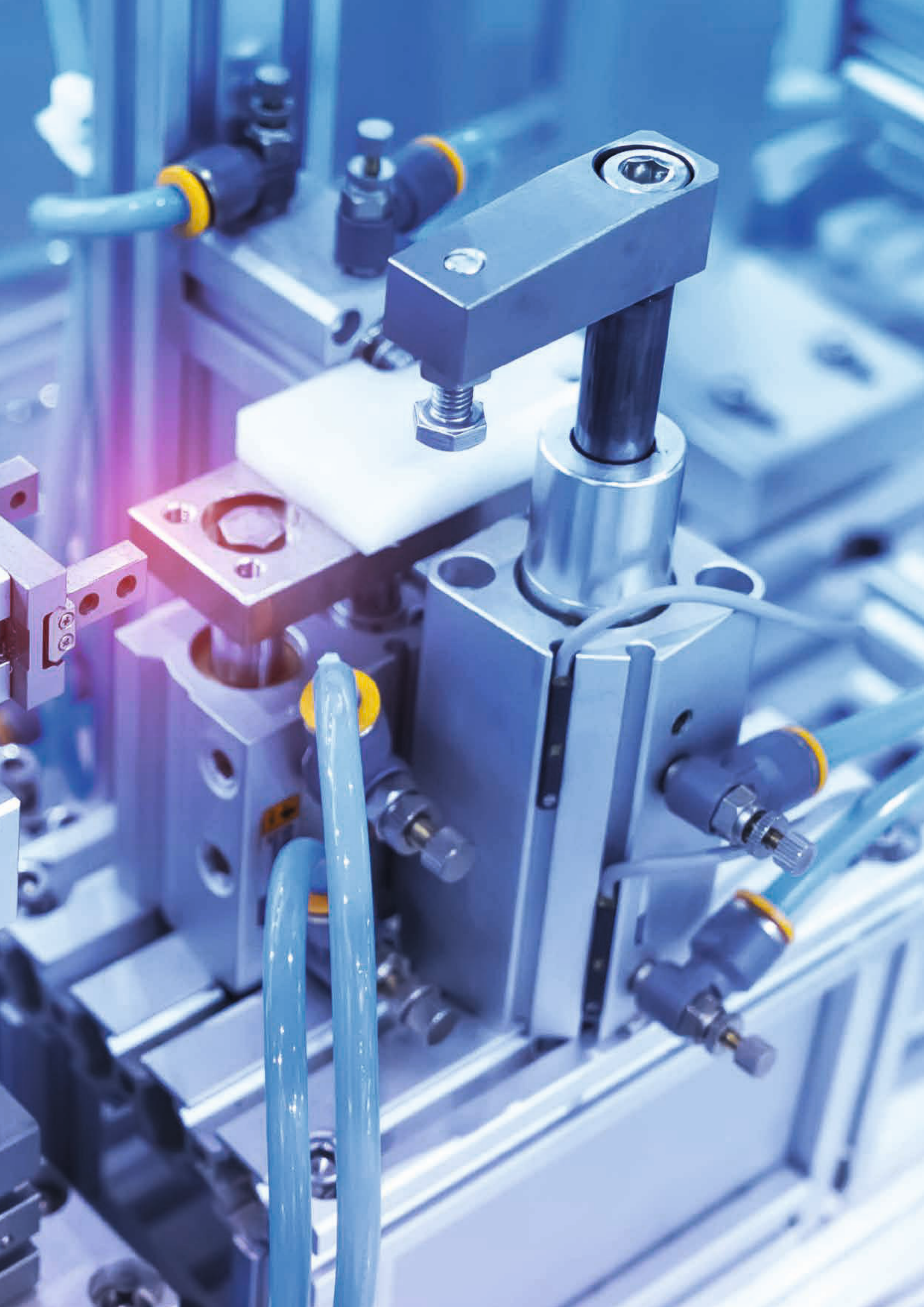
FUNCTIONING MATERIAL FLOWS ARE THE LIFELINES OF INDUSTRIAL PRODUCTION PROCESSES. MASTERFLEX ENSURES SAFE CONNECTION AND TRANSPORT.

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

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

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

In the food, pharmaceutical and medical industries, hoses must meet various legal and regulatory requirements. Hoses from Masterflex have the appropriate permits and approvals in the most important international markets.



Dr. Andreas Bastin
Chief Executive Officer

FOREWORD BY THE CHAIRMAN OF THE EXECUTIVE BOARD

Dear shareholders,

With revenues of € 77.2 million and a plus of 3.4%, we were able to continue our unbroken growth curve since 2010 in the 2018 financial year. On the earnings side, we ended up with an operating EBIT of € 6.3 million and a net profit of € 3.4 million, which is still satisfactory and allows us to continue paying out a dividend and in parallel strengthen our equity base.

At the same time, however, we are looking very ambivalently at the course of the 2018 financial year. It is no secret that we had set ourselves significantly higher targets for 2018. We were very angered that we had to adjust our targets in October 2018. It was a small consolation that we ultimately almost achieved our original revenue forecast. At 8.1%, our EBIT margin was slightly below our original forecast of 8% to 9%, but within our adjusted forecast.

There were several reasons for the slowdown in earnings development, which in themselves were rather minor factors. A high sickness rate as well as shortages and supply bottlenecks for some raw materials altogether led to delays in the processing and delivery of our unusually high order backlog. In addition, we were not spared the effects that ultimately affected German industry as a whole in the past year: unfavourable exchange rate developments, rising energy and commodity costs, commodity shortages for some materials and greater uncertainty due to the threat of international trade restrictions. Singularly and limited to the Gelsenkirchen site, we also successfully introduced a new, cloud-based ERP system. In the final spurt of the operational introduction in November 2018, we had to cope with an additional reduction in delivery days. If everything had gone well, we would have been able to generate € 2.0 million more revenues on the basis of well-stocked order books and thus also achieved our original EBIT target.

These factors, which slow down earnings, somewhat offset the fact that the general development of our Group was quite satisfactory. The drivers in our markets remain intact. This is particularly true in target markets such as medical technology or the food industry. In particular, our subsidiaries Novoplast and APT continued to develop very well.

With the acquisition of APT, we were able to add an important building block to our Group-wide materials expertise. We continue to see great potential for fluoropolymers as processed by APT, especially for applications in laboratory and process technology or in medical technology. In our opinion, the Masterflex Group currently has the world's largest materials expertise in the implementation of high-tech hose system solutions. This secures our market position as a global solutions provider. At the same time, we are able to offer our customers a wide range of individual solutions and are not restricted to single materials or hose types. For many customers, the principle of "everything from a single source" and this with worldwide compliance with international governance rules will become increasingly important in the future. Only we can currently provide this.

There are additional growth opportunities through materials and applications in which we are not yet represented. At the same time, these are often target markets in which we already have functioning market access. We can also envisage further acquisitions in these areas. This would enable us to enter the market in the respective materials segment directly with advantageous synergies and also much faster than would be the case if we were to set up our own facilities.

As open as we are to acquisitions at a fair price, we also see great potential for organic growth. In the coming years, we will focus even more strongly on ensuring that our product portfolio, which is virtually unique worldwide, is not only fully placed in Germany. In important international markets such as the USA, China, the UK and France, we are still only established with part of our range of applications. If we succeed in being represented in our ten most important international markets with a similarly broad range of products and services as in our German home market, we would find ourselves close to our revenue target of € 200 million.

Internationalisation has long been a key pillar of our corporate strategy. The expansion of our product range in the international markets in which we are already represented was given greater weight in this strategy. We have two directions: First, optimisation of sales structures in the respective markets. In some cases, we also had to make personnel changes, for example in France due to the unsatisfactory development. Secondly, we want to gradually create Group-wide responsibility. So far, all subsidiaries have operated very independently. In the future, we will control these activities much more centrally in order to proactively sell applications into the markets. In Europe, we have already taken some important steps in this direction. It will be crucial to intensify this process in America and Asia as well.

In Research & Development, we have been focusing on significantly more centralised and Group-wide work since 2017. This approach is already very effective at AMPIUS, our smart digital hose systems. The technological aspects we are emphasising are not linked to specific materials or target markets. We made good progress at AMPIUS in 2018 and implemented our first pilot projects. As communicated from the beginning, our focus at the start is not on short-term business potential. Rather, we want to strengthen our role as a technological pioneer and involve our customers in joint development projects. In the medium term, we do indeed see great revenue and earnings potential – not least through completely new business models.

Our development and the digital transformation of our company are accompanied by numerous other projects: the gradual networking and automation of our production, the further roll-out of the new, cloud-based ERP system successfully introduced at the Gelsenkirchen site on January 1, 2019, and the expansion of our digital product information management system are only the most important technical solutions. These are rounded off by modern, agile tools and methods for project and product management and by the introduction and expansion of modern development methods such as design thinking.

There are central tasks that we have set ourselves for 2019, such as improving personnel productivity, increasing cost and process efficiency, and optimising in particular at locations that do not yet show a double-digit EBIT margin. In this strategic area – strengthening operational excellence –, we have not made as much progress in the past two years as we ourselves have strived for. In order to improve this situation in the future, we began adjusting our project structure for all measures in the fourth quarter of 2018. Our various activities for the sustainable improvement of operational excellence will now be divided into smaller, more agile sub-projects with more measurable intermediate and sub-targets. This will enable us to manage their implementation more clearly and, above all, more promptly. Thereby, we expect a significantly accelerated and more sustainable achievement of our goals.

Two projects are exemplary and at the same time of central importance for this: Firstly, we want to raise the processes at the Gelsenkirchen location, where we have carried out very extensive expansion investments in recent years, to a significantly higher level. We already have modern premises, new ERP software and the right personnel. Now, it is a matter of successively implementing a partially adopted plan of measures in order to streamline and dynamise processes, increase output, thereby improving delivery reliability and, with the same capacities, leveraging additional economies of scale.

A second central project is a comprehensive optimisation at our subsidiary Matzen & Timm. This company, with its strong pillar in the aviation industry, achieved a small increase in revenue in 2018, but once again fell short of our expectations, especially in terms of earnings. Many process steps in these highly specialised hoses made of high-quality synthetic rubber are still carried out by hand. This is precisely why increasing productivity is such a central goal for us in 2019 and beyond. We continue to see great potential for Matzen & Timm in the established aerospace, special vehicle and mechanical engineering markets. We need to leverage this potential – with corresponding revenue growth and significant margin improvements.

Our forecast for 2019 is in line with the scope of these tasks. The focus in 2019 is clearly on the measures that should significantly improve our profitability again by 2020 at the latest. At the same time, however, we want to continue to grow. We have set ourselves the target of organic growth in the range of 3 to 6%. This would then be the tenth consecutive year of uninterrupted revenue growth, with annual gains of 7.7% in the nine years since 2010.

At the same time, a double-digit EBIT margin remains our goal – simply because our markets, our market position and our set-up have this potential. Some subsidiaries have impressively demonstrated for years that this already works in the current environment. However, we do not yet see this target for 2019, as we still have some homework to do. By 2020, we should be back there again prior to the corresponding adjustment costs for the planned restructurings. In 2021, we expect a double-digit EBIT margin even without corresponding adjustments.

We have made a good start to 2019. The high order backlog at the turn of the year gave us a direct boost. Despite increasing economic concerns, the conditions for further growth in Europe remain intact for us. The USA and China will continue to represent our future markets in 2019 with a particularly high level of dynamism.

As in the past two years, we intend to adhere to our communicated and value-oriented dividend strategy for the 2018 financial year. The Executive Board and Supervisory Board will therefore propose to you, dear shareholders, at the next Annual General Meeting that a dividend be distributed at the previous year‘s level.

Please continue to accompany us on our path. The direction is right, the potential is there and we are convinced that we can achieve our ambitious yet realistic goals. Connecting Values is our guiding principle. We will continue to make every effort to generate added value for our customers through the best connection solutions. By combining this with our growth strategy, we can create sustainable value for you, our shareholders, and other stakeholder groups. We thank you for your trust and look forward to meeting you at our Annual General Meeting on 28 May 2019.

Yours,

Dr. Andreas Bastin
Chief Executive Officer

FUTURE MARKETS

AND APPLICATIONS REQUIRE SOLUTIONS THAT PUSH THE BOUNDARIES OF WHAT HAS PREVIOUSLY BEEN POSSIBLE.

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

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

Masterflex has developed electrically heated hoses that are used in a wide variety of industries and applications, such as chocolate production, the beverage industry and gas analysis. These innovative hose systems of the templine brand are now also available in versions with replaceable inner cores, in order to expand the range of applications even further.

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

COMBINED MANAGEMENT REPORT OF THE MASTERFLEX GROUP AND MASTERFLEX SE

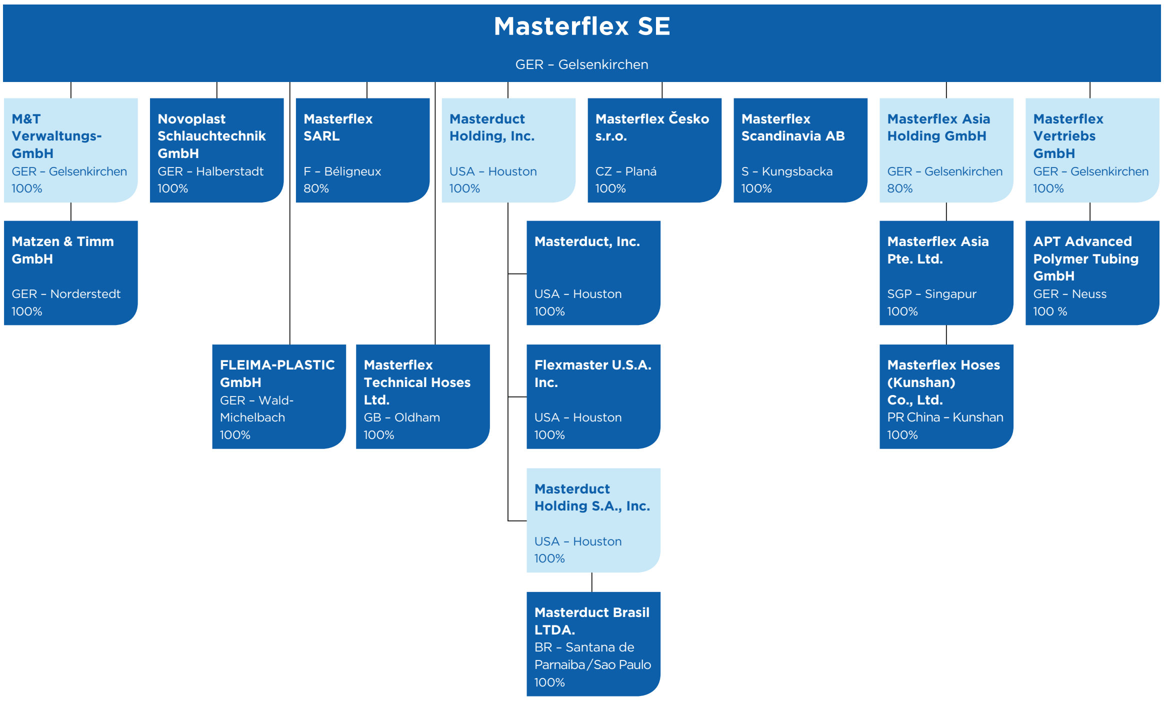
A. FUNDAMENTAL INFORMATION ABOUT THE GROUP

I. BUSINESS MODEL

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

The main production sites of Masterflex Group with 14 operating subsidiaries and six corporate brands are Gelsenkirchen, Neuss, Halberstadt, Norderstedt and Houston (USA). In addition, the Masterflex Group has different locations in Europe, America and Asia through our subsidiary branches with small production lines and sales partners.

The Group structure:



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

II. VISION, OBJECTIVES AND STRATEGIES

We are suppliers of products, systems and consulting know-how which solve connection problems. Our particular expertise lies in the use of high quality and particularly efficient plastics. Our vision is global market leadership in all our relevant markets.

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

A very broad diversification amongst customers, their industries and the areas of application of the Masterflex products is characteristic for the business model. This diversity is accompanied by partially small batch sizes.

Advanced growth strategy

The Masterflex Group is pursuing a long-term, value-driven growth strategy, which was further developed at the beginning of 2017. In addition to the targeted internationalisation and acceleration of foreseeable marketable innovations, the Masterflex Group has defined the two additional strategic directions of ”Operational Excellence“ and ”Digital Transformation“ as additional strategic pillars for the Masterflex Group.

Internationalisation

We strive for value-oriented, long-term growth in all our relevant markets. In doing so, we want to gradually broaden our sales base, which today still lies in Europe, and to achieve a larger share of sales on the American and Asian continents by growing disproportionately there. In North America, the focus is on the USA, in South America on Brazil and in Asia on the Chinese market. Moreover, we are working a series of markets through cooperative partnerships which either adjoin our key regions or which have a close relationship with them. In addition, our strong focus is on offering the Masterflex Group‘s entire product range in all addressed markets.

Innovation

Our declared objective is to occupy and expand our position as technology leader in the market for high-tech hoses. Our innovation strategy is the main pillar for achieving this objective. Our engineers continually design, test and produce new products from a variety of high-performance plastics and manufacturing processes which can substitute traditional connection solutions or its materials to the benefit of our customers. In many cases, starting points, ideas and development directions for new products are also initiated by the request of our customers. The market position we have achieved as technology and innovation leader supports the company’s own price-setting power, the acceptance of new products continuously being introduced onto the market and the acquisition of new customers and projects.

Details of the implementation and the results of our innovation strategy from 2018 can be found in section A IV. Research and development.

Operational excellence

With the strategic focus of operational excellence, we meet the challenge of combining maximum flexibility with the best possible efficiency. We place processes at the focus of our overall corporate activities with the aim of creating and standardising them in a simple, fast and flexible way in order to continue to deliver precise solutions and products combined with manageable complexity. Important target values and individual measures are reduced turnaround times for customers, much simpler and faster processes in all areas of the company, higher revenue per employee and appropriate automation. With the strategic focus of operational excellence, Masterflex wants to permanently secure its own earning power by means of reduced complexity and, at the same time, differentiate itself from the competition with high individuality. The reduction of complexity and its efficient management are important challenges for us over the next few years.

Digital transformation

The fourth direction of the growth strategy places digital transformation at the core. One aim is to expand the range of products and services. Under the new AMPIUS brand, intelligent connection systems and hoses will be developed which, thanks to their additional digital functions, provide customer- and application-specific added value. In the medium term, smart services can create completely new business models. Masterflex works on services which use the knowledge and up-to-date information on the status of the products or systems and facilities and which provide direct added value to the customer through transparency and analysis. At the same time, the strategic approach of digital transformation affects all divisions as well as the entire corporate culture. The aim is to become faster and more flexible – just more agile – on the basis of better data and thus better decision-making bases. Networked production with Industry 4.0-compatible machines is accompanied by a considerable expansion of the internal and external networking with our customers, suppliers and partners.

III. CONTROL SYSTEM

Masterflex SE is a European stock corporation in accordance with SE Regulations and German law.

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

1. Bodies

Executive Board

The Masterflex Group is run by the Executive Board consisting of two members. Dr. Andreas Bastin has been CEO of the stock corporation or SE since 2008. Mark Becks, industrial engineer, has been CFO since 2009.

Supervisory Board

Since 2016, the three-member Supervisory Board of Masterflex SE has consisted of the Chairman, Georg van Hall, his deputy Dr. Gerson Link and member Jan van der Zouw.

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

2. Internal corporate management system

The starting point for strategic corporate planning is an annually updated five year plan dealing with the income statement, balance sheet, investments and liquidity. Budget planning for the following financial year is derived from this strategic planning and divided into individual months. Controlling in the Group is driven by the monthly target-actual deviation analyses. Forecasts are prepared quarterly allowing a rolling earnings projection. The management is informed on a weekly basis about the sales and incoming orders from the preceding week. Within the scope of monthly reporting, the operating result (Earnings before interest and taxes – EBIT) is reported to the Board for the entire Group.

The Masterflex Group focuses on key figures and their development which are more oriented towards liquidity and corporate value and support the corporate strategy. These include in particular:

- Turnover compared to actual, target (budget) and previous year and
- EBIT development at Group level.

IV. RESEARCH AND DEVELOPMENT

As global leader and technology driver for technical hoses and connection systems, the area of research and development (R & D) forms a central component for the success of the Masterflex Group. Through the development of innovative products and processes, we are able to offer hoses and individual connection solutions for the highest demands. Moreover, R&D forms the basis for the marketing of connection solutions which are created by engineers and also marketed as a separate service under the "Engineering Services" banner.

The cooperation between the different product brands and locations was further intensified in order to optimise the use of resources for seamless interlinked development. Furthermore, an intensified exchange with the foreign locations is maintained.

The implemented and lived innovation process (Stage-Gate process) for shortening throughput times of new products has proven itself. In the regularly occurring project and milestone meetings, developments are discussed and examined both in terms of the market, technology and customer as well as in the view of their economic relevance. For this purpose, external partners from research institutes or selected supplier bases are involved. This ensures a multipolar point of view on possible innovations, both from the market side as well as with regard to both new technologies and new raw materials.

Due to the high innovation competence, Masterflex products cannot easily be substituted by other products. Nevertheless, the high-tech plastics processed by Masterflex offer significant substitution potential for conventional materials, especially for steel and rubber. The company renounces contract manufacturing; almost all products and services are developed and largely self-produced by our engineers and skilled works – also to safeguard the established production and process know-how.

For every individual product innovation, we review whether it is necessary and legally possible or reasonable in the context of our corporate strategy to apply for patents or other property rights in order to protect our intellectual property. Today, the Masterflex Group has a series of intellectual and industrial property rights in an increasing number of countries.

Important projects in 2018

Under the AMPIUS brand for intelligent and networkable hoses, the first demonstrators with wear warning properties and digitally readable chips for presentation to target customers were produced and made available to sales units worldwide. In addition, the first own production lines were equipped with intelligent hose systems and preparations were made for the general, standard introduction of integrated digital chips in order to be able to provide customers with further product and production information on available articles via app.

With the Master-PUR H Streetmaster Pro, Masterflex presented a new microbe- and hydrolysis-resistant suction and transport hose made of polyurethane that was specially developed for use in waste disposal and cleaning technology. This hose is characterized by optimized flow characteristics and an innovative outer fold, which ensures significantly improved compressibility and greater flexibility.

At the Halberstadt site, the newly developed powder conveying hose was transferred to series production and the project was thus successfully completed. The optimizations, especially with regard to the meter markings, have proved their worth. In 2018, 1,800 rolls of 60 meters each, i.e. a total of 108,000 meters, were already produced.

The ”Twin Hose“ two-chamber hose, which will initially be available primarily as a PU version and will in future also be made of thermoplastic elastomers (TPE), was also transferred to series production. The hoses can be configured variably and can therefore be used for various purposes. They transport substances such as gases, liquid medicines or food. They can be used, for example, to apply different drugs in medical applications via one access point.

In a new type of polyethylene hose, linear PE macromolecules can be three-dimensionally cross-linked to form PE-X, which significantly improves the mechanical properties and reduces hardness and rigidity somewhat. Since PE-X, like an elastomer, cannot be melted, it can also withstand higher thermal loads. Applications for PE-X include medium and high-voltage cable insulation, pipes for hot water and underfloor heating systems, and fittings for electrical engineering, apparatus engineering and automotive engineering. The first sales of the networked polyethylene hose are already expected in 2019.

Matzen & Timm focused in particular on a special flat gasket made of a silicone composite material and used in aviation. Due to the special geometry (edge length: approx. 1,000 mm), the product is manufactured on a new cutting table that is electronically controlled from the IT department. Thus, despite the special dimensions, it can be cut on site at Matzen & Timm and, in contrast to the past, no punching tool is required any more. The product and its manufacture have already proven themselves in series production.

Another focus at Matzen & Timm was on a noise-reducing hose used in helicopters. At present, efforts are concentrated on qualifying the hose for Airbus.

External evaluations

Following the awards received in 2016 as official world market leader (again awarded in 2018) and TOP innovator, the innovative strength of the Masterflex Group was once again confirmed last year.

In 2018, the Masterflex Group received the ”Innovative through Research“ seal of approval from the Stifterverband für die Deutsche Wissenschaft e.V., one of the largest private economic promoters in Germany. The Stifterverband awards the seal of approval to researching companies that take part in the biennial complete survey on research and development in the German economy.

V. THE MARKET FOR HIGH-TECH HOSES

The global market for high-tech hoses and connection systems comprises many rather regionally-oriented specialist markets which are served by mostly medium-sized companies. Customers primarily come from the manufacturing industry including industrial applications (B2B market). They range from internationally operating corporations to wholesale and medium-sized industrial companies to small regional small businesses. Due to the difficult to obtain material, processing and application expertise and the variety of applications of the demanding plastics, it is a market with corresponding market entry barriers, good margins and intact growth prospects. This market is characterised by small batch sizes in both production and sales as well as by the consulting intensity and development competence for customer-specific solutions. By contrast, the market better known to the general public for mass-produced hoses is rather focused on end customers, is determined by large batch sizes, lower margins and major international providers.

Due to the rather inhomogeneous and not easily demarcated structure, there is little reliable third-party data about the overall market. That is why the Masterflex Group had already started in 2008 to build a systematic data analysis of the global market and its participants. This extensive knowledge constitutes the know-how of the Masterflex Group which uses it to differentiate its product portfolio from competitors. Moreover, this specialised knowledge is used in the M & A strategy. On the basis of this internal data base, we estimate the size of the market in all of our addressed regions at a volume of around € 2 billion.

In the future, the possible uses of high-tech hoses will increase further. The general trend in the manufacturing industry towards increasingly demanding industrial production processes generates corresponding impulses. In particular, three parameters drive the demand for connection solutions which can meet a variety of needs: firstly, the increasing speed of a manufacturing process; secondly, the desire for its high flexibility in terms of small end product volumes with frequent production variations and, thirdly, the quality requirements of the end product to be manufactured.

The application areas for high-tech hoses are broadly diversified across industries and applications: in mechanical engineering, in the aerospace and automotive industries, by energy companies or in the manufacture and processing of food and pharmaceutical products as well as in the medical industry, flexible connection solutions are increasingly gaining in importance. Together with the outstanding know-how in the processing of sophisticated plastics, these different application areas enable us to design and produce connection solutions which can only be achieved inadequately or not at all with conventional materials.

VI. BRAND IDENTITY AND PRODUCTS

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

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

MASTERFLEX

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

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

MATZEN & TIMM

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

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

NOVOPLAST SCHLAUCHTECHNIK

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

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

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

FLEIMA-PLASTIC

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

MASTERDUCT

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

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

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

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

APT

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

AMPIUS

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

B. BUSINESS REPORT

I. MACROECONOMIC CONDITIONS

According to the Kiel Institute for the World Economy (IfW), the global economy lost momentum in the course of 2018. The economic mood has deteriorated significantly almost everywhere. In addition to uncertainty caused by increasing trade policy conflicts, the tightening of monetary policy in the United States contributed to this, resulting in a turnaround in international capital flows that slowed economic expansion in the emerging markets. Overall, global production nevertheless grew by 3.7% in 2018, as in the previous year.

The picture in the euro zone in 2018 was similar to that at the global level. Here, the economy also lost noticeable momentum in the first half of the year. This trend continued in the third quarter. The slowdown is mainly due to a sharp decline in automobile production, which is related to the introduction of new standards for exhaust gas measurement and is probably of a temporary nature. However, developments on the labour market suggest that the economy has also slowed down in the basic trend. For 2018 as a whole, gross domestic product (GDP) in the euro zone grew by 1.9% (2017: 2.5%).

Economic growth in selected countries where the Masterflex Group has a presence
Change of GDP compared to previous year in %

Country	2018 (figure from the Annual Report 2017*)	2017
Euro zone	1.9 (2.0)	2.5
Germany	1.5 (2.0)	2.2
France	1.6 (1.9)	1.8
Great Britain	1.3 (1.5)	1.7
World	3.7 (3.9)	3.7
Brasil	1.2 (2.1)	1.1
China	6.6 (6.4)	6.8
USA	2.9 (2.6)	2.3

Source: IfW, IWF

* (in brackets, the expected 2018 value, as indicated in the Annual Report 2017)

According to the IfW, the upswing in Germany is also increasingly faltering. Correspondingly, economic output fell in the third quarter of 2018 for the first time in three years. This decline was primarily due to special factors, in particular the problems with the new Worldwide Harmonised Light-Duty Vehicles Test Procedure (WLTP) for determining fuel consumption and exhaust gas emissions. Production was also affected by the low water level in the Rhine. Even after these temporary negative factors have been eliminated, the upswing is likely to reach its limits more and more. While companies are finding it increasingly difficult to continue expanding their production at high speed in view of the already very high capacity utilisation, the noticeable shortage on the labour market is also likely to continue. Overall, production growth in the German economy was 1.5% in 2018 as a whole (2017: 2.2%).

According to Gesamtverband Kunststoffverarbeitende Industrie e.V. (German Plastics Processing Industry Association) (GKV), industry revenues in 2018 improved by 3.1% to a new record level of € 65.7 billion. As in previous years, foreign revenues (€ 25.0 billion; +3.8%) grew slightly more strongly than domestic revenues (€ 40.7 billion; +2.4%). Nevertheless, there were also months of weaker growth in the spring and autumn of last year in which revenues in parts of the industry could no longer fully match the previous year‘s level. These phases can be interpreted as signs of a gradual slowdown in the growth momentum of the economy as a whole.

A total of about 14.8 million tonnes of plastics were processed in Germany, an increase of 2.6% compared with 2017. The number of employees also rose to a new record level of around 335,000 (+3.4%).

II. BUSINESS DEVELOPMENT

In the year under review, business development was very ambivalent. According to our own estimates, we were able to confirm or further expand our market position in the target markets addressed in 2018. On the revenue side, the Masterflex Group almost matched its forecast of € 78.0 to 81.0 million at € 77.2 million, but productivity losses due to the high sickness rate in individual subsidiaries and the shortage and supply bottlenecks for some raw materials led to significant delays in revenue recognition. In addition, there were negative currency effects, without which the revenue forecast would have been met. Corresponding countermeasures, such as an increase in the number of employees and the introduction of additional shifts, were no longer able to completely close the revenue gap that had arisen. Overall, however, it should be noted that the market drivers remain intact, which is reflected not least in the sales successes achieved and in particular in the very pleasing order intake.

The productivity losses also had a disproportionate impact on earnings and margins in the 2018 financial year. In addition, there were adverse exchange rate developments, rising energy and commodity costs, scarcity of commodities for some materials and greater uncertainty due to impending international trade restrictions. Ultimately, these factors meant that the original earnings forecast of an EBIT margin of 9.5% had to be adjusted to 8% to 9% in October 2018. The operating EBIT of € 6.3 million corresponds to an EBIT margin of 8.1%, which is within the adjusted earnings forecast range. Nonetheless, the challenge remains to improve delivery capability to the target level, especially in order to generate revenues with corresponding earnings contributions even faster from existing orders.

III. ECONOMIC SITUATION

1. Results of operations of the Group

	2018		2017		Change	
	in €k	in %	in €k	in %	in €k	in %
Revenue	77,243	97.6	74,675	98.9	2,568	3.4
Inventory changes	554	0.7	94	0.1	460	489.4
Own work capitalised	1,325	1.7	746	1.0	579	77.6
Total performance	**79,122**	**100.0**	**75,515**	**100.0**	**3,607**	**4.8**
Other operating income	625	0.8	512	0.7	113	22.1
Operating performance	79,747	100.8	76,027	100.7	3,720	4.9
Cost of materials	-25,235	-31.9	-24,311	-32.2	-924	3.8
Staff costs	-30,793	-38.9	-28,522	-37.8	-2,271	8.0
Depreciation, amortisation and impairments	-3,341	-4.2	-3,182	-4.2	-159	5.0
Other operating expenses	-13,852	-17.5	-12,627	-16.6	-1,225	9.7
Other taxes	-275	-0.3	-304	-0.4	29	-9.5
Operating expenses	-73,496	-92.8	-68,946	-91.2	-4,550	6.6
Operating EBIT	6,251	8.1	7,081	9.5	-830	-11.7
Non-operating effects	-150		-480		330	
EBIT	6,101		6,601		-500	
Financial result	-1,059		-1,181		122	
Earnings before income taxes	5,042		5,420		-378	
Income taxes	-1,768		-1,055		-713	
Earnings after taxes from con-tinued business units	3,274		4,365		-1,091	
Earnings after taxes from dis-continued business units	-58		-62		4	
Consolidated net income	3,216		4,303		-1,087	
thereof:						
Non-controlling interests	-157		-8		-149	
Interests of shareholders of Masterflex SE	3,373		4,311		-938	

1.1 Revenue development and incoming orders

In the 2018 financial year, the Masterflex Group generated consolidated revenue of € 77.2 million (2017: € 74.7 million), representing growth of 3.4%. Novoplast Schlauchtechnik GmbH, APT Advanced Polymer Tubing GmbH, Matzen & Timm GmbH, Masterflex SE, Flexmaster Inc. in the USA, FLEIMA-PLASTIC GmbH and Masterflex Scandinavia AB in Sweden contributed to this growth. By contrast, Masterflex SARL's revenue in France declined, partly due to customer transfers to Masterflex SE. At Masterduct, Inc. in the USA, revenue also fell slightly, partly due to currency effects and partly due to a major order in the previous year. A currency effect of around € 0.8 million must also be taken into account.

The only satisfactory revenue development in 2018 suffered from a delayed revenue generation and was therefore unable to keep pace with the overall pleasingly high level of incoming orders, which were significantly higher than the revenue generated in 2018.

1.2 Earnings development

Operating earnings before interest and taxes (EBIT before discontinued business units and non-operating income and expenses) amounted to € 6.3 million, compared with € 7.1 million in 2017. This corresponds to an operating EBIT margin of 8.1% (previous year: 9.5%) in relation to revenues.

Changes in inventories amounted to € 0.6 million in the year under review, compared with € 0.1 million in the previous year. This development is directly related to the high level of incoming orders and results from the increase in inventories, particularly at Novoplast Schlauchtechnik GmbH, Flexmaster U.S.A. Inc. and FLEIMA-PLASTIC GmbH.

Other own work capitalized increased from € 0.7 million to € 1.3 million in the year under review. These consist of the capitalisation of product and process development projects and the ERP project.

Other operating income increased slightly from € 0.5 million to € 0.6 million. This mainly includes grants and subsidies.

The cost of materials rose from € 24.3 million in 2017 to € 25.2 million in 2018. Raw material prices continued to rise in 2018, albeit at a much more moderate pace than in the past. At the same time, the shortage of materials for individual polymers was a key issue in the year under review. Here, prices also rose accordingly. In this environment, however, the Masterflex Group not only succeeded in keeping the cost of materials ratio (cost of materials in relation to total performance) stable, but also in reducing it slightly from 32.2% to 31.9%. This is due on the one hand to price increases resulting from rising raw material prices and effects of material substitution and changes in the product mix. On the other hand, further purchasing successes were achieved through negotiation and bundling.

Staff costs rose from € 28.5 million to € 30.8 million in the 2018 financial year. The main influencing factors were the annual increases in wages and salaries, the increased personnel (including temporary workers) to compensate for the loss of productivity due to illness, and personnel restructuring costs. The personnel cost ratio rose from 37.8% in the previous year to 38.9% in 2018.

Depreciation increased slightly from € 3.2 million to € 3.3 million, reflecting the full-year effect of the new facilities at the Gelsenkirchen site and the effects of capitalising other own work in previous years.

Other operating expenses increased from € 12.6 million to € 13.9 million in the year under review. This is attributable to volume and inflation-related additional costs (energy and freight) as well as the introduction of ERP at the Gelsenkirchen site.

Group operating result (EBIT) fell from € 7.1 million to € 6.3 million. This development reflects the delayed realisation of revenues and earnings due to illness despite the unbroken good order situation.

Non-operating effects decreased from € -0.5 million to € -0.2 million. This mainly includes legal fees and court costs in connection with the legal dispute with the former French managing director, which has now been concluded.

After deduction of non-operating effects, EBIT amounted to € 6.1 million after € 6.6 million in the previous year.

The financial result of € -1.1 million improved slightly on the previous year's result of € -1.2 million. This is due to the slightly lower annual average level of financial liabilities.

Income tax expense increased from € 1.1 million to € 1.8 million, mainly due to the reduction in deferred tax assets.

Earnings after taxes from continued business units thus amounted to € 3.3 million (previous year: € 4.4 million). As in the previous year, earnings from discontinued business units amounted to € 0.1 million and resulted from the difference between provisions in the balance sheet and the actual charge resulting from the conclusion of a legal dispute that has been ongoing since 2012, as well as the lawyer's and court costs incurred in this connection.

Consolidated net income amounted to € 3.2 million, compared with € 4.3 million in the previous year. Taking into account the non-controlling interests in two Group companies, shareholders of Masterflex SE accounted for € 3.4 million (previous year: € 4.3 million). Non-controlling interests include ownership interests in the subsidiaries in France (Masterflex SE: 80%) and Masterflex Asia Holding GmbH (Masterflex SE: 80%).

Earnings per share from continued business units fell from € 0.46 to € 0.36. Taking earnings per share from discontinued business units (€ -0.01) into account, total earnings per share in 2018 thus amounted to € 0.35.

1.3 Comparison of the actual business development with the forecast business development

For the 2018 financial year, we had forecast an increase in revenues of 4 to 8% to € 78 to 81 million. In addition, operating result should increase in line with revenues, thus confirming the EBIT margin from 2017 of 9.5%. In October 2018, the earnings forecast was adjusted to an EBIT margin of 8% to 9%, depending on the expected revenue development in the months of October to December 2018. This was due to a high sickness rate, especially in the first half of the year, as well as shortages and delivery bottlenecks for some raw materials, which prevented the revenue development and thus also the earnings development from keeping pace with the positive order situation.

With growth of 3.4% to € 77.2 million, we are slightly below the revenue forecast. Adjusted for currency effects, we would have met the forecast. The operating result before special effects amounted to € 6.3 million, corresponding to an EBIT margin of 8.1%, which is thus within the adjusted earnings forecast.

2. Net assets of the Group

2.1 Asset structure

	31.12.2018		31.12.2017		Change	
Assets	**in €k**	**in %**	**in €k**	**in %**	**in €k**	**in %**
Intangible assets	12,529	16.7	11,233	15.4	1,296	11.5
Property, plant and equipment	31,892	42.4	31,413	43.1	479	1.5
Financial assets	98	0.1	78	0.1	20	25.6
Other assets	29	0.0	40	0.1	-11	-27.5
Deferred taxes	511	0.7	1,546	2.1	-1,035	-66.9
Non-current assets	**45,059**	**59.9**	**44,310**	**60.8**	**749**	**1.7**
Inventories	16,662	22.2	15,236	20.9	1,426	9.4
Receivables and other assets	9,082	12.1	8,085	11.0	997	12.3
Current assets	**25,744**	**34.3**	**23,321**	**31.9**	**2,423**	**10.4**
Cash and cash equivalents	**4,370**	**5.8**	**5,336**	**7.3**	**-966**	**-18.1**
	75,173	**100.0**	**72,967**	**100.0**	**2,206**	**3.0**

Total assets increased from € 73.0 million as of 31 December 2017 to € 75.2 million as of 31 December 2018.

Intangible assets climbed from € 11.2 million in 2017 to € 12.5 million in 2018, mainly as a result of the capitalisation of other own work, among other things for the ERP project and for the development of recipes and processes.

Property, plant and equipment increased by € 0.5 million to € 31.9 million. This is mainly in connection with the investments made in an extrusion line for the Chinese market.

Deferred tax assets decreased from € 1.5 million to € 0.5 million due to the corresponding tax utilisation of loss carryforwards. As a result of these circumstances, non-current assets rose from € 44.3 million to € 45.1 million.

Inventories increased from € 15.2 million in 2017 to € 16.7 million in 2018. The increase in finished goods and merchandise reflected the increase in inventories due to the pleasing level of incoming orders and, in some cases, slightly slow deliveries of finished goods.

Receivables and other assets increased by € 1.0 million to € 9.1 million, which is attributable to growth-related and balance sheet date effects.

As a result of these factors, current assets rose by € 2.4 million to € 25.7 million in 2018.

Cash and cash equivalents decreased by € 1.0 million to € 4.4 million (see comments in section B IV. 3.3 Liquidity situation).

2.2 Capital structure

	31.12.2018		31.12.2017		Change	
Liabilities	**in €k**	**in %**	**in €k**	**in %**	**in €k**	**in %**
Consolidated equity	40,720	54.2	37,736	51.8	2,984	7.9
Non-controlling interests	-497	-0.7	-340	-0.5	-157	46.2
Equity	**40,223**	**53.5**	**37,396**	**51.3**	**2,827**	**7.6**
Provisions	209	0.3	225	0.3	-16	-7.1
Financial liabilities	18,856	25.1	18,293	25.1	563	3.1
Other liabilities	956	1.3	948	1.3	8	0.8
Deferred taxes	861	1.1	916	1.3	-55	-6.0
Non-current liabilities	**20,882**	**27.8**	**20,382**	**28.0**	**500**	**2.5**
Provisions	632	0.8	552	0.7	80	14.5
Financial liabilities	7,643	10.2	7,404	10.1	239	3.2
Other liabilities	5,793	7.7	7,233	9.9	-1,440	-19.9
Current liabilities	**14,068**	**18.7**	**15,189**	**20.7**	**-1,121**	**-7.4**
	75,173	**100.0**	**72,967**	**100.0**	**2,206**	**3.0**

Masterflex Group‘s equity rose from € 37.4 million in the previous year to € 40.2 million as of 31 December 2018. This corresponds to an equity ratio (equity in relation to total assets) of 53.5% compared with 51.3% in the previous year. The absolute increase in equity is mainly due to the consolidated net income of € 3.2 million (reported in retained earnings) and the change in the adjustment item for currency translation of € 0.3 million. On the other hand, the dividend payment of € 0.7 million reduced equity.

Masterflex Group‘s non-current liabilities increased from € 20.4 million to € 20.9 million. This is mainly due to the higher utilisation of the available credit line.

Current liabilities decreased by € 1.1 million to € 14.1 million as of 31 December 2018. Financial liabilities increased by € 0.2 million due to the higher utilisation of the operating credit line. In contrast, other liabilities declined by € 1.4 million due to the balance sheet disposal of the discontinued business unit (CAB/Velodrive).

3. Financial position of the Group

3.1 Principles and objectives of financial management

The short- to medium-term objectives of financial management were achieved in 2018. These included in particular:

- Further strengthening of our equity.
- An improvement in the debt ratio.

The equity ratio stood at 53.5% as at 31 December 2018 (previous year: 51.2%) and was thus further strengthened.

Due to the slightly weaker EBITDA and the increase in working capital, the debt ratio was not improved and at 2.3 was slightly higher than the prior-year figure of 2.0.

3.2 Financing analysis

Long and short-term financial liabilities amounted to € 26.5 million as at 31 December 2018 and were therefore € 0.8 million higher than the year-end value for 2017 of € 25.7 million.

The liquid assets of the Masterflex Group amounted to € 4.4 million at the end of 2018 (previous year: € 5.3 million). Net debt thus stood at € 22.1 million at the end of 2018 (previous year: € 20.4 million). Thus, the ratio of net debt to EBITDA stood at 2.3 at the end of the year (previous year: 2.0). This key figure is a measure of the Group‘s debt-to-equity ratio and indicates how quickly debt can be reduced.

The structure of the financial liabilities of € 26.5 million consists of long- and short-term tranches of the syndicated loan agreement (previous year: € 25.7 million). There were no other bank liabilities at the end of 2018.

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

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

3.3 Liquidity position

Cash and cash equivalents decreased by € 0.9 million year-on-year to € 4.4 million.

The cash and cash equivalents mainly benefited from:

- Positive earnings before depreciation (EBITDA) of € 9.6 million.
- Borrowing of € 3.5 million.

The following factors had a negative impact on cash and cash equivalents:

- Investments in property, plant and equipment and intangible assets of € 5.2 million.
- Regular repayments (including accrued interest) under the syndicated loan agreement in the amount of € 2.8 million.
- Increase in inventories of € 1.4 million.
- Non-cash capitalisation of other own work of € 1.3 million.

- Reversal of provisions (mainly CAB/Velodrive ruling) and corresponding payment of € 1.0 million
- Interest payments of € 0.8 million.
- Income tax expenses of € 0.8 million.
- Dividend payment of € 0.7 million.

The cash flow statement, showing the transfer of cash in hand and bank balances in the past financial year, can be found on page 73 of the Annual Report 2018.

The Masterflex Group was solvent at all times throughout 2018. In addition, at the 2018 year-end, Masterflex SE had a freely available non-utilised credit line – in observance of defined covenants – of € 4.7 million from the syndicated loan agreement, of which € 1.0 million is short-term overdraft and € 13.7 million from the acquisition line.

IV. OVERALL STATEMENT ON THE ECONOMIC POSITION

As of the reporting date, taking into account
- the revenue growth in combination with an adequate earnings development,
- the medium-term secured Group financing
- the stability of the consolidated equity and
- the ratio of net debt to EBITDA of 2.3

the Group management considers the result of operations, net assets and financial position of the Masterflex Group to be overall slightly weakened compared with the previous year, but as still a good basis for the Masterflex Group‘s future development.

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

In addition to the reporting on the Masterflex Group, the development of Masterflex SE is described below for the 2018 financial year.

Masterflex SE is the parent company of the Masterflex Group with its headquarters in Gelsenkirchen, Germany. Its business activity essentially comprises the development, production and sale of high-tech hoses and connection systems from high-performance plastics in Germany as well as the control of the worldwide operations of the Masterflex Group. Masterflex SE produces its hoses and connection systems at their headquarters in Gelsenkirchen and through domestic and foreign subsidiaries. Distribution takes place through the Masterflex SE distribution system, through domestic and foreign subsidiaries and through selected partners of the Masterflex Group.

The main management functions of the Masterflex Group are the responsibility of the Masterflex SE Executive Board. It defines the Group strategy and controls the allocation of resources and the organisation of the Group. In addition, the Executive Board determines the funding and the communication with the most important target groups of the Group and is responsible for global M&A activities. The economic development of Masterflex SE is largely determined by its production and sales success and its operating subsidiaries. Alongside the sales success of Masterflex SE, the investment result from profit transfers and profit distributions of the investments is of crucial importance to the economic position of Masterflex SE. Accordingly, the statements made in section D Opportunity and risk report in particular and the non-financial report published on the homepage of the Masterflex Group also apply, in particular, to Masterflex SE.

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

Revenue and earnings of Masterflex SE

Income statement of Masterflex SE according to the German Commercial Code (short form)

	2018		2017		Change	
	in €k	in %	in €k	in %	in €k	in %
Revenue	21,325	97.3	19,927	96.7	1,398	7.0
Inventory changes	20	0.1	115	0.6	-95	-82.6
Other own work capitalised	582	2.6	562	2.7	20	3.6
Total performance	**21,927**	**100.0**	**20,604**	**100.0**	**1,323**	**6.4**
Other operating income	67	0.3	197	1.0	-130	-66.0
Operating performance	**21,994**	**100.3**	**20,801**	**101.0**	**1,193**	**5.7**
Cost of materials	-7,872	-35.9	-7,347	-35.7	-525	7.1
Staff costs	-9,768	-44.5	-8,630	-41.9	-1,138	13.2
Depreciation, amortisation and impairments	-965	-4.4	-704	-3.4	-261	37.1
Other operating expenses	-4,186	-19.1	-3,803	-18.5	-383	10.1
Other taxes	-59	-0.3	-57	-0.3	-2	3.5
Operating expenses	**-22,850**	**-104.2**	**-20,541**	**-99.8**	**-2,309**	**11.2**
Operating result	**-856**	**-3.9**	**260**	**1.2**	**-1,116**	**-429.2**
Financial result	6,549		2,928		3,621	
Non-operating effects	0		2,281		-2,281	
Non-operating result	36		9		27	
Earnings before income taxes	**5,729**		**5,478**		**251**	
Income taxes	-891		-990		99	
Net income	**4,838**		**4,488**		**350**	

The results of operations of Masterflex SE is largely determined by the business in high-tech hoses and connection systems at the Gelsenkirchen site as well as the distribution and transfer of profits of the operating subsidiaries which conduct such business at other national and international sites.

The turnover of Masterflex SE at € 21,325 thousand grew by 7.0% over the previous year's figure of € 19,927 thousand. This is due to an increase in revenue from external customers as a result of further market activities as well as from subsidiaries (particularly in Scandinavia, France and England).

Compared to the previous year, inventories in finished and unfinished goods increased to a much lesser extent. The change of inventories was € 20 thousand (previous year: increase of € 115 thousand). This inventory was mainly used to maintain the delivery capacity of finished goods in stock.

The capitalisation of other own work was in line with last year's figure, at € 582 thousand (previous year: € 562 thousand). These include the capitalisation of product and process development projects and the ERP project.

The overall operating performance (sum of sales, change of inventories and other own work capitalised) of Masterflex SE increased from € 20,604 thousand in 2017 to € 21,927 thousand in 2018.

Other operating income (predominantly salary replacement benefits like maternity benefit) of € 67 thousand was lower than the previous year's level of € 197 thousand. Operating performance (sum of total performance plus other operating income) rose by € 1,193 thousand to € 21,994 thousand in 2018.

The cost of materials rose by € 525 thousand to € 7,872 thousand in 2018. The material cost ratio (cost of materials as a percentage of total performance) of 35.9% remained almost at the previous year's level of 35.7% despite rising raw material prices, as corresponding price increases were implemented on the market.

Staff costs rose by 13.2% to € 9,768 thousand, corresponding to a staff cost ratio (personnel expenses as a percentage of total performance) of 44.5% (previous year: 41.9%). The increase is attributable to collective wage increases, the return of long-term sick people, the increase in management (sales) as well as in production and warehousing, the additional costs resulting from the use of temporary workers and severance payments.

Other operating expenses increased by 10.1% from € 3.803 thousand to € 4.186 thousand. This was due in particular to price- and volume-related additional costs for freight and packaging, higher expenses for repairs and maintenance and the outsourcing of the IR services.

Due to the expansion investments made at the Gelsenkirchen location in previous years, depreciation rose from € 704 thousand to € 965 thousand in the 2018 financial year.

In summary, this resulted in an operating result of € -856 thousand (previous year: € 260 thousand).

Compared to 2017, the financial result rose significantly from € 2,928 thousand to € 6.549 thousand. This was mainly due to income from investments in subsidiaries and the profit transfer of the German companies (Novoplast, APT).

In contrast to the previous year (€ 2,281 thousand), there were no non-operating effects in 2018.

Due in particular to the high financial result, earnings before income taxes rose from € 5,478 thousand to € 5,729 thousand.

After deduction of income taxes, which fell from € 990 thousand to € 891 thousand, Masterflex SE's net income for the year amounted to € 4,838 thousand (previous year: € 4,488 thousand).

With a growth rate of 7.0%, the forecast for Masterflex SE to increase revenue by 4% to 8% in 2018 was fully met. On the other hand, earnings (EBIT) could not be increased by the same amount as revenue as planned due to the significant increase in staff costs and cost of materials to € -856 thousand.

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

	31.12.2018		31.12.2017		Change	
Asset structure	**in €k**	**%**	**in €k**	**%**	**in €k**	**in %**
Intangible assets	2,573	3.0	1,414	1.7	1,159	82.0
Property, plant and equipment	14,286	16.6	14,297	17.4	-11	-0.1
Financial assets	54,306	63.1	53,538	65.2	768	1.4
Deferred taxes	0	0.0	559	0.7	-559	-100.0
Non-current assets	**71,165**	**82.7**	**69,808**	**85.0**	**1,357**	**1.9**
Inventories	3,669	4.2	3,487	4.2	182	5.2
Receivables and other assets	9,781	11.4	7,597	9.3	2,184	28.7
Prepaid expenses	250	0.3	355	0.4	-105	-29.6
Current assets	**13,700**	**15.9**	**11,439**	**13.9**	**2,261**	**19.8**
Cash and cash equivalents	**1,223**	**1.4**	**906**	**1.1**	**317**	**35.0**
Total assets	**86,088**	**100.0**	**82,153**	**100.0**	**3,935**	**4.8**

As at 31 December 2018, Masterflex SE's balance sheet total stood at € 86,088 thousand, up € 3,935 thousand on the previous year's figure of € 82,153 thousand.

Intangible assets increased by € 1,159 thousand to € 2,573 thousand. This is attributable to the capitalisation of other own work, including for the ERP project, as well as for the development of recipes and processes.

At € 14,286 thousand, property, plant and equipment remained almost at the previous year's level of € 14,297 thousand.

Financial assets increased from € 53,538 thousand to € 54,306 thousand. In particular, loans to subsidiaries increased by € 747 thousand to € 22,402 thousand.

In 2018, all deferred tax assets amounting to € 559 thousand were utilised.

As a result of these effects, total non-current assets rose by € 1,357 thousand to € 71,165 thousand in 2018.

In current assets, inventories rose by € 182 thousand to € 3,669 thousand in 2018. This is due to the increase in inventories of finished goods, which partially reflects the slightly slow delivery of finished products.

Receivables and other assets rose by € 2,184 thousand to € 9,781 thousand due to the increase in receivables from affiliated companies.

At € 250 thousand, prepaid expenses were slightly below the previous year's figure of € 355 thousand, so that current assets increased by € 2,261 thousand to € 13,700 thousand as a result of the effects described for inventories and receivables.

Cash and cash equivalents rose by €317 thousand to €1,223 thousand (see also the comments on the financial position of Masterflex SE).

	31.12.2018		31.12.2017		Change	
Capital structure	**in €k**	**%**	**in €k**	**%**	**in €k**	**in %**
Subscribed capital	9,618	11.2	9,618	11.7	0	0.0
Capital reserve	26,120	30.3	26,120	31.8	0	0.0
Retained earnings	4,115	4.8	4,115	5.0	0	0.0
Net profit	13,848	16.1	9,683	11.8	4,165	43.0
Equity	**53,701**	**62.4**	**49,536**	**60.3**	**4,165**	**8.4**
Liabilities to banks	19,036	22.1	18,500	22.5	536	2.9
Deferred tax liabilities	70	0.1	0	0.0	70	
Long-term liabilities	**19,106**	**22.2**	**18,500**	**22.5**	**606**	**3.3**
Tax accruals	**197**	**0.2**	**68**	**0.1**	**129**	**189.7**
Other provisions	1,182	1.4	2,261	2.8	-1,079	-47.7
Liabilities to banks	**7,669**	**8.9**	**7,504**	**9.1**	**165**	**2.2**
Trade payables	**505**	**0.6**	**565**	**0.7**	**-60**	**-10.6**
Liabilities to affiliated companies	**3,526**	**4.1**	**3,455**	**4.2**	**71**	**2.1**
Other liabilities	**202**	**0.2**	**264**	**0.3**	**-62**	**-23.5**
Current liabilities	**13,281**	**15.4**	**14,117**	**17.2**	**-836**	**-5.9**
Total liabilities	**86,088**	**100.0**	**82,153**	**100.0**	**3,935**	**4.8**

Masterflex SE‘s equity rose to € 53,701 thousand (previous year: € 49,536 thousand) as a result of the net profit. The equity ratio is thus 62.4% (previous year: 60.3%).

The net profit increased by € 4,838 thousand as a result of the net income for the year and decreased by € 673 thousand as a result of the dividend payment of € 0.07 per share in June 2018, which resulted in a net total increase in net profit of € 4,165 thousand.

As of 31 December 2018, there are amounts of € 881 thousand blocked from distribution, which relate to the capitalisation of development costs.

Long-term liabilities increased by € 606 thousand to € 19,106 thousand. This is attributable in particular to the balance from the conversion of the acquisition line used due to the APT takeover into a long-term repayment loan and the simultaneous regular repayment or the volumes with a long-term remaining term.

At the same time, current liabilities decreased by € 836 thousand to € 13,281 thousand. In addition, a further draw of € 3,500 thousand was made as part of the syndicated financing (operating credit line). Furthermore, other provisions fell by € 1,079 thousand to € 1,182 thousand as a result of the end of legal disputes.

FT-IR analysis of a hose using an infrared (IR) spectrometer: Each material has its own infrared characteristic, just like a fingerprint. Novoplast Schlauchtechnik uses the device within the framework of the quality assurance for the unambiguous identification of raw materials and hoses.

Financial position of Masterflex SE

Cash and cash equivalents increased from € 906 thousand to € 1,123 thousand in the year under review. There are currently no cash and cash equivalents pledged.

in €k		2018	2017
	Adjusted net income for the year	4,838	2,207
+	Non-operating income	0	2,281
=	Net income	4,838	4,488
+	Write-downs of property, plant and equipment	831	603
+	Write-downs of intangible assets	135	100
-/+	Write-ups/write-downs of financial assets	-20	13
+/-	Other non-cash expenses/income	416	-2,455
=	**Cash flow according to DVFA/SG**	**6,200**	**2,749**
+	Loss from the disposal of fixed assets	14	20
-/+	Decrease/increase in medium and short-term provisions	-949	195
-	Increase in inventories, trade receivables and other assets	-6,822	-3,570
-/+	Decrease/increase in trade payables and other liabilities	-32	636
-	Income from loans of financial assets	-567	0
+	Interest expenses	1,226	678
-	Other investment income	-3,253	-398
+	Income tax expense	891	990
-	Income tax payments	-296	-164
		-9,788	-1,613
=	**Cash flow from operating activities**	**-3,588**	**1,136**
+	Proceeds from disposals of fixed assets	3	2
–	Payments for investments in intangible assets	-1,341	-564
–	Payments for investments in property, plant and equipment	-789	-2,386
+	Proceeds from repayments of financial assets	3,910	3,784
–	Payments for investments in financial assets	-159	-9,618
+	Interest received	0	1
+	Dividends received	3,253	394
=	**Cash flow from investment activities**	**4,877**	**-8,387**
+	Proceeds from equity contributions	0	5,940
–	Payments to company owners	-673	-481
+	Proceeds from the issue of bonds and the raising of (financial) loans	3,500	9,000
–	Payments from the redemption of bonds and (financial) loans	-2,800	-6,500
+	Proceeds from repayment/issuance of loans to affiliated com-pa-nies (net)	52	0
–	Interest paid	-1,051	-1.059
=	**Cash flow from financing activities**	**-972**	**6.900**
	Cash-effective changes in cash and cash equivalents	317	-351
+	Cash and cash equivalents at the beginning of the financial year	906	1.257
=	**Cash and cash equivalents at the end of the financial year**	**1.223**	**906**
Composition of cash and cash equivalents at the end of the financial year			
+	Cash and cash equivalents	1.223	906

The main positive effect on cash and cash equivalents was as follows:

- Repayments from subsidiaries in the amount of € 3,910 thousand
- Borrowing in the amount of € 3,500 thousand
- Dividends received of € 3.253 thousand

The main negative effect on cash and cash equivalents was as follows:

- Regular repayments (including accrued interest) under the syndicated loan agreement amounting to € 2,800 thousand
- Interest payments of € 1.051 thousand
- Investments in property, plant and equipment of € 789 thousand
- Dividend payment of € 673 thousand

Composition of the cash and cash equivalents

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

Proposal for the appropriation of net profit

The Executive Board and the Supervisory Board propose to the Annual General Meeting paying a dividend to the shareholders amounting to € 673,283.38 for 9,618.334 shares of the share capital as at 31 December 2018 out of the net profit as at 31 December 2018 of Masterflex SE of € 13,847,828.73, and to carry forward the remaining amount of € 13,174,545.35 to a new state of accounts. This corresponds to a dividend of € 0.07 per share.

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

VI. NON-FINANCIAL STATEMENT

The combined non-financial report and non-financial Group report in accordance with the CSR Directive Implementation Act will be published in a separate 2018 Sustainability Report, which will be available on the corporate website at www.MasterflexGroup.com/en/investor-relations/financial-reports/2018.

C. CORPORATE GOVERNANCE REPORT

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

I. DECLARATION ON CORPORATE GOVERNANCE IN ACCORDANCE WITH §§ 289F, 315D OF THE GERMAN COMMERCIAL CODE

1. Declaration of conformity to corporate governance pursuant to § 161 of the German Stock Corporation Act (AktG) (unaudited)

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

In accordance with § 161 of the German Stock Corporation Act (AktG), the Executive Board and Supervisory Board are both required to submit an annual declaration stating that the company has complied with and will comply with the recommendations of the Government commission on the German Corporate Governance Code published by the German Federal Ministry of Justice and Consumer

Protection in the official section of the Federal Gazette or stating which recommendations have not been or will not be applied and why not. This declaration of conformity is to be made permanently available to shareholders. The current declaration of conformity was adopted by the Executive Board and Supervisory Board in December 2018 and since then has been available for public inspection on the website at www.MasterflexGroup.com. The auditor is not required by law to review the content of the Declaration of Conformity and has therefore not performed such a review.

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.

The declaration of conformity of December 2018 is worded as follows:
Declaration of conformity to corporate governance pursuant to § 161 of the German Stock Corporation Act (AktG)

The Executive Board and Supervisory Board of Masterflex SE declare that the recommendations of the Code on the basis of the current version of 7 February 2017 have been observed since the last declaration of conformity in December 2017 with the exceptions stated hereinafter and will be observed further on. The declaration of conformity is permanently available to Masterflex SE shareholders on the company website. There, all of the company's previous declarations of conformity can also be accessed.

Exceptions:
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 as well as the qualified support from the company's legal advisors, it has thus far not 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 SE Supervisory Board is deliberately kept small in order to allow resolutions to be passed quickly, efficiently and flexibly through streamlined structures, as is the case throughout the Group. The appointment of recognised experts to the Supervisory Board is a key pillar of Masterflex SE in order to set the course for successful company growth through continual dialogue. In this context, establishing committees, which would also be required to have three members from the Supervisory Board, is illogical.

Supervisory Board Chairman Mr van Hall is an established financial expert. Where necessary, the Supervisory Board calls on qualified external help in order to assess difficult matters.

Gelsenkirchen, December 2018
Executive Board & Supervisory Board

A central Compliance Officer supports the implementation of the Code of Conduct in the Group and reports regularly to the Executive Board and to the Supervisory Board. Under his leadership, the group-wide compliance management system is also being developed as part of good corporate governance. He is supported by locally based and appropriately equipped compliance staff who are represented at all Masterflex Group sites.

2. Relevant disclosures on corporate management practices

The structures for the management and supervision of Masterflex SE are set out in the company's articles of association as well as the Rules of Procedure for the Executive Board and Supervisory Board. The company's articles of association can be examined at www.MasterflexGroup.com under Investor Relations/Annual General Meeting.

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

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

The Executive Board of Masterflex SE 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 German Stock Corporation Act (AktG). 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 work of the Executive Board is governed by a system of Rules of Procedure, which sets out the matters limited to the full Executive Board and subject to the approval of the Supervisory Board, department responsibilities and the required resolution majority. Each Executive Board member manages his area of work independently and on his own authority. In so doing, he is obliged to keep the entire Executive Board informed about the significant business affairs, as the allocation of individual areas of work does not exempt any member of the Executive Board from the joint responsibility for the corporate 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 regular, generally written reports issued by the Executive Board follow the contents of the applicable Rules of Procedure for the Executive Board issued by the Supervisory Board.

The Supervisory Board advises and monitors the Executive Board. With a total of three members, this Masterflex body within Masterflex SE 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. Pursuant to Section 11 (5) of the articles of association, members of the Supervisory Board may not have completed their 70th birthday when making their appointment. Moreover, a standard limit for membership of the Supervisory Board of 15 years was set in the resolution on the declaration of intent by the Supervisory Board.

The Supervisory Board may form committees from its own members, to which – if legally permissible – decision-making powers can also be assigned. 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.

Important topics are also discussed outside the meetings between the Management Board and the Supervisory Board in telephone conferences or in short-term strategy discussions. In addition, the Chairman of the Supervisory Board regularly informs himself about the business development and forthcoming projects of Masterflex SE.

The appointment of recognised experts to the Supervisory Board is an important basis for Masterflex SE in order to set the course for successful corporate development on a joint basis in a 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 its implementation as well as the risk situation, risk management and compliance issues with the Executive Board. Significant business decisions, such as the determination of the annual budget and investment plan, the acquisition or disposal of equity interests, the conclusion of business agreements and larger financial measures, are subject to its approval. The Supervisory Board may designate further transactions as being subject to approval. It is also responsible for adopting or approving the annual financial statements and consolidated financial statements submitted by the Management Board and the combined management report, including the non-financial statement, unless this is left to the Annual General Meeting.

All members of the Supervisory Board fulfil the criteria of independence in the sense of the agreed target definition as well as the requirements of the Corporate Governance Code communicated for this purpose.

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

Diversity

The Supervisory Board agrees with the objectives of the Code 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 attained in the management boards by taking account of diversity. In this context, the term diversity must be understood more as international origin, education, training or professional activity and less as citizenship or gender diversity and age diversity. This means that the composition of the Supervisory Board must take appropriate account of the diversity currently observable in an open, innovative and internationally active company such as Masterflex SE 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. In this context, women must be taken into account appropriately if they have the same qualifications and aptitude.

Therefore, a few years ago, the Supervisory Board defined targets for its composition which were intended to fulfil the requirement for diversity and take account of both appropriate participation by women and also people with an international background. In so doing, the Supervisory Board has identified the following targets for the composition of the Supervisory Board which were last updated in 2015:

- Consideration of the international activity of the company.
- Availability and operational readiness: a maximum of three other Supervisory Board mandates in listed companies.
- Consideration of technical expertise and industry knowledge, particularly with regard to taking into account the knowledge of the company and its subsidiaries.
- Consideration of the special knowledge and experience in the application of accounting and auditing as well as internal control procedures.
- Significant and not just temporary conflicts of interest should be avoided, for example, by board functions or advisory tasks for important competitors of the company. In case of doubt, they are to be reported to the Chairman of the Supervisory Board or the Vice Chairman as an alternative. The Supervisory Board should always include a large number of independent shareholder representatives.
- Consideration of the age limit of 70 years at the time of election as well as a regular membership of the Supervisory Board of 15 years.
- Proposal and inclusion, if possible, of a woman with suitable qualifications to the Supervisory Board at the next regular election of the shareholder representatives.

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

Further, in 2017, the Supervisory Board decided a target figure of zero for the participation of women in this Board until 30 June 2019, in accordance with the Act on Equal Participation of Women and Men in Management Positions in the Private and Public Sectors. This is because for Masterflex SE, there is the peculiarity that the Supervisory Board consists of only three people and thus has a size which would exceed the legal target figure of 30% in the event that only one female participated. This also illustrates why the selection has to be made with care and consideration. The Chairman of the Supervisory Board, who has been a member of the Committee since 2009, as an auditor, in particular, has the qualifications of a "financial expert". The two other Supervisory Board members each have extensive experience in the field of corporate governance, some of them in niche markets with small batch production and some of them in larger international industrial companies. In addition, with Mr van der Zouw, an internationally and professionally experienced member of Dutch descent has been won, which underlines the diversity targets and their representation in the Supervisory Board. Against this background, it is to be assumed for the current appointment period of the acting Supervisory Board that no participation of a woman in the Supervisory Board will take place. Nevertheless, it is expressly stated that the fundamental objective is to propose, if possible, a woman as a member of the Supervisory Board in future Supervisory Board elections.

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

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

Shareholders and the Annual General Meeting

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

Stock options plans

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

Transparency

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

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

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

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

Accounting and auditing

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

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

Control parameters and control system

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

Corporate management focuses on earnings and liquidity ratios. With regard to the key figures used for corporate management, we refer to the comments in the 2018 combined management report under section A III. Control system.

Risk management

Masterflex SE has set up a group-wide risk management system which is being continuously refined in order to in order to be able to rely on an always efficient, group-wide internal control system. We view risk management as the central responsibility of the Executive Board members, the managers and all employees. Risks can thus be identified, monitored and controlled at an early stage without having to forego entrepreneurial opportunities. Risk management is described in detail in the 2018 combined management report, section D Opportunity and risk report.

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

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

4. Code of conduct

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

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

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

II. COMPENSATION REPORT

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

1. Executive Board compensation

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

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

The current compensation system was adopted by the Supervisory Board in April 2010 and last approved by resolution of the Annual General Meeting in 2016 in accordance with § 120 (4) of the German Stock Corporation Act (AktG). In 2018, there were no changes in the remuneration system.

Criteria for the appropriateness of the compensation of 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 customary taking into account its comparable industry peers and the current compensation structure in the company. The performance-related components – the bonus – include components with a multi-year assessment basis. Thus, they set long-term incentives for behaviour and align the compensation structure with sustainable corporate development. Further, share-based incentive systems, such as a stock option plan, do not exist in the company.

The total compensation of the Executive Board in 2018 and its breakdown into fixed and variable compensation can be found in the following tables recommended by the Corporate Governance Code.

COMPENSATION OF THE EXECUTIVE BOARD (GRANT CONSIDERATION)

	Dr. Andreas Bastin Chief Executive Officer Since 1 April 2008				Mark Becks Chief Financial Officer Since 1 June 2009			
	2017	2018	2018	2018	2017	2018	2018	2018
in k€	Initial value	Initial value	Minimum	Maximum	Initial value	Initial value	Minimum	Maximum
Fixed compensation	357	378	378	378	247	262	262	262
Fringe benefits	42	41	41	41	38	37	37	37
Total	**399**	**419**	**419**	**419**	**285**	**299**	**299**	**299**
One-year variable compensation								
Bonus	142	108	0	158	94	72	0	106
Multi-year variable compensation								
Bonus 2018-2020		56	0	82		37	0	54
Bonus 2017-2019	63		0	82	42		0	54
Total compensation	**604**	**583**	**419**	**741**	**421**	**408**	**299**	**513**

COMPENSATION OF THE EXECUTIVE BOARD (INFLOW CONSIDERATION)

	Dr. Andreas Bastin Chief Executive Officer Since 1 April 2008				Mark Becks Chief Financial Officer Since 1 June 2009			
	2017	2018	2018	2018	2017	2018	2018	2018
in k€	Initial value	Initial value	Minimum	Maximum	Initial value	Initial value	Minimum	Maximum
Fixed compensation	357	378	378	378	247	262	262	262
Fringe benefits	42	41	41	41	38	37	37	37
Total	**399**	**419**	**419**	**419**	**285**	**299**	**299**	**299**
One-year variable compensation								
Bonus	141	140	0	158	76	93	0	106
Multi-year variable compensation								
Bonus 2018-2020		57	0	82		31	0	54
Bonus 2017-2019	62		0	82	34		0	54
Total compensation	**602**	**616**	**419**	**741**	**395**	**423**	**299**	**513**

In the 2018 financial year, fixed and performance-related compensation was granted to the Executive Board. The variable compensation components were determined by the Supervisory Board on the basis of the bonus regulations agreed with the members of the Executive Board at the beginning of the past financial year. In the past financial year, not all the objectives were achieved according to the contractual agreement and the variable remuneration was taken into account in accordance with the degree of target achievement.

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

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

2. Supervisory Board compensation

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

Each member of the Supervisory Board receives an annual fixed compensation in addition to the reimbursement of his expenses, payable at the end of a financial year. The fixed compensation of the Chairman amounts to € 30,000 per year, that of the Vice Chairman of the Supervisory Board to € 25,000 and that of an ordinary member of the Supervisory Board to € 20,000 per year. Supervisory Board members who are only members for part of the financial year will receive compensation prorated to the duration of their Board activity. Members of the Supervisory Board are also paid attendance fees of € 500 per meeting. The total compensation of the Supervisory Board in 2018 and its breakdown can be found in the following table.

The members of the Supervisory Board were paid as follows:

	Fixed		Attendance allowance		Total disbursement-relevant remuneration	
in €k	2017	2018	2017	2018	2017	2018
Chairman of the Supervisory Board, Georg van Hall (since 14.06.2016)	30	30	2	2	32	32
Vice Chairman of the Supervisory Board, Dr. Gerson Link (since 14.06.2016)	25	25	2	2	27	27
Supervisory Board member, Jan van der Zouw (since 14.06.2016)	20	20	2	2	22	22
Total compensation	**75**	**75**	**6**	**6**	**81**	**81**

III. OTHER DISCLOSURES IN ACCORDANCE WITH §§ 289 AND 315 OF THE GERMAN COMMERCIAL CODE (HGB)

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

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

The company is aware of four cases of direct or indirect equity investment in the capital exceeding 10% of the voting shares:

- According to the latest information, J.F. Müller & Sohn AG hold 15.0% of the shares. This investor is a 6th generation family-led investment holding with broadly diversified investments primarily in established medium-sized companies in Europe.
- SVB GmbH & Co. KG/the Schmidt Family is a long-term strategic investor who holds 12.2% of shares in Masterflex SE according to the company's most recent knowledge.
- Stichting Administratiekantoor Monolith is a long-term and income-oriented investor from the Netherlands who holds 10.1% of the shares in Masterflex SE according to the company's most recent knowledge.
- Grondbach GmbH is also a long-term investor from Germany who, to the company's most recent knowledge, holds 10.0% of the shares in Masterflex SE.

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

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

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

Purchase of treasury shares

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

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

b) Modalities of the purchase

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

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

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

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

c) Use of treasury shares

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

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

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

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

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

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

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

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

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

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

Furthermore, the Executive Board is also authorised, with the approval of the Supervisory Board, to withdraw the treasury shares without a further Annual General Meeting resolution. It is also authorised to withdraw no-par value shares either with or without a capital reduction. If the no-par value shares are withdrawn without capital reduction, the proportion of other shares in the share capital is increased in accordance with § 8 (3) of the German Stock Corporation Act (AktG). In this case, the Executive Board is also authorised to adjust the number of shares of the company in the articles of association (§ 237 (3) no. 3 of the German Stock Corporation Act (AktG)).

e) Further details

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

Neither the Executive Board nor the Supervisory Board exercised any of these authorisations in 2018.

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

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

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

Authorised capital

By resolution of the Annual General Meeting on 14 June 2016, 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 by 14 June 2021 by issuing up to 4,432,937 no-par value bearer shares on one or more occasion in exchange for cash and/or non-cash contributions (2016 authorised capital). The Executive Board is authorised to determine the further content of the equity rights and the terms and conditions of the issue of these shares, subject to the approval of the Supervisory Board. The new shares are to be offered to shareholders for subscription. The new shares can also be taken over by a bank or a company that operates in accordance with § 53 (1) sentence 1 or § 53 b (1) sentence 1 or (7) of the German Banking Act (KWG) with the obligation to offer them to shareholders for subscription. However, the Executive Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights in the following cases:

a) for fractional amounts;

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

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

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

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

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

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

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

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

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

On 15 March 2017, the Executive Board was authorised, with the approval of the Supervisory Board, to partially exercise the 2016 authorised capital and to increase the company's share capital under exclusion of the subscription right of the shareholders in accordance with §§ 203 (2), 186 (3), sentence 4 of the German Stock Corporation Act (AktG) by € 886,586 from € 8,865,874 to € 9,752,460 through the issuance of 886,586 new no-par value bearer shares with a dividend entitlement from 1 January 2016, in exchange for cash and cash contributions. This corresponds to an increase in the company's existing share capital of 10% at the time the proposed authorisation took effect and also at the time the 2016 authorised capital was exercised. The capital increase was entered into the company's commercial register on 21 March 2017 with the result that since this date, the company's share capital totals € 9,752,460. The 2016 authorised capital currently consists of € 3,546,351 owing to the partial utilisation illustrated. No use was made of this authorisation in 2018.

By resolution of the Annual General Meeting on 27 June 2017, the Executive Board was authorised, with the approval of the Supervisory Board, to increase the company's share capital by up to € 1,329,879 by 14 June 2021 by issuing up to 1,329,879 no-par value bearer shares on one or more occasion in exchange for cash and/or non-cash contributions (2017 authorised capital). The Executive Board is authorised to determine the further content of the equity rights and the terms and conditions of the issue of these shares, subject to the approval of the Supervisory Board. The new shares are to be offered to shareholders for subscription. The new shares can also be taken over by a bank or a company that operates in accordance with § 53 (1) sentence 1 or § 53b (1) sentence 1 or (7) of the German Banking Act (KWG) with the obligation to offer them to shareholders for subscription. However, the Executive Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights in the following cases:

a) for fractional amounts;

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

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

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

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

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

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

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

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

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

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

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

Contingent capital

At the company's Annual General Meeting on 24 June 2014, the Executive Board was authorised, with agreement of the Supervisory Board, to once or repeatedly issue convertible or option bonds in bearer or registered form up to 23 June 2019 in the total nominal value of up to € 45,000,000.00 with a term of 20 years. The shareholders have a legal right to bonds and debentures. However, the Executive Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights in the following cases:

(i) for fractional amounts,

(ii) for the issuance of bonds and debentures against cash benefits if the issue price is significantly lower than the theoretical market value of the bonds and debentures determined in accordance with accepted actuarial principles and the bonds and debentures on the basis of shares to which a proportionate amount of the share capital of no more than 10% of the share capital, is attributable, subscribed or pledged or

(iii) with the issuance of bonds and debentures against non-cash contributions if the value of the contribution is not unduly low compared to the theoretical market value of the bonds and debentures in accordance with accepted actuarial principles.

The sum of shares which are issued on the basis of the issuance of bonds and debentures under exclusion of the subscription right must not exceed 20% of the share capital of the company in total.

Option or conversion rights of holders or creditors of bonds with warrants and convertible bonds, up to a total of 4,432,937, can be granted to holders of new no-par value bearer shares of the company with a pro-rata amount of the share capital of up to € 4,432,937.00 or the corresponding obligations are agreed. To satisfy these rights and obligations, the share capital of the company was conditionally increased by resolution of the Annual General Meeting of 24 June 2014.

The Executive Board has, thus far, not made use of the authorisation to issue warrants and convertible bonds which was given on 24 June 2014.

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

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

D. OPPORTUNITY AND RISK REPORT

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

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

We are exposed to numerous uncertainties and changes in all business transactions that we enter into as an internationally active company. The Masterflex Group's entrepreneurial success is based on exploiting the opportunities arising from these changes. We must consciously take certain risks to ensure that our entrepreneurial success can continue in the future. Existing risks that could jeopardise the success of the Masterflex Group are systematically monitored and managed as part of our risk management system. We aim to limit identified risks to an acceptable, manageable level. To this end, we use, among other things, insurance policies and contractual arrangements.

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

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

II. OPPORTUNITY MANAGEMENT

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

III. INDIVIDUAL OPPORTUNITIES

1. Opportunities through positive market development

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

2. Opportunities through research and development

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

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

3. Benefits of increasing efficiency

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

4. Opportunities through internationalisation

The focus of our distribution of turnover will continue to be Germany and Europe. Our internationalisation strategy predominantly assumed higher growth rates in the global target markets addressed by us, such as China and North America.

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

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

5. Opportunities through digitisation

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

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

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

6. Opportunities through personnel management

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

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

IV. THE RISK MANAGEMENT SYSTEM

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

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

The risks of financial reporting lie in the fact that our annual, consolidated and interim financial statements could contain misrepresentations that could potentially have a significant influence on the decisions of recipients. We have therefore developed an internal control system (ICS) for accounting which aims to identify potential sources of error and to limit risks arising from them. This internal control system extends to the entire Masterflex Group and is constantly being refined. The major foundations of accounting are documented in a Group accounting manual which is also being developed on an ongoing basis and adapted to new legal requirements.

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

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

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

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

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

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

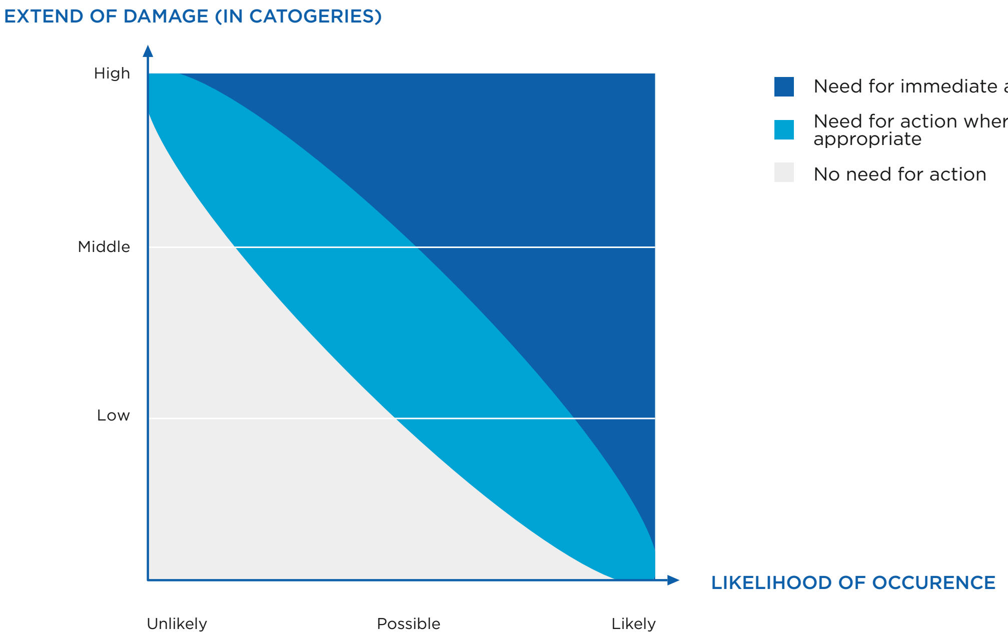
With the likelihood of occurrence of a risk, we distinguish between the categories 'unlikely' (less than 30% probability), 'possible' (probability between 30% and 60%) and 'probable' (probability of 60% or more).

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

With the combination of both components, we distinguish between

- High risk → Need for immediate action
- Medium risk → Need for action where appropriate
- Low risk → No need for action

The following diagram illustrates these relationships.



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

V. INDIVIDUAL RISKS

1. Economic, political and social risks

The global economic outlook is characterised by increasing uncertainty. A further escalation of the US-Chinese trade conflict into a full-scale global trade war with a significant deterioration in global growth represents the main risk for the global economic cycle. A Brexit without a withdrawal agreement could increase uncertainty within the euro zone and pose a risk to the financial markets. Increased political risks in the euro zone, further independence debates or a sustained success of protectionist, anti-European and anti-business parties and policies could trigger the euro crisis anew or even jeopardise the future of the euro zone altogether. Events such as a global economic crisis, a recession in our target countries, an unsustainable increase in government debt as well as significant tax increases and natural catastrophes can have a negative impact on our business activities. A further risk could result from a sudden slowdown in Chinese economic growth. Growing nationalism, trend-setting elections and terrorist threats also mean increasing political and economic risks. An instability of the economic and political situation could therefore have a negative impact on our results of operations, net assets and financial position.

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

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

2. Personnel risks

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, family-friendly working time models and a compensation system that rewards performance. The loss of experts or experienced technical and management staff is one of the greatest risks for the Group, although no such trend can be seen at present.

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

3. IT risks

The continuous availability of IT systems is a vital factor in ensuring operations at the Group's individual sites and offices. Internal and external experts are therefore constantly working on optimising the central and decentralised information systems, their availability and security. Differentiated backup and recovery strategies are used to prevent data loss. Accordingly, internal and external experts work continuously to optimise the Group's central and decentralised information security systems, their availability and reliability. Among others, the protective measures implemented include the use of virus scanners and state-of-the-art firewall systems, as well as extensive user access controls. Masterflex SE and a few of its subsidiaries also use an external computer centre in order to fulfil these service requirements.

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

4. Production risks

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

Based on past experience, we see the probability of a catastrophic event as low. The impact would be severe when entering a transition phase, so we classified the risk as a high risk despite the low likelihood of occurrence being a high risk.

5. Procurement market risks

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

We estimate the risk as to the availability of raw materials and the exclusion of suppliers to be at medium level, with potential impact on the net assets, financial position and results of operations of medium probability.

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

6. Acquisitions and divestments

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

Despite careful planning, company mergers and acquisitions are exposed to risks which can negatively impact our net assets, financial position and results of operations. Moreover, there is the risk that considerable costs may be incurred as a result of such measures. Company acquisitions can have a negative impact on the financing structure of the company carrying out the acquisition. There is also the risk that write-downs on non-current assets including goodwill could become necessary as a result of unscheduled developments. There are also risks associated with the internal transfer of knowledge. The relevant knowledge of new employees must be transferred within the Masterflex Group and secured in the long-term, so that the ability to innovate is encouraged by newly acquired valuable knowledge.

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

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

7. Risks associated with deteriorating efficiency

Through a series of efficiency measures, savings were able to be achieved in the reporting year reflected particularly in the personnel area (less manpower due to process improvements), the material costs with the maximisation of synergy effects in purchasing and design-to-cost measures as well as in other operating expenses. However, increases in personnel costs (especially in the production areas) to improve delivery capabilities have also occurred at different sites. Should we fail to sustainably develop these personnel measures and optimise the staff cost ratio, the general cost increases will once again negate the effects of the measures already implemented.

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

8. Regulatory risks

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

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

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

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

9. Financial risks

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

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

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

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

Due to the low level of foreign currency transactions, the relatively small scale of the business and the existing syndicated loan agreement with a remaining term of two and a half years, the Masterflex Group considers the financial risks to be low.

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

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

Given the risk situation described above, it cannot be ruled out that under very adverse circumstances we may not be able to meet the aforementioned financial ratios. If Masterflex is not in compliance with these covenants, the lenders are entitled to cancel the entire loan commitment.

Based on current and planned business development, we anticipate being in compliance with these covenants. The upper limit for the key figure ‘debt-to-equity ratio’ (calculated in accordance with the syndicated loan agreement) in 2018 was initially 3.0. However, Masterflex SE achieved a debt ratio of 2.2 at the beginning of 2018, compared with 2.3 at the 2018 balance sheet date.

The lower limit of the second key figure ‘equity ratio’ (calculated according to the credit agreement, which fixes the balance sheet equity capital to certain assets), reached a value of 30% in 2018. In contrast, Masterflex SE initially achieved an equity ratio of 47.0% until the 2018 balance sheet date of 50.5% and thus was also always considerably above the prescribed lower minimum. The lower limit of the third key figure ‘interest-cover ratio’ (calculated in accordance with the guidelines from the syndicated loan agreement in which the adjusted EBITDA is divided by the adjusted net interest expense) was 7.0 in 2018. In contrast, Masterflex SE initially achieved an interest-cover ratio of 10.2 in 2018, and until the 2018 balance sheet date of 10.9 and thus was also always considerably above the prescribed lower minimum. Thus, the covenants would only be breached by a dramatic deterioration of future results.

10. Sales market risks

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

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

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

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

11. Technology and quality risks

As a technology leader offering internationally competitive products and services, the Masterflex Group is at risk of losing this position due to decreasing innovative power or even human errors as well as loss of expertise. In order to avoid this, we are accelerating a permanent research and development process in order to meet the demanding requirements of customers. With corresponding agreements regarding privacy and protection of inventions as well as making employees aware of their dealing with confidential information, we counteract the risk of losing expertise. Furthermore, confidential data will only be made accessible to selected and limited group of people. In order to guarantee this also in the future, an innovation management process has been put into place which has been optimised over the last year. A panel of internal experts will decide further developments according to clear process and assessment requirements (so-called Stage-Gate process). In particular, the members make decisions on the basis of market analyses and considerations of economic viability.

The Group also aims to maintain close cooperation with its customers in order to help it to develop new applications and leverage new markets at an early stage. Further details on this process can be found in section A IV. Research and development.

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

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

Luer-lock caps:

The Luer-lock system is a normed connection system for a combined application of syringes and infusion equipment in the medical field. It is used for cannulas, syringes, catheters, three-way taps and infusion hoses. There is only one size for this connection system.

FLEIMA-PLASTIC offers the complete range from Luer-lock variants to caps.

12. Tax risks

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

13. Legal risks

In the year under review, two legal disputes were concluded for which provisions had been recorded in the amount expected in previous consolidated and annual financial statements. We are not aware of any other legal disputes that could have a material impact on the Masterflex Group's net assets, financial position and results of operations.

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

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

VI. OTHER INDIVIDUAL RISKS

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

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

In addition to global risk factors, the expected moderate earnings 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.

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

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

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

VIII. THE ORGANISATION OF THE COMPLIANCE SYSTEM

Compliance is paramount to the Executive Board and Supervisory Board of the Masterflex Group and one of the prerequisites for its lasting success. Compliance describes the measures which ensure that the Executive Board and Supervisory Board and in fact the entire management team and all the employees of the Masterflex Group behave lawfully.

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

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

Compliance is one of the basic requirements for sustainable management and the success of the Masterflex Group. The company management team expressly shares this view. Every newly employed member of the Masterflex Group receives its own copy of this and is instructed in writing to make the code's principles a binding framework for its own actions.

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

The Masterflex Group has established a compliance management system (CMS) which pursues a preventative compliance approach and strives to create a corporate culture that raises awareness among and familiarises employees, thus detecting and eliminating potential rule violations in advance.

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

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

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

E. FORECAST REPORT

The following statements on the future business development of the Masterflex Group and on the key underlying assumptions concerning the economic development of markets and industries are based on our estimates which we currently regard as realistic according to information we have available. However, these are 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 predicted.

I. OUTLOOK

1. Projected macroeconomic development

2019 economic situation

According to the IfW, global production will grow more slowly than before. Correspondingly, global economic growth of 3.4% is forecast for 2019. Capacity utilization in the advanced economies will hardly increase at all, and in many emerging markets, production will only expand at a moderate pace in view of the often unfavourable economic policy conditions and a difficult financial environment. In addition, it is assumed that the trade policy conflicts will gradually be resolved, whereby the inhibitory effects from this side will diminish over time. GDP growth of 1.7% is expected for the euro zone. According to the IfW, the German economy is expected to grow by 1.8% in the current year.

Forecasted economic growth in selected countries where the Masterflex Group has a presence
(Change compared to previous year, in %)

Country	2018	2019
Euro zone	1.9	1.7
Germany	1.5	1.7
France	1.6	1.4
Great Britain	1.3	1.0
World	3.7	3.4
Brazil	1.2	2.0
China	6.6	6.1
USA	2.9	2.5

Source: IfW

2. Projected development of the Masterflex Group

On the basis of its diversified growth strategy, the still intact market drivers and the existing market potential, the Masterflex Group continues to pursue its general objective of return-oriented growth above economic growth – as well as achieving its return target of an EBIT margin of over 10%. In view of the current challenges, however, we see this margin target as rather medium-term in nature. In the short-term, we aim in particular to restore our usual level of productivity in order to gradually unfold and sustainably increase our existing earning strength.

In addition, growth through acquisitions remains an option in the future. The focus here will not be purely on volume and revenue growth. Rather, this approach should also make it possible to acquire new technologies and expertises from external sources in addition to the existing internal know-how.

We expect good opportunities and additional dynamism in the market for medical technology. The importance of this target market has already grown in recent years. In the future, we expect a further increase in dynamism. With our new brand company APT and its fluorinated polymer products, we have been able to expand our product range very well, especially for this market.

In summary, we expect our long-term growth path to continue. For the 2019 financial year, we anticipate overall revenue growth of between 3.0% and 6.0%. This requires stability in our key sales markets. On the earnings side, our goal is to improve earnings quality again. Overall, absolute operating EBIT is expected to rise again compared with 2018 and the operating EBIT margin (adjusted for possible restructuring costs) is expected to increase slightly.

3. Projected development of Masterflex SE

For 2019, we have set ourselves a comparable revenue growth target to 2018 and aim to grow between 3.0% and 6.0%. However, this requires comparatively stable economic development without major external factors. On the earnings side, we will concentrate on measures for improved efficiency and additional economies of scale – with the aim of increasing EBIT as proportionally as possible to sales revenue revenues.

II. SUMMARY STATEMENT ON THE ANTICIPATED DEVELOPMENT OF THE GROUP

In summary, the Executive Board considers the Masterflex Group to be well on track on its long-term growth path. The potential for our innovative connection systems is predominantly characterised by our markets. Especially with active digitisation of our solutions under the AMPIUS brand, we will expand and intensify our position as technology leader and strengthen our bonds with strategic customers. For some time, we have continually driven the necessary structural and procedural changes in order to set the Masterflex Group up on a clearly growing scenario. Not least, this was the motivation for the clear strategy expansion in 2017. In this way, we want to achieve significant growth in operating income and an increased consolidated net income. This will permanently support the possibility of paying a dividend in line with objectives which include reducing debt, financing further growth and the financing of potential new company acquisitions.

Gelsenkirchen, 13 March 2019

Dr. Andreas Bastin
Chief Executive Officer

Mark Becks
Chief Financial Officer

Insertion aid for medical hydrophilic nitinol catheter guide wire:

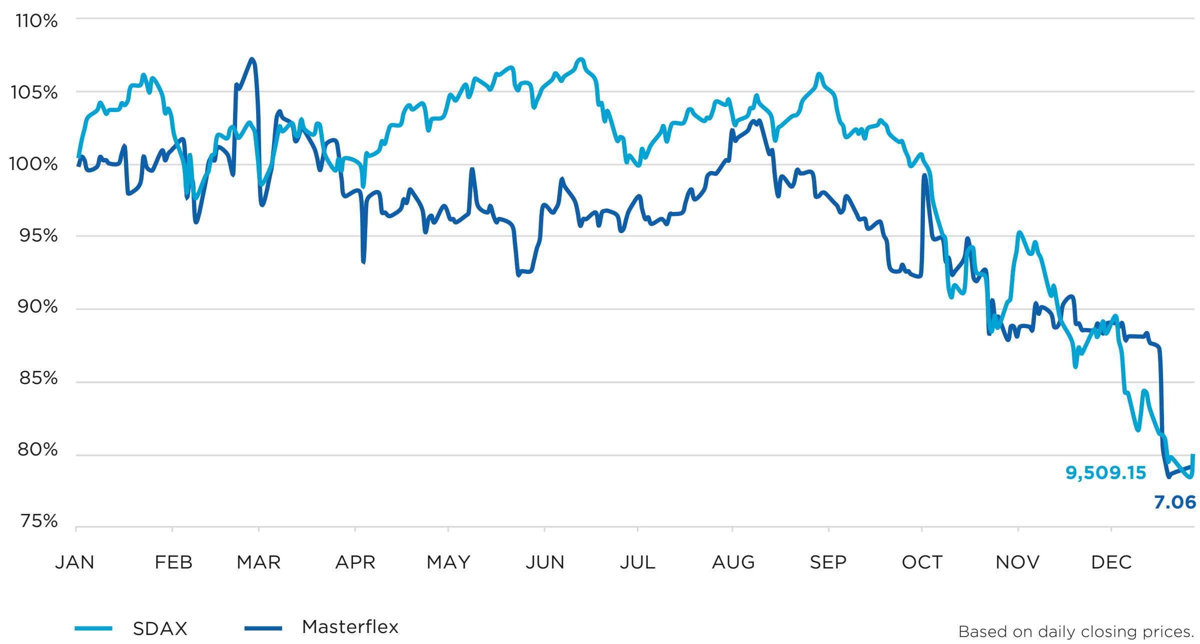
The product facilitates the insertion of a catheter wire into the body for the physician during a urological examination.

MASTERFLEX SHARE

SHARE INFORMATION

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

Masterflex share price performance 2018 compared with the SDAX



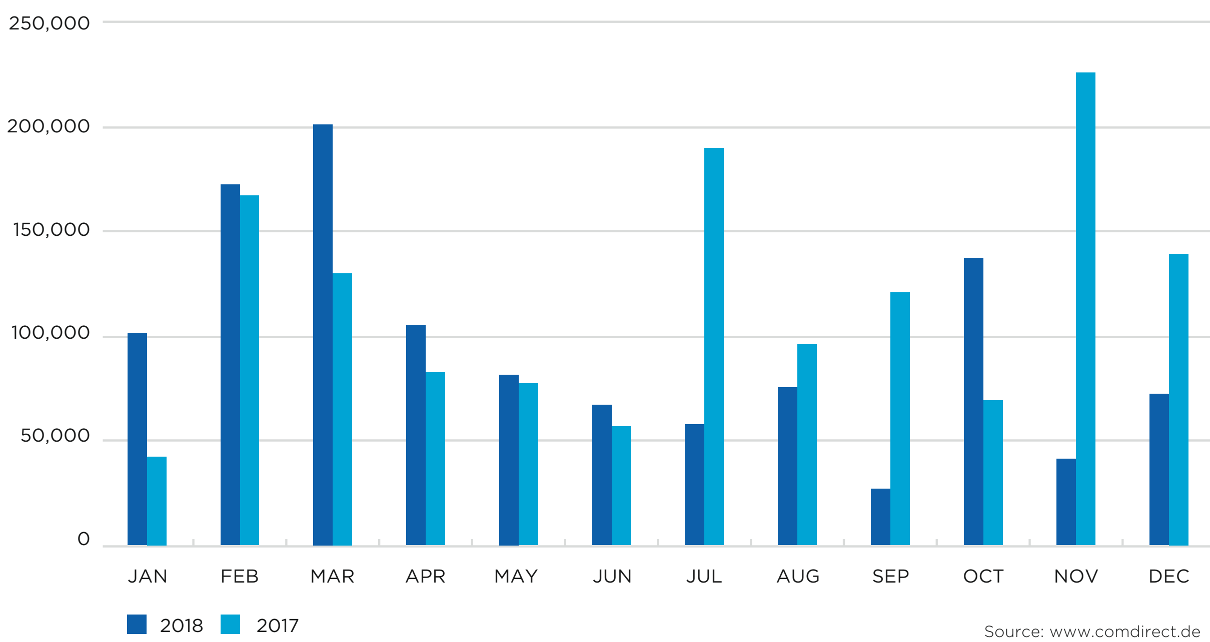
Based on daily closing prices.

THE STOCK MARKET YEAR 2018

The Masterflex share opened the 2018 trading year with a Xetra price of € 8.92. The annual high of € 9.56 was reached on 27 February and the annual low of € 7.00 on 20 December. The Xetra closing price of € 7.06 on 28 December represented a price performance of -20.9%. The SDAX also showed an almost identical development with a performance of -20.3%.

LIQUIDITY OF THE MASTERFLEX SHARE

Order book turnover

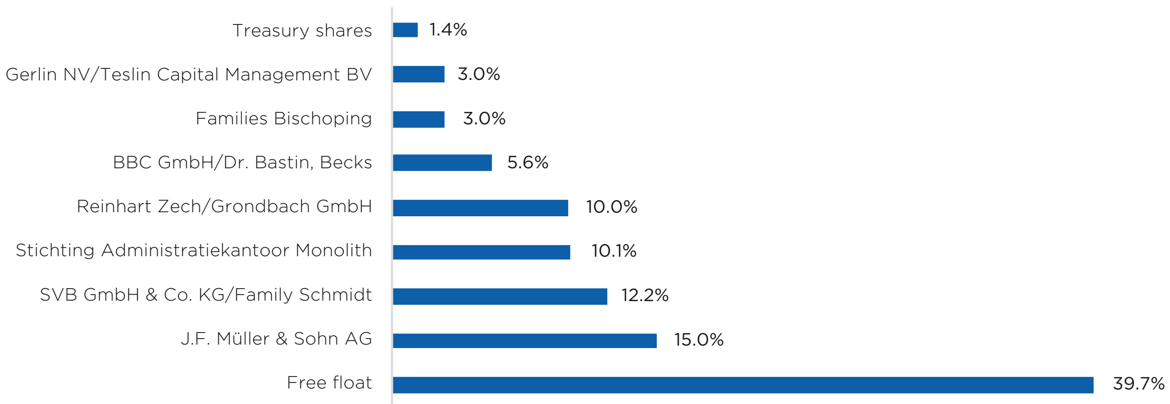


Source: www.comdirect.de

In line with the share price performance, the liquidity of Masterflex shares also declined in 2018 compared with the previous year. Xetra trading volume totalled 1.1 million shares (2017: 1.4 million shares), corresponding to a daily trading volume of 4,547 shares (2017: 5,746 shares).

Shareholder structure

Compared to the previous year, there have been shifts with regard to the larger shareholders. While SVB GmbH & Co. KG reduced its shareholding from 17.6% to 12.2% and Stichting Administratiekantoor Monolith reduced its shareholding from 13.1% to 10.1%, Grondbach GmbH increased its shareholding from 5.6% to 10.0% and J.F. Müller & Sohn AG increased its shareholding from 11.9% to 15.0%. The free float currently stands at 39.7% (31 December 2017: 41.8%).



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

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

		2018	2017	2016	2015	2014
Xetra						
Highest price	€	9.560	9.500	6.990	7.410	7.650
Lowest price	€	7.000	6.575	5.453	5.600	6.390
Opening price	€	8.920	6.631	5.806	7.000	7.000
Closing share price	€	7.060	8.751	6.575	5.950	6.970
Share performance		-20.9%	+32.0%	+13.2%	-15.0%	-0.4%
Earnings per share	€	0.35	0.45	0.34	0.22	0.34
Number of shares (31.12.)	Number	9,752,460	9,752,460	8,865,874	8,865,874	8,865,874
Number of treasury shares	Number	134,126	134,126	134,126	134,126	134,126
Market capitalisation (31.12.)	€ m	68.9	85.3	58.3	52.8	61.8
Free float	%	39.7	41.8	48.7	51.9	56.7

Analyst research

During 2018, the Masterflex share was continuously monitored by several analysts and research teams: Most of these reports can be downloaded at www.MasterflexGroup.com in the Investor Relations/Analyst Recommendations section.

In an update of 9 November 2018, DZ Bank AG rated the Masterflex share with a ”hold“ investment recommendation and a target price of € 8.50.

SMC Research, which specialises in small-cap shares, has been covering the Masterflex share for several years. The experts last recommended the share as a buy on 13 November 2018, with a target of € 9.30.

Bankhaus Lampe updated its research on 10 October 2018. With a price target of € 9.00, the share was recommended as „Hold“.

Annual General Meeting 2018

The Annual General Meeting took place on 26 June 2018 at the traditional venue Schloss Horst in Gelsenkirchen. The attendance amounted to 62.1% of the share capital (2017: 63.4%). The items on the agenda were all adopted with a clear majority. These included the appropriation of retained earnings, the ratification of the actions of the Executive Board and Supervisory Board members and the appointment of Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft as auditors for the 2018 financial year.

Dividend

A dividend of € 0.07 per share was paid on 29 June 2018 from the 2017 balance sheet profit of € 9.7 million. The remaining balance sheet profit of € 9.0 million was carried forward.

Capital market communication

The Masterflex Group maintains an open information policy towards all participants in the capital market that is identical in terms of time and content. Investor or analyst concerns are met promptly to the extent that Masterflex Group's competitive position as one of the few listed hose manufacturers permits. The opportunity to present at capital market conferences is also actively used.

The aim of our capital market communication is to contribute to a fair valuation of the share through regular perception on the capital market. The aim of the Masterflex Group is to achieve market leadership in all addressed markets. This profitable and sustainable growth should also be reflected in the valuation of our shares.

FINANCIAL CALENDAR 2019

29 March	Publication of the 2018 Annual report
10 May	Statement on Q1/2019
14/15 May	Analysts' conference within the framework of the Spring Conference, Frankfurt/Main
28 May	Annual General Meeting in Gelsenkirchen
9 August	2019 Half-year report
8 November	Statement on Q3/2019
25 to 27 November	Analysts' conference within the framework of the Deutsches Eigenkapitalforum, Frankfurt/Main

The financial calendar was published on the Group's website (www.Masterflexgroup.com/investor-relations/financial-calendar) and will be regularly updated there.

CONSOLIDATED FINANCIAL STATEMENTS

I. CONSOLIDATED BALANCE SHEET

Assets in €k	Notes	31.12.2018	31.12.2017
NON-CURRENT ASSETS			
Intangible assets	**3, 23**	**12,529**	**11,233**
Concessions, industrial property rights	3	887	846
Development costs	3	947	677
Goodwill	3, 23	9,187	9,187
Advance payments	3	1,508	523
Property, plant and equipment	**3**	**31,892**	**31,413**
Land and buildings		16,542	17,047
Technical equipment		11,782	10,584
Other assets, operating and office equipment		2,787	2,721
Advanced payments and construction in progress		781	1,061
Financial assets	**3**	**98**	**78**
Non-current financial instruments		98	78
Other loans		0	0
Other assets	**5**	**29**	**27**
Other financial assets	**5, 16**	**0**	**13**
Deferred taxes	**25**	**511**	**1,546**
		45,059	**44,310**
CURRENT ASSETS			
Inventories	**4**	**16,662**	**15,236**
Raw materials, consumables and supplies		8,050	7,633
Unfinished goods and services		581	955
Finished products and goods purchased and held for sale		8,025	6,643
Advance payments		6	5
Receivables and other assets	**5, 6**	**8,217**	**7,593**
Trade receivables	6	7,490	6,777
Other assets	5	725	811
Other financial assets	5, 16	2	5
Income tax assets	**7**	**865**	**492**
Cash in hand and bank balances	**8**	**4,370**	**5,336**
		30,114	**28,657**
Total assets		**75,173**	**72,967**

Liabilities in €k	Notes	31.12.2018	31.12.2017
EQUITY			
Consolidated equity	**9**	**40,720**	**37,736**
Subscribed capital		9,618	9,618
Capital reserves		31,306	31,306
Retained earnings		1,189	-1,511
Revaluation reserve		-609	-629
Hedging instruments		-31	0
Exchange differences		-753	-1,048
Non-controlling interests	**10**	**-497**	**-340**
Total equity		**40,223**	**37,396**
NON-CURRENT LIABILITIES			
Provisions	**11**	**209**	**225**
Financial liabilities	**12**	**18,856**	**18,293**
Other liabilities	**14**	**956**	**948**
Deferred taxes	**25**	**861**	**916**
		20,882	**20,382**
CURRENT LIABILITIES			
Provisions	**11**	**632**	**552**
Financial liabilities	**12**	**7,643**	**7,404**
Income tax liabilities	**13**	**249**	**984**
Other liabilities	**14, 15**	**5,544**	**5,172**
Trade payables	15	2,101	1,964
Other liabilities	14	3,443	3,208
		14,068	**14,112**
Liabilities directly connected with assets held for sale	**14**	**0**	**1,077**
		14,068	**15,189**
Total liabilities		**75,173**	**72,967**

II. CONSOLIDATED INCOME STATEMENT

Continued business units in €k	Notes	2018	2017
1. Revenue	17	77,243	74,675
2. Increase or decrease of inventories in finished and unfinished goods		554	94
3. Other own work capitalised		1,325	746
4. Other income		625	512
Operating revenue	**18**	**79,747**	**76,027**
5. Cost of materials	19	-25,235	-24,311
6. Staff costs	22	-30,793	-28,522
7. Depreciation, amortisation and impairments		-3,341	-3,182
8. Other expenses	20	-14,277	-13,411
9. Financial result	24		
Financing costs		**-1,062**	**-1,192**
Other financial result		3	11
10. Earnings before taxes		**5,042**	**5,420**
11. Income taxes	25	-1,768	-1,055
12. Earnings after taxes from continued operations		**3,274**	**4,365**
Discontinued business units in €k			
13. Earnings after taxes from discontinued business units	**26**	**-58**	**-62**
14. Group profit or loss		**3,216**	**4,303**
of which: non-controlling interests		-157	-8
of which: controlling interests attributable to shareholders of Masterflex SE		**3,373**	**4,311**
Earnings per share (diluted and non-diluted)			
from continued business units	27	0.36	0.46
from discontinued business units	27	-0.01	-0.01
from continued and discontinued operations	27	0.35	0.45

III. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in €k	Anhang	2018	2017
Group profit or loss		**3,216**	**4,303**
Other income or loss			
Items which are subsequently reclassified into profit or loss if certain conditions are fulfilled			
1. Exchange rate gains/losses from the translation of foreign financial statements	9	285	-1,117
2. Changes in the fair value of financial instruments		20	-13
3. Hedging instruments		-31	0
4. Income taxes		10	63
5. Other income after taxes		**284**	**-1,067**
6. Comprehensive income		**3,500**	**3,236**
Comprehensive income:		**3,500**	**3,236**
of which: non-controlling interests		-157	-8
of which: controlling interests attributable to shareholders of Masterflex SE		**3,657**	**3,244**

IV. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in €k	Subscribed capital	Capital reserves	Retained earnings	Revaluation reserve from financial instruments	Reserve for hedging instruments	Exchange rate differences	Controlling interests attributable to shareholders of Masterflex SE	Adjustment item for non-controlling interests	Equity
Notes	**9**	**9**	**9**	**9**	**9**	**9**		**10**	
Equity as at 01.01.2017	**8.732**	**26.252**	**-5.341**	**-616**	**0**	**6**	**29.033**	**-332**	**28.701**
Distributions	0	0	-481	0	0	0	-481	0	-481
Capital measures	886	5.054	0	0	0	0	5.940	0	5.940
Other changes	0	0	0	0	0	0	0	0	0
Comprehensive income	**0**	**0**	**4.311**	**-13**	**0**	**-1.054**	**3.244**	**-8**	**3.236**
Group profit or loss	0	0	4.311	0	0	0	4.311	-8	4.303
Other income after income tax	0	0	0	-13	0	-1.054	-1.067	0	-1.067
Changes in the fair value of financial instruments	0	0	0	-13	0	0	-13	0	-13
Exchange rate gains/ losses from the translation of foreign financial statements	0	0	0	0	0	-1.117	-1.117	0	-1.117
Income relating to other earnings	0	0	0	0	0	63	63	0	63
Equity as at 31.12.2017	**9.618**	**31.306**	**-1.511**	**-629**	**0**	**-1.048**	**37.736**	**-340**	**37.396**
Distributions	0	0	-673	0	0	0	-673	0	-673
Other changes	0	0	0	0	0	0	0	0	0
Comprehensive income	**0**	**0**	**3.373**	**20**	**-31**	**295**	**3.657**	**-157**	**3.500**
Group profit or loss	0	0	3.373	0	0	0	3.373	-157	3.216
Other income after income tax	0	0	0	20	-31	295	284	0	284
Changes in the fair value of financial instruments	0	0	0	20	-31	0	-11	0	-11
Exchange rate gains/ losses from the translation of foreign financial statements	0	0	0	0	0	285	285	0	285
Income relating to other earnings	0	0	0	0	0	10	10	0	10
Equity as at 31.12.2018	**9.618**	**31.306**	**1.189**	**-609**	**-31**	**-753**	**40.720**	**-497**	**40.223**

V. CONSOLIDATED CASH FLOW STATEMENT

in €k	2018	2017
Result for the period before taxes, interest expenses and financial income	6,242	6,547
Income tax expenses	-764	-862
Depreciation on intangible assets	279	337
Depreciation of property, plant and equipment	3,062	2,845
Increase/decrease in provisions	-1,013	233
Other non-cash expenses/income and profit/loss from the disposal of assets	-1,428	-765
Increase in inventories	-1,426	-682
Decrease in trade receivables and other assets not attributable to investing or financing activities	34	835
Decrease in trade payables and other liabilities not attributable to investing or financing activities	-308	-142
Cash flow from operating activities	**4,678**	**8,346**
Income from the disposal of assets	6	8
Payments for investments in intangible assets	-1,626	-747
Payments for investments in property, plant and equipment	-3,560	-3,926
Payments from the acquisition of associated companies	0	-8,755
Cash flow from investing activities	**-5,180**	**-13,420**
Proceeds from additions to equity (capital increase, sale of treasury shares)	0	5,940
Payments to shareholders and minority shareholders (dividends, purchase of treasury shares)	-673	-481
Interest and dividend income	2	8
Interest payments	-757	-1,059
Proceeds from borrowings	3,500	9,000
Payments for the repayment of loans	-2,800	-6,537
Cash flow from financing activities	**-728**	**6,871**
Cash-effective changes in cash and cash equivalents	**-1,230**	**1,797**
Exchange-rate related and other value changes in cash and cash equivalents	264	-1,054
Cash and cash equivalents at the beginning of the period	**5,336**	**4,005**
Change in scope of consolidation	**0**	**588**
Cash and cash equivalents at the end of the period	**4,370**	**5,336**

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Principles of financial reporting

Basis of presentation

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

The present consolidated financial statements have been prepared in accordance with § 315e of the German Commercial Code ("Consolidated financial statements in accordance with international accounting standards") in conjunction with the International Financial Reporting Standards (IFRS) and the interpretations issued by the International Accounting Standards Board (IASB), as applicable within the EU as of 31 December 2018, in accordance with Regulation No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards.

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

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

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

In the 2018 financial year, non-operating income and expenses were not reported separately in the consolidated income statement for the first time. The previous year's amounts in the consolidated income statement and in the consolidated cash flow statement amounting to € 480 thousand were adjusted for comparability purposes and reclassified accordingly.

The Executive Board of Masterflex SE released this financial statement for publication on 13 March 2019. Approval took place in the Supervisory Board meeting on 13 March 2019.

2. Accounting principles

Basis of consolidation

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

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

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

* = Partially consolidated

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

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

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

Consolidation

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

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

Currency conversion

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

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

The financial statements of all companies with a functional currency other than the Group reporting currency are converted into the reporting currency of Masterflex's consolidated financial statements. The assets and liabilities of the consolidated companies are translated using the middle rates prevailing at the balance sheet date, while their income statements are translated using moving average rates for the year as a whole. If the average rate for the year is not a reasonable approximation of the actual exchange rates on the respective transaction dates, the latter rates are applied. Any exchange differences are classified as a separate component of equity and reconverted at each balance sheet date. On 31 December 2018, these differences amounted to € -753 thousand (previous year: € -1,048 thousand).

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

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

in €	Balance sheet date 31.12.2018	Income and expenses 2018
1 pound sterling (GBP)	1.1179	1.1303
1 US-Dollar (USD)	0.8734	0.8464
1 Brazilian Real (BRL)	0.2250	0,2321
1 Czech Koruna (CZK)	0.0389	0.0390
1 Swedish Krona (SEK)	0.0975	0.0975
1 Singapore-Dollar (SGD)	0.6414	0.6278
1 Renminbi (CNY)	0.1270	0.1281

Intangible assets

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

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

Goodwill

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

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

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

The value in use of the individual cash-generating units is calculated in the fourth quarter of each 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.

Property, plant and equipment

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

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

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

Useful lives

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

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

Financial assets

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

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

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

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

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

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

Deferred taxes

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

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

Inventories

Inventories are carried at the lower of cost and net realcyclle value. The majority of the company's inventories are measured using the FIFO (first-in, first-out) method. The cost of inventories includes direct costs, indirect materials and indirect labour costs relating to production and depreciation, as well as production-related administrative expenses, but not borrowing costs. Net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale. Impairment testing is performed in the same way as for property, plant and equipment. The corresponding write-down must be reversed up to a maximum of the amortised cost of the respective asset.

Receivables and other assets

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

Cash in hand and bank balances

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

Subscribed capital

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

Provisions

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

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

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.

Liabilities

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

Financial instruments

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

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

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

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

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

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

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

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

At the time of first-time application of IFRS 9, the Masterflex Group reviewed the classification using the business model criteria for financial assets.

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

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

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

Upon initial application of IFRS 9, assets measured at amortised cost were examined for a significant default risk. Appropriate and reliable information that could be obtained within a reasonable period of time was used for this purpose.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Derivative financial instruments

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

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

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

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

Cash flow hedging

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

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

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

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

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

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

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

Revenue recognition

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

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

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

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

Borrowing Costs

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

Research and development

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

Government grants

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

Estimates

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

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

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

a. Development costs

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

b. Goodwill

The Group checks annually whether a write-down of goodwill is available. The recoverable amount of cash-generating units is determined on the basis of the value in use, which in turn is calculated on the basis of assumptions by the Group's Executive Board (see Note 23).

c. Deferred taxes

When estimating the realisability of deferred tax assets, the Group's management assesses the extent to which the factors in favour of realisation outweigh those against it. The actual realisability of a deferred tax asset depends on the availability of future taxable income that can be offset against the tax loss carryforwards. To this end, the Group's management considers the timing of the reversal of deferred tax liabilities and the future expected taxable income. Based on Masterflex's expected future business development, the Group's management assumes that the deferred tax assets recognised will be realisable (see Note 25).

d. Provisions and contingent liabilities

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

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

In some cases, actual values can deviate from the assumptions and estimates made, meaning that it is necessary to adjust significantly the carrying amount of the assets or liabilities concerned. Changes to estimates are recognised in income in accordance with IAS 8 at the time they become known.

New accounting standards

The option regarding the early application of new standards, revisions of standards and interpretations already approved as of 31 December 2018 and adopted by the European Union by the time the consolidated financial statements were approved, was not exercised.

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

• **IFRS 9**	Financial Instruments – classification and measurement
• **IFRS 15**	Revenue from contracts with customers
• **IFRS 15**	Clarification of IFRS 15 (Identification of performance obligations/principle versus agent considerations and licenses)
• **IFRS 2**	Amendments regarding certain issues relating to accounting for cash-settled share-based payment
• **IFRS 4**	Amendments regarding the interaction between IFRS 4 and IFRS 9
• **IFRIC 22**	Share-based payments
• **IAS 40**	Amendments regarding investment property

as well as the change relating to the annual “improvement” project cycle 2014-2016.

The standard **IFRS 9** Financial Instruments comprehensively regulates the accounting of financial instruments. Compared to the predecessor standard IAS 39, the new classification rules for financial assets, which have been revised in the latest version of IFRS 9, are particularly noteworthy. These are based on the characteristics of the business model and the contractual cash flows of financial assets. Also fundamentally new are the regulations on the recognition of impairments, which are now based on a model of expected losses. The presentation of hedging relationships in the balance sheet has also been newly regulated under IFRS 9 and is designed to reflect operational risk management more effectively.

IFRS 15 establishes a comprehensive framework for determining whether, in what amount and at what point in time revenues are recognised. It replaces existing guidelines for the recognition of revenue, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The application of IFRS 15 is mandatory for all IFRS adopters and applies to almost all contracts with customers – the main exceptions being leases, financial instruments and insurance contracts.

IFRIC 22 aims to clarify the accounting treatment of transactions involving the receipt or payment of consideration in a foreign currency.

The amendments to **IAS 40** serve to clarify the provisions relating to transfers to or from investment property. In particular, it deals with whether property under construction or development that was previously classified as inventories can be reclassified as investment property if there has been an obvious change in use.

The first-time application of these regulations has no material impact on the financial statements of Masterflex SE.

The following accounting standards, interpretations and amendments to existing standards had already been published for the preparation of the IFRS consolidated financial statements as of 31 December 2018, but their application was not yet mandatory:

Standard/ interpretation		Mandatory application from
• **IFRS 16**	Leases	01.01.2019
• **IFRIC 23**	Uncertainty over income tax treatments	01.01.2019
• **IAS 28**	Amendments regarding long-term interests	01.01.2019
• **IFRS 9**	Amendments regarding prepayment options	01.01.2019

IFRS 16 introduces requirements for the recognition of leases in the balance sheet, which lead to far-reaching changes on the part of the lessee. A lessee recognises a right of use asset, which represents his right to use the underlying asset, and a liability from the lease, which represents his obligation to make lease payments. There are exceptions for current and low-value assets. Accounting by the lessor is similar to the current IAS 17 (Leases). The new standard IFRS 16 will replace the current standard IAS 17 (Leases) and IFRIC 4 (Determining whether an Arrangement contains a Lease). The new standard IFRS 16 is mandatory for financial years beginning on or after 1 January 2019. The Group has started to assess the potential impact of the application of IFRS 16 on its consolidated financial statements. To date, the most significant effect identified has been that the Group will recognise new assets and liabilities for its operating leases. In addition, the nature of the expenses associated with these leases will change as IFRS 16 replaces the straight-line expenses for operating leases with a depreciation expense for right-of-use assets and interest expense for lease liabilities.

The new provision leads to an increase in assets (assets from rights of use) in the Masterflex balance sheet and, at the same time, financial liabilities increase by approximately € 0.3 million.

In future, leases will be recognised in the income statement on the purchasing side as an investment and no longer as an operating expense. This will reduce operating expenses under otherwise identical economic conditions, while depreciation and amortization and interest expenses will increase. This leads to an increase in reported EBITDA. Consolidated net income remains unchanged.

The IASB has issued **IFRIC 23**, an interpretation developed by the IFRS Interpretations Committee, to clarify the accounting for uncertainty regarding income taxes.

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

Standard/ interpretation		Mandatory application from
• **IAS 19**	Amendments regarding plan amendments, curtailments or settlements	01.01.2019
	Framework concept	01.01.2020
• **IFRS 3**	Amendments to clarify the definition of a business	01.01.2020
• **IAS 1/IAS 8**	Amendments regarding the definition of material	01.01.2020
• **IFRS 17**	Accounting for insurance contracts	01.01.2021
• **IFRS 10, IAS 28**	Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture*	

as well as the changes to various IFRS within the framework of the annual “Improvement” project cycle 2015-2017.

* The originally planned first-time adoption period was postponed indefinitely and must be redefined by the IASB.

COMMENTS ON THE BALANCE SHEET: ASSETS

3. Non-current assets

The development of non-current assets is presented in a separate statement of changes in non-current assets (see annex). Liabilities to banks are secured by way of entries in the land register in the amount of € 15,495 thousand (previous year: € 15,868 thousand) and transfers of title to production facilities totalling € 9,782 thousand (previous year: € 8,913 thousand).

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

a) Intangible assets

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

The cost of, additions, disposals and reclassifications are composed as follows:

in €k	Internally generated intangible assets	Acquired tangible assets	Goodwill	Total
As at 01.01.2017	**857**	**2,259**	**9,161**	**12,277**
Change in consolidation group	0	434	5,929	6,363
Additions	288	459	0	747
Disposals	33	8	0	41
Reclassifications	0	1	0	1
Exchange rate differences	0	1	0	1
As at 31.12.2017	**1,112**	**3,146**	**15,090**	**19,348**
Additions	368	1,258	0	1,626
Disposals	18	122	0	140
Reclassifications	-35	2	0	-33
As at 31.12.2018	**1,427**	**4,284**	**15,090**	**20,801**

Current and accumulated amortisation are composed as follows:

in €k	Internally generated intangible assets	Acquired tangible assets	Goodwill	Total
As at 01.01.2017	**314**	**1,561**	**5,903**	**7,778**
Depreciation and amortisation for fiscal year	42	295	0	337
Disposals	0	1	0	1
Exchange rate differences	0	1	0	1
As at 31.12.2017	**356**	**1,856**	**5,903**	**8,115**
Depreciation and amortisation for fiscal year	52	227	0	279
Disposals	0	122	0	122
As at 31.12.2018	**408**	**1,961**	**5,903**	**8,272**

The carrying amounts of intangible assets are composed as follows:

in €k	Internally generated intangible assets	Acquired tangible assets	Goodwill	Total
As at 31.12.2017	**756**	**1,290**	**9,187**	**11,233**
As at 31.12.2018	**1,019**	**2,323**	**9,187**	**12,529**

b) Financial assets

Financial assets are composed as follows:

in €k	31.12.2018	31.12.2017
Non-current financial instruments	**98**	**78**

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

In the 2018 financial year, reversals of impairments amounting to € 20 thousand were recognised directly in equity (see Note 9).

The following table shows the cost, unrealised gains and losses and fair values of available-for-sale securities as at 31 December 2018:

in €k	Acquisition cost	Unrealised	Market value
	707	**losses**	**Fair value**

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

4. Inventories

Inventories are composed as follows:

in €k	31.12.2018	31.12.2017
Raw materials, consumables and supplies	8,050	7,633
Work in progress	581	955
Finished products and goods purchased and held for sale	8,025	6,643
Advance payments	6	5
Total inventories	**16,662**	**15,236**

Inventories in the amount of € 24,930 thousand (previous year: € 23,933 thousand) were recorded under cost of materials (see Note 19).

Raw materials, consumables and supplies rose by € 417 thousand to € 8,050 thousand. Work in progress decreased by € 374 thousand to € 581 thousand. Finished goods and merchandise increased by € 1,382 thousand to € 8,025 thousand and advance payments made grew by € 1 thousand to € 6 thousand.

Depreciation of inventories to the net realisable value amounted to € 92 thousand (previous year: € 109 thousand).

5. Receivables and other assets

Receivables and other assets are composed as follows:

in €k	31.12.2018	31.12.2017
Trade receivables	7,490	6,777
Other assets	754	838
Other financial assets	2	18
Total receivables and other assets	**8,246**	**7,633**

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

Other assets are composed as follows:

in €k	31.12.2018	31.12.2017
Deferred income	370	354
Receivables from tax authorities	131	57
Deposits	52	54
Receivables from health insurance com-panies	44	42
Receivables from employees	43	27
Creditors with debit balances	21	67
Bonus receivables	14	202
Other	79	35
Total other assets	**754**	**838**

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

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

Receivables from tax authorities primarily relate to VAT receivables.

“Other financial assets” are discussed in Note 16.

6. Trade receivables

The valuation of trade receivables is composed as follows:

in €k	31.12.2018	31.12.2017
Nominal value of trade receivables	7,541	6,812
Write-downs	-51	-35
Trade receivables	**7,490**	**6,777**

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

The total write-downs from trade receivables for individual risks amount to € 51 thousand (previous year: € 35 thousand).

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

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

2018 in €k		
Carrying amount		**7,490**
1. of which: non-impaired and non-overdue at the balance sheet date		**5,120**
2. of which: non-impaired, but overdue at the balance sheet date		**2,370**
less than 30 days	1,323	
30 to 59 days	546	
60 to 89 days	231	
90 to 119 days	125	
120 days or more	145	

2017 in €k		
Carrying amount		**6,777**
1. of which: non-impaired and non-overdue at the balance sheet date		**5,141**
2. of which: non-impaired, but overdue at the balance sheet date		**1,636**
less than 30 days	1,111	
30 to 59 days	349	
60 to 89 days	72	
90 to 119 days	71	
120 days or more	33	

7. Income tax assets

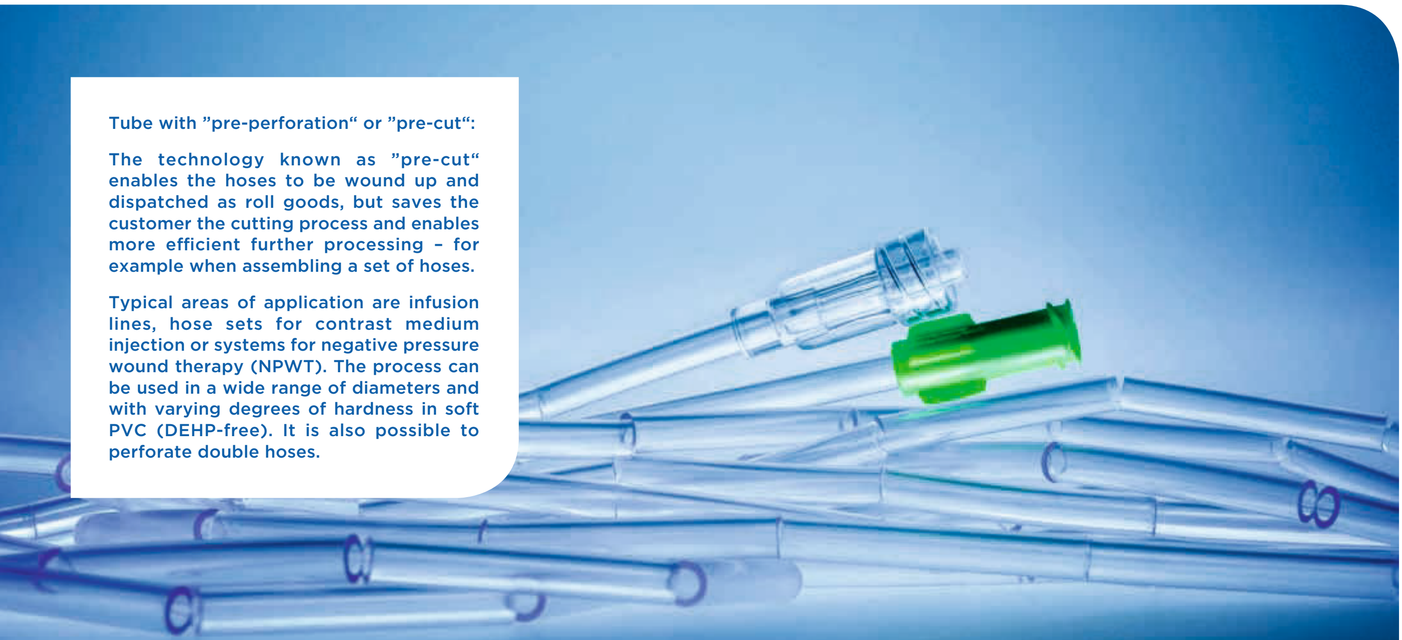
Income tax assets amounted to € 865 thousand at the balance sheet date (previous year: € 492 thousand). All income tax assets are due within one year.

8. Cash in hand and bank balances

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

in €k	31.12.2018	31.12.2017
Cash in hand and bank balances	4,370	5,336

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



Tube with "pre-perforation" or "pre-cut":

The technology known as "pre-cut" enables the hoses to be wound up and dispatched as roll goods, but saves the customer the cutting process and enables more efficient further processing – for example when assembling a set of hoses.

Typical areas of application are infusion lines, hose sets for contrast medium injection or systems for negative pressure wound therapy (NPWT). The process can be used in a wide range of diameters and with varying degrees of hardness in soft PVC (DEHP-free). It is also possible to perforate double hoses.

COMMENTS ON THE BALANCE SHEET: LIABILITIES

9. Total equity

Capital management

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

The articles of association of Masterflex SE do not prescribe any specific capital requirements.

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

Subscribed capital

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

No treasury shares were sold or newly acquired in the 2017 financial year. At the balance sheet date, Masterflex SE held a total of 134,126 treasury shares (previous year: 134,126).

The 134,126 no-par value bearer shares have a nominal amount of € 134,126. They represent 1.38% of the share capital. The shares were acquired between September 2004 and July 2005. The relevant Annual General Meeting resolutions from 2004 and 2005 authorised the company to acquire treasury shares with a notional interest in the company's share capital of up to € 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 § 71 a ff. of the German Stock Corporation Act (AktG), could not exceed 10% of the company's share capital at any time. This authorisation could not be used for the purpose of trading in treasury shares.

Accordingly, Masterflex SE reports subscribed capital of € 9,752,460.

Exercising the right to buy treasury shares

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

In this connection, we refer to our comments in Section C III "Other disclosures in accordance with §§ 289 and 315 of German Commercial Code" in the combined management report.

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

Authorised capital

By resolution of the Annual General Meeting on 14 June 2016, 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 by 14 June 2021 by issuing up to 4,432,937 no-par value bearer shares on one or more occasion in exchange for cash and/or non-cash contributions (2016 authorised capital).

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

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

We also refer to our comments on authorised capital in Section C III ”Other disclosures in accordance with §§ 289 and 315 of the German Commercial Code“ in the combined management report.

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

Contingent capital

At the company annual general meeting on 24 June 2014 the Executive Board of the company authorised, with agreement of the supervisory board, once or repeatedly the issue of convertible or option bonds in bearer or registered form up to 23 June 2019 in the total nominal value of up to € 45,000,000.00.

We also refer to our comments on conditional capital in Section C III ”Other disclosures in accordance with §§ 289 and 315 of the German Commercial Code“ in the combined management report.

The Executive Board has, thus far, not made use of the authorisation to issue warrants and convertible bonds which was issued on 24 June 2014.

Capital reserves

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

As a result of the capital increase recorded on 21 March 2017, the capital reserve increased by € 5,053,540.20 compared to the 2016 financial year. The shares were issued at a price of € 6.7. The increase results from the premium from the issued shares.

Retained earnings

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

Revaluation reserve

In accordance with IFRS 9, the company’s investment securities are classified as FVOCI (fair value through other comprehensive income). These securities are carried at their fair value at the balance sheet date. After adjustment for income tax effects, the resulting unrealised gains for security are recognised directly in equity and reported in the reserve for the marking-to-market of financial instruments.

Exchange differences

The exchange differences recognised in equity are composed as follows:

in €k	Exchange differences from the conversion of foreign financial statements	Exchange differences in accordance with IAS 21.17	Exchange differences in accordance with IAS 21.19	Exchange differences in accordance with IAS 21.32	Total
As at 31.12.2016	253	-342	95	0	6
Change in 2017	-991	96	0	-159	-1,054
As at 31.12.2017	-738	-246	95	-159	-1,048
Change in 2018	329	-38	0	4	295
As at 31.12.2018	-409	-284	95	-155	-753

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 € -34 thousand (previous year: € -63 thousand) are established when the foreign currency obligation is repaid, in accordance with IAS 21.17/21.19/21.32 in conjunction with IAS 21.37. The exchange differences recognised directly in equity are not reversed in income until the time of disposal of the economically independent unit.

10. Non-controlling interests

There were non-controlling interests in Masterflex Group companies totalling € -497 thousand (previous year: € -340 thousand).

11. Provisions

Provisions are composed as follows:

in €k	As at 01.01.2018	Utilisation	Reversal	Addition	As at 31.12.2018
Bonuses	550	323	20	275	482
Warranties	98	98	0	359	359
Other	129	129	0	0	0
Total	**777**	**550**	**20**	**634**	**841**

In the 2018 financial year, so-called accrued liabilities (such as outstanding invoices, vacation provisions, customer bonuses etc.) are shown for the first time under other liabilities and no longer under provisions. The previous year's amounts of € 1,658 thousand were adjusted and reclassified accordingly.

a) Non-current provisions

Non-current provisions relate to the performance-related components of Executive Board remuneration amounting to € 209 thousand (previous year: € 225 thousand) which are only to be paid out in the third year following the base year.

b) Current provisions

Warranty provisions relate to warranty and goodwill costs incurred in relation to the sales generated in the year under review.

12. Financial liabilities

As at 31 December 2018, financial liabilities were composed as follows:

in €k	31.12.2018	31.12.2017
Liabilities to banks	18,856	18,293
Non-current financial liabilities	**18,856**	**18,293**
Liabilities to banks	7,643	7,404
Current term financial liabilities	**7,643**	**7,404**
Total financial liabilities	**26,499**	**25,697**

Liabilities to banks

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

in €k	31.12.2018	31.12.2017
Liabilities due within 1 year	7,643	7,404
Liabilities due between 1 and 5 years	18,856	18,293
Total liablities to banks	**26,499**	**25,697**

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

The syndicated loan agreement concluded in June 2016 has a volume of € 45.0 million and an expiry date of June 2021. The exercise price was € 26.7 million on the balance sheet date. Owing to the use of effective interest methods, a difference arose between the credit amount used of € 26,679 thousand and the liabilities to banks reported at amortised cost of € 26,499 thousand as at 31 December 2018 amounting to € 180 thousand.

The syndicated loan agreement was reduced in the balance sheet by the directly attributable transaction costs of € 480 thousand at initial recognition. The subsequent measurement is carried out at amortised cost according to the effective interest rate method. The difference between the disbursed amount (after deduction of transaction costs) and the redemption amount is distributed over the term at a rate consistent with the effective interest rate and recorded under net interest income.

The receivables from the bank consortium from the syndicated loan agreement are secured by the Masterflex Group companies by assets with a book value of € 39,478 thousand (previous year: € 38,422 thousand).

Of this, € 15,495 thousand is attributable to land charges, € 9,782 thousand to other non-current assets, € 10,249 thousand to inventories, € 3,952 thousand to current receivables and other assets.

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

In the euro zone, interest was charged on liabilities to banks at rates of between 1.40% and 2.5% depending on the maturity and purpose of the respective liabilities (previous year: 1.40% and 2.5%).

As at 31 December 2018, the company had cash advance facilities totalling € 19,252 thousand. Of this, credit lines totalling € 15,252 thousand were not utilised.

13. Income tax liabilities

Income tax liabilities relate to current taxes and totalled € 249 thousand at the balance sheet date (previous year: € 984 thousand).

14. Other liabilities

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

in €k	31.12.2018	31.12.2017
Trade payables	2,101	1,964
Other liabilities	3,914	3,789
Advanced payments received for orders	485	367
Liabilities directly connected with assets held for sale	0	1,077
Total other liabilities	**6,500**	**7,197**

Miscellaneous other liabilities include the following items:

in €k	31.12.2018	31.12.2017
Deferred income	910	977
Premiums, severance payments, commissions	877	743
Tax liabilities	482	631
Liabilities to employees	189	285
Social security liabilities	141	155
Outstanding invoices	323	221
Vacation	193	189
Year-end closing costs	195	178
Customer bonuses	112	127
Employers' liability insurance association	174	98
Debtors with credit balances	89	56
Other	229	129
Total	**3,914**	**3,789**

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

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

in €k	31.12.2018	31.12.2017
Investment grants	578	615
Subsidies	332	362
Total	**910**	**977**

The following amounts were reversed to income in the individual years:

in €k	31.12.2018	31.12.2017
Reversal of investment grants	37	64
Reversal of subsidies	30	34
Total	**67**	**98**

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 € 956 thousand (previous year: € 948 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.

15. Trade payables

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

in €k	31.12.2018	31.12.2017
Trade payables	2,101	1,964

The fair values of trade payables are the same as their carrying amounts. Trade payables amounting to € 2,101 thousand (previous year: € 1,964 thousand) are due within one year.

16. Financial instruments

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

Masterflex applied IFRS 9 for the first time as of 1 January 2018. The modified retrospective first-time application of IFRS 9 Financial Instruments does not result in any changeover effects.

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

in €k		31.12.2018	01.01.2018
Financial assets	Measured at amortised cost	13,214	12,951
	Fair value through profit or loss	2	18
	Fair value through other comprehensive income	98	78
Financial liabilities	Measured at amortised cost	33,030	31,817
	Fair value through profit or loss	0	0

The Masterflex Group did not make any reclassifications between these categories in the 2018 financial year.

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

	31.12.2018					
	AC		FVPL		FVOCI	
in €k	CA*	FV*	CA*	FV*	CA*	FV*
ASSETS						
Financial assets	98	98	0	0	98	98
Cash and cash equivalents	4,970	4,970	0	0	0	0
Trade receivables	7,490	7,490	0	0	0	0
Other assets	756	756	2	2	0	0
Total assets	**13,314**	**13,314**	**2**	**2**	**98**	**98**
LIABILITIES						
Liabilities to banks	26,499	26,499	0	0		
Trade payables	2,101	2,101	0	0		
Other liabilities	4,430	4,430	31	31		
Total liabilities	**33,030**	**33,030**	**31**	**31**		

* CA = carrying amount, FV = fair value

	01.01.2018					
	AC		FVPL		FVOCI	
in €k	CA*	FV*	CA*	FV*	CA*	FV*
ASSETS						
Financial assets	78	78	0	0	78	78
Cash and cash equivalents	5,336	5,336	0	0	0	0
Trade receivables	6,777	6,777	0	0	0	0
Other assets	856	856	18	18	0	0
Total assets	**13,047**	**13,047**	**18**	**18**	**78**	**78**
LIABILITIES						
Liabilities to banks	25,697	25,697	0	0		
Trade payables	1,964	1,964	0	0		
Other liabilities	4,156	4,156	0	0		
Total liabilities	**31,817**	**31,817**	**0**	**0**		
			0	**0**		

The following table shows the previous year's figures as of 31 December 2017 from the 2017 Annual Report in accordance with IAS 39. Due to the insignificant effects, a reconciliation from IAS 39 to IFRS 9 has been dispensed with.

Amounts recognised in the 2017 financial year per measurement category in accordance with IAS 39:

in €k	Valuation category	Carrying amount	Fair value through other compre-hensive income	Fair value through profit or loss	Amortised cost	Fair value
Financial assets	Held-to-maturity financial investments	78	78	0	0	78
Cash and cash equivalents	Loans and receivables	5,336	0	0	5,336	5,336
Trade receivables	Loans and receivables	6,777	0	0	6,777	6,777
Other receivables (excluding taxes and derivatives)	Loans and receivables	856	0	18	838	838
Financial liabilities	Financial liabilities measured at amortised cost	25,697	0	0	25,697	25,697
Trade payables	Financial liabilities measured at amortised cost	1,964	0	0	1,964	1,964
Other liabilities (excluding taxes and derivatives)	Financial liabilities measured at amortised cost	4,156	0	0	4,156	4,156

Categories of financial instruments 2017	in €k
Loans and receivables	12,969
Financial liabilities measured at amortised cost	31,817
Held-to-maturity financial investments	78

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

The Masterflex Group has not pledged any financial assets as collateral for financial liabilities. The Masterflex Group has no collateral with respect to financial assets.

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

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

31.12.2018 in €k	Credit quality	Treatment	Gross carrying amount	Value adjustment	Net carrying amount
Financial assets	recoverable	12-month ECL*	98	0	98
	recoverable	12-month ECL*	0	0	0
	non-performing	lifetime ECL*	0	0	0
			98	**0**	**98**
Other assets	recoverable	12-month ECL*	756	0	756
	recoverable	12-month ECL*	0	0	0
	non-performing	lifetime ECL*	0	0	0
			756	**0**	**756**
Trade receivables	lifetime ECL*	simplified approach	7,490	0	7,490
	lifetime ECL*	simplified approach	0	0	0
	non-performing	lifetime ECL*	51	51	0
			7,541	**51**	**7,490**
Cash and cash equivalents	recoverable	12-month ECL*	4,370	0	4,370
	recoverable	12-month ECL*	0	0	0
	non-performing	lifetime ECL*	0	0	0
			4,370	**0**	**4,370**

* ECL = Expected Credit Loss

01.01.2018 in €k	Credit quality	Treatment	Gross carrying amount	Value adjustment	Net carrying amount
Financial assets	recoverable	12-month ECL	78	0	78
	recoverable	12-month ECL	0	0	0
	non-performing	lifetime ECL	0	0	0
			78	**0**	**78**
Other assets	recoverable	12-month ECL	856	0	856
	recoverable	12-month ECL	0	0	0
	non-performing	lifetime ECL	0	0	0
			856	**0**	**856**
Trade receivables	lifetime ECL	simplified approach	6,777	0	6,777
	lifetime ECL	simplified approach	0	0	0
	non-performing	lifetime ECL	35	35	0
			6,812	**35**	**6,777**
Cash and cash equivalents	recoverable	12-month ECL	5,336	0	5,336
	recoverable	12-month ECL	0	0	0
	non-performing	lifetime ECL	0	0	0
			5,336	**0**	**5,336**

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

The balance of valuation allowances developed as follows:

in €k		
01.01.2018		35
Adjustments due to changes in creditworthiness parameters	Increase from revaluation of receivables	16
	Reduction due to reversals of write-downs	0
Adjustments due to changes in gross amount of assets	Reduction due to derecognition of assets	0
	Increase due to capitalisation of assets	0
31.12.2018		51

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

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

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

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

Net income from financial instruments

Net results 2018 broken down by valuation category:

in €k	From interest	Measured at fair value in the profit and loss for the period	Foreign currency conversion	Impairment	2018 net results
Loans and receivables	0	0	24	-51	-27
Financial liabilities measured at amortised cost	-513	0	0	0	-513
Total	-513	0	24	-51	-540

Net results 2017 broken down by valuation category:

in €k	From interest	Measured at fair value in the profit and loss for the period	Foreign currency conversion	Impairment	2017 net results
Loans and receivables	0	0	-63	-35	-98
Financial liabilities measured at amortised cost	-575	0	0	0	-575
Total	-575	0	-63	-35	-673

Derivative financial instruments

The Group has entered into a contract for fixed forward exchange transactions to hedge highly probable transactions (sales of products) and is accounted for as a hedging relationship. The agreement has a term until 15 March 2022. The market value of the derivative concluded for a total of $ 3,900 thousand amounted to € -44 thousand on the balance sheet date and was recorded under other liabilities. As the hedging relationship was essentially classified as fully effective, € 44 thousand was recognised in other comprehensive income as changes in the value of the hedging instrument.

As of 31 December 2018, the amount recognised in the reserve for hedging instruments was € 44 thousand less the related deferred taxes.

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

The recognition of forward exchange transactions and options includes the fair value of € 2 thousand (previous year: € 18 thousand). The derivative financial instruments were concluded to hedge against varying interest payments from variable-interest loans (interest cap) in the amount of € 32 thousand and to hedge the operating currency US dollar and euro in the amount of € 26 thousand.

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

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

The change in the fair value of € 16 thousand (previous year: € 14 thousand) is recognised through profit or loss in interest income.

			Fair value	
Derivative financial instruments	Valuation categories according to IAS 39	Historical acquisition costs €k	31.12.2018 €k	31.12.2017 €k
Derivatives without a hedging relationship	held-for-trading	58	2	18

The interest cap is not accounted for as a hedging relationship.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

17. Revenue

The Masterflex Group applied IFRS 15 for the first time as of 1 January 2018. The modified retrospective first-time application of IFRS 15 Financial Instruments did not result in any changeover effects.

Up to and including 31 December 2017, revenue was recognised in accordance with IAS 18 from the manufacture of high-tech hoses and connecting systems with delivery of the goods in accordance with the delivery terms. This was regarded as the point in time at which the customer accepted the goods and the associated risks and opportunities connected with the transfer of ownership. Revenue was recognised at that time if the revenue and costs could be measured reliably, it was probable that the consideration would be received and there was no continuing right of disposal over the goods. Rebates, cash discounts or customer bonuses reduced the recognised sales revenues.

Since 1 January 2018, revenues have been recognised in accordance with IFRS 15. Contracts with customers are not aggregated because there is either a framework agreement that governs relationships with customers and is generally renegotiated annually, or customers order on a case-by-case basis and on request.

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

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

Revenues from development services for customers, which are recognised either for a specific period or point in time, did not arise in either the 2017 or 2018 financial years.

For the Masterflex Group, this has not resulted in any changes in the reporting of revenue because the nature of the contractual performance obligation and the recognition of revenue when the performance obligation is met have no effect on the time at which control of the goods is transferred to the customer compared with the previous method of revenue recognition.

IFRS 15 did not have a material impact on the Group's accounting policies for other sources of revenue.

Revenues include sales of high-tech hoses and connecting systems less sales deductions and were all recognised in the 2018 financial year on a time basis.

As of 31 December 2018, trade receivables amounted to € 7,490 thousand (31 December 2017/1 January 2018: € 6,777 thousand). Contract assets from contracts with customers or contractual liabilities from contracts with customers did not exist either as of 1 January 2018 or as of 31 December 2018.

In the 2018 financial year, impairment losses of € 51 thousand were recognised on receivables from contracts with customers.

18. Other income

Other income breaks down as follows:

in €k	2018	2017
Income from non-typical incidental revenues	299	132
Currency conversion gains	86	31
Subsidies	67	98
Compensation	62	13
Other income relating to other periods	23	95
Income from the reversal of provisions	20	70
Grants	10	47
Income from the reversal of value adjustments on receivables	0	5
Other	58	21
Total	**625**	**512**

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

19. Cost of materials

The cost of materials is composed as follows:

in €k	2018	2017
Cost of raw materials, consumables and supplies	24,930	23,933
Expenditure for related transactions	305	378
Total	**25,235**	**24,311**

20. Other expenses

Other expenses are composed as follows:

in €k	2018	2017
Selling costs	6,184	5,559
Incidental premises expenses	2,529	2,387
Operating costs	2,523	2,442
Administrative expenses	2,013	2,175
Insurance costs	436	423
Currency conversion losses	104	22
Cost of valuation allowances	80	16
Other	133	83
Other taxes	275	304
Total	**14,277**	**13,411**

21. Research and development costs

Capitalisable development costs are reported under "Intangible assets". Research costs and non-capitalisable development costs are expensed as incurred. In the 2018 financial year, research and development costs totalled € 378 thousand (previous year: € 325 thousand).

22. Staff costs

In 2018, staff costs increased by € 2,271 thousand to € 30,793 thousand (previous year: € 28,522 thousand). Staff costs include wages and salaries in the amount of € 25,475 thousand (previous year: € 23,592 thousand) and social security, post-employment and other employee benefit costs totalling € 5,318 thousand (previous year: € 4,930 thousand).

Defined contribution plans exist for the company pension scheme. With defined contribution plans, the company makes no further commitments regarding the payment of contributions to the fund. Expenditure is posted in current staff costs; no provision is recognised. Expenses amounted to € 283 thousand (previous year: € 337 thousand). Employer contributions to the pension insurance scheme are not included in these expenses.

23. Impairment of Assets

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

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

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

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

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

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

In order to take into account the different yield/risk profile in our areas of activity, we calculate individual capital cost rates for our companies (CGUs). The weighted average costs of capital before taxes that have been applied when discounting cash flow are between 3.28 and 4.97% (previous year: 2.87 and 4.96%).

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:

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

No impairment requirement arose in the impairment test of the business or goodwill in the 2017 and 2018 financial years. An increase in the discounting interest rate by 1 percentage point would not have led to an extraordinary write-down of the business or goodwill.

24. Financial result

The finance result is composed as follows:

in €k	2018	2017
Other interest and similar income	3	11
Interest and similar expenses	-1,062	-1,192
Total	**-1,059**	**-1,181**

Interest income relates to current items.

25. Income tax expense

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

in €k	2018	2017
Income tax expense	-785	-1,459
Deferred taxes		
From time differences	-3	345
From loss carryforwards	-980	59
Total deferred taxes	-983	404
Total income tax expense	**-1,768**	**-1,055**

The following reconciliation of income tax expense for the 2018 financial year is based on an overall tax rate of 30% (previous year: 30%) reconciled to an effective tax rate of 35.1% (previous year: 19.5%):

in €k	2018	2017
Earnings before income taxes	5,042	5,420
Expected tax expense 30%	-1,513	-1,626
Changes to deferred tax assets for tax loss carryforwards and the use of loss carryforwards in the financial year/unused losses	-421	390
Tax refunds/tax payments for the previous years	23	-111
Effect of non-deductible expenses and tax-exempt income	-43	50
Tax effect on the change in tax rate	197	232
Other	-11	10
Total income tax expense	**-1,768**	**-1,055**

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:

in €k	31.12.2018 Deferred tax assets	31.12.2018 Deferred tax liabilities	31.12.2017 Deferred tax assets	31.12.2017 Deferred tax liabilities
Tax loss carryforwards	614	0	1,594	0
Non-current assets	337	1,454	313	1,423
Inventories	9	0	9	0
Receivables	28	37	16	27
Other assets	53	17	74	13
Provisions	31	0	32	0
Liabilities	174	88	173	118
Before offsetting	**1,246**	**1,596**	**2,211**	**1,581**
Of which non-current	479	1,405	1,362	1,400
Offsetting	-735	-735	-665	-665
Consolidated balance sheet	**511**	**861**	**1,546**	**916**

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

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

As at 31 December 2018, Masterflex recognised deferred tax assets for tax loss carryforwards in the amount of € 614 thousand (previous year: € 1,594 thousand).

For foreign companies, the applicable tax rates vary between 19.0% and 28.0%.

No deferred tax assets were recognised for tax loss carryforwards in the amount of € 8,729 thousand (previous year: € 7,918 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 € -14 thousand (previous year: € -63 thousand) relate to other earnings. These taxes relate to currency translation differences in accordance with IAS 21 and are recognised directly in equity.

26. Discontinued business units

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

in €k	2018	2017
Earnings from discontinued business units		
Other expenses	-58	-62
Earnings after taxes from discontinued business units	**-58**	**-62**
Cash flows from discontinued business units		
Net cash flows from operating activities	-1,129	-9
Total net cash flows	**-1,129**	**-9**

27. Earnings per share

Earnings per share are calculated as follows:

	Continued business unit	Discontinued business units	Continued and discontinued business units
Earnings for the 2018 financial year (€k)	3,431	-58	3,373
Weighted average number of shares in circulation	9,618,334	9,618,334	9,618,334
Earnings per share (€)	0.36	-0.01	0.35

	Continued business unit	Discontinued business units	Continued and discontinued business units
Earnings for the 2017 financial year (€k)	4,373	-62	4,311
Weighted average number of shares in circulation	9,433,629	9,433,629	9,433,629
Earnings per share (€)	0.46	-0.01	0.45

There were no dilutive effects in the 2018 financial year or the previous year.

28. Appropriation of net retained earnings

The annual financial statements of Masterflex SE in accordance with the German Commercial Code for the year ended 31 December 2017 reported a net profit of € 13,848 thousand.

The Executive Board and the Supervisory Board propose to the Annual General Meeting that, of the net profit of Masterflex SE for the 2018 financial year amounting to € 13.847.828,73 € 673,283.38 in the form of 9,618,334 shares of the share capital be paid as a dividend to shareholders and the remaining amount of € 13.174.545,35 carried forward to a new account. This corresponds to a dividend of € 0.07 per share.

As at 31 December 2018, the amounts excluded from distribution by Masterflex SE amounted to € 881 thousand in total of which € 228 was allocated to deferred tax assets and € 653 thousand for capitalisation of development costs.

29. Financial risk management

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

Exchange rate risk management

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

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

At 31 December 2018, the Group held the following instruments to hedge its exposure to changes in foreign exchange rates and interest rates:

	Maturity		
	1-6 months	7-12 months	More than 1 year
Foreign exchange risk			
Forward exchange transactions			
Net risk in USD thousand	600	600	2,700
Average EUR:USD forward rate	1.2165	1.2165	1.2165

Interest rate risk management

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

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

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

The sensitivity analysis assuming a 100 bp fluctuation in interest rates results in an increased/reduced cash outflow of approximately € 222 thousand.

Default risk management

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

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

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

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

Liquidity risk management

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

The table presents the contractually agreed repayments of financial liabilities:

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

2017 in €k	Carrying amount	2018	2019	2020	2021	2022	≥ 2023
Trade payables	1,964	1,964	0	0	0	0	0
Liabilities to banks	25,697	7,404	2,912	2,925	12,456	0	0
Other liabilities	2,812	2,812	0	0	0	0	0
Total	**30,473**	**12,180**	**2,912**	**2,925**	**12,456**	**0**	**0**

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

Deferred income reported under "Other liabilities" totalling € 910 thousand (previous year: € 977 thousand) does not have a cash impact. Its reversal is therefore not presented in this table.

30. Other financial obligations

At 31 December 2018, other financial commitments related to lease obligations and other commitments.

Other financial obligations for subsequent periods due to operating leases are as follows:

in €k	2019	2020–2023	2024
Notional amount of future minimum lease payments	92	272	0

The operating lease liabilities relate primarily to office and operating equipment. Payments recognised as expenses amount to € 346 thousand (previous year: € 265 thousand).

31. Segment reporting

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

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

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

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

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

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

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

Segment information by business units:

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

2017 in €k	HTHS	Total for continued business units	Discontinued business units	Group
Revenue from non-Group third parties	74,675	**74,675**	0	74,675
EBIT	6,601	**6,601**	-62	6,539
Investments in property, plant and equipment and intangible assets	4,673	**4,673**	0	4,673
Scheduled depreciation and amortisation	3,182	**3,182**	0	3,182
Assets	72,967	**72,967**	0	72,967

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:

2018 in €k	Revenue from non-Group third parties	Of which continued business units
Germany	37,800	37,800
Rest of Europe	18,861	18,861
Rest of the world	20,582	20,582
Total	**77,243**	**77,243**

2017 in €k	Revenue from non-Group third parties	Of which continued business units
Germany	35,245	35,245
Rest of Europe	17,358	17,358
Rest of the world	22,072	22,072
Total	**74,675**	**74,675**

In the 2018 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 in €k	2018	2017
EBIT from continued business units	**6,101**	**6,601**
Interest income/investment income	3	11
Interest expenses amongst others	-1,062	-1,192
EBT from continued business units	**5,042**	**5,420**
Income taxes	-785	-1,459
Deferred taxes	-983	404
Earnings after taxes from continued business units	**3,274**	**4,365**

Rounding differences possible

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

Non-current assets in €k	2018	2017
Germany	38,630	37,477
Rest of Europe	1,139	1,232
Rest of the world	4,681	3,977
Total	**44,450**	**42,686**

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

Reconciliation to consolidated assets in €k	2018	2017
Total assets of continued segments	73,698	70,851
Deferred tax assets	512	1,546
Tax receivables	865	492
Financial assets	98	78
Total consolidated assets	**75,173**	**72,967**

32. Cash flow statement

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

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

Liabilities from financing activities developed as follows in the period from 1 January to 31 December 2018:

in €k	As at 31.12.2017	Cash-effective	Non-cash (interest accrual)	Non-cash (change in exchange rate)	As at 31.12.2018
Current liabilities	7,404	139	100	0	7,643
Non-current liabilities	18,293	-563	0	0	18,856
Total liabilities from financing activities	**25,697**	**702**	**100**	**0**	**26,499**

33. Related Party Disclosures

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

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

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

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

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

Table 1: Compensation of the Executive Board (grant consideration)

	Dr. Andreas Bastin Chief Executive Officer Since 1 April 2008				Mark Becks Chief Financial Officer Since 1 June 2009			
	2017	2018	2018	2018	2017	2018	2018	2018
in k€	Initial value	Initial value	Minimum	Maximum	Initial value	Initial value	Minimum	Maximum
Fixed compensation	357	378	378	378	247	262	262	262
Fringe benefits	42	41	41	41	38	37	37	37
Total	**399**	**419**	**419**	**419**	**285**	**299**	**299**	**299**
One-year variable compensation								
Bonus	142	108	0	158	94	72	0	106
Multi-year variable compensation								
Bonus 2018-2020		56	0	82		37	0	54
Bonus 2017-2019	63		0	82	42		0	54
Total compensation	**604**	**583**	**419**	**741**	**421**	**408**	**299**	**513**

Table 2: Compensation of the Executive Board (inflow consideration)

	Dr. Andreas Bastin Chief Executive Officer Since 1 April 2008				Mark Becks Chief Financial Officer Since 1 June 2009			
	2017	2018	2018	2018	2017	2018	2018	2018
in k€	Initial value	Initial value	Minimum	Maximum	Initial value	Initial value	Minimum	Maximum
Fixed compensation	357	378	378	378	247	262	262	262
Fringe benefits	42	41	41	41	38	37	37	37
Total	**399**	**419**	**419**	**419**	**285**	**299**	**299**	**299**
One-year variable compensation								
Bonus	141	140	0	158	76	93	0	106
Multi-year variable compensation								
Bonus 2018-2020		57	0	82		31	0	54
Bonus 2017-2019	62		0	82	34		0	54
Total compensation	**602**	**616**	**419**	**741**	**395**	**423**	**299**	**513**

The members of the Supervisory Board were compensated as follows:

	Fixed		Attendance allowance		Total disbursement-relevant remuneration	
in €k	2017	2018	2017	2018	2017	2018
Chairman of the Supervisory Board, Georg van Hall (since 14.06.2016)	30	30	2	2	32	32
Vice Chairman of the Supervisory Board, Dr. Gerson Link (since 14.06.2016)	25	25	2	2	27	27
Supervisory Board member, Jan van der Zouw (since 14.06.2016)	20	20	2	2	22	22
Total compensation	**75**	**75**	**6**	**6**	**81**	**81**

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

34. Declaration of conformity with the German Corporate Governance Code

In December 2018, the declaration of conformity in accordance with § 161 of the German Stock Corporation Act (AktG) was again submitted by the Executive Board and Supervisory Board of Masterflex SE and made permanently available to shareholders via the company's website, www.MasterflexGroup.com/Investor Relations/Corporate_Governance.

35. Number of employees

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

	2018	2017
Production	455	429
Sales	104	106
Administration	77	77
Technology	33	30
Number of employees in Group	**669**	**642**
of which trainees	19	24

36. Audit and advisory fees

The fees expensed (provision) in the 2018 financial year for the auditors of the consolidated financial statements, Baker Tilly GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft, amounted to € 134 thousand and consisted of fees for the audit of the consolidated financial statements and the statutory separate financial statements of Masterflex SE and its domestic subsidiaries.

37. Exemption from publication

In accordance with § 264 (3) of the HGB (German Commercial Code) the following companies included in the consolidated financial statements are exempt from the requirement to publish their annual financial statements:

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

38. Events after the balance sheet date

No events or developments of particular significance to the net assets, financial position and results of the Masterflex Group have occurred since the balance sheet date of 31 December 2018.

39. Publication of the consolidated financial statements

The consolidated financial statements were approved for publication by the Executive Board on 13 March 2019 and published on 29 March 2019.

40. Equity investments

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

Gelsenkirchen, 13 March 2019

The Executive Board

Dr. Andreas Bastin
Chief Executive Officer

Mark Becks
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2018

in €k	Acquisition costs/ historical costs 01.01.2018	Change in the scope of consoli-dation	Additions	Disposals	Reclassifi-cations	Exchange rate differences	Acquisition costs/ historical costs 31.12.2018
Intangible assets							
Concessions, industrial property rights and similar rights and values as well as licences to such rights and assets	2,963	0	253	122	22	0	3,116
Development costs	772	0	368	18	-35	0	1,087
Goodwill	15,090	0	0	0	0	0	15,090
Advance payments	523	0	1,005	0	-20	0	1,508
Total	**19,348**	**0**	**1,626**	**140**	**-33**	**0**	**20,801**
Property, plant and equipment							
Property, real estate, leasehold rights, rights equivalent to real property and buildings, incl. buildings	25,945	0	58	0	170	64	26,237
Technical equipment	29,863	0	1,109	153	1,614	199	32,632
Other assets, operating and office equipment	9,661	0	831	79	-9	54	10,458
Advanced payments and construction in progress	1,061	0	1,562	106	-1,742	6	781
Total	**66,530**	**0**	**3,560**	**338**	**33**	**323**	**70,108**
Financial assets							
Non-current financial instruments	733	0	0	0	0	0	733
Other loans	0	0	0	0	0	0	0
Total	**733**	**0**	**0**	**0**	**0**	**0**	**733**
	86,611	**0**	**5,186**	**478**	**0**	**323**	**91,642**

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2018

in €k	Accumulated amortisation 01.01.2018	Change in the scope of consolidation	Amortisations financial year	Disposals	Profit-neutral market changes	Exchange rate differences	Accumulated amortisations 31.12.2018	As at 31.12.2018	As at 31.12.2017
Intangible assets									
Concessions, industrial property rights and similar rights and values as well as licences to such rights and assets	2,117	0	234	122	0	0	2,229	887	846
Development costs	95	0	45	0	0	0	140	947	677
Goodwill	5,903	0	0	0	0	0	5,903	9,187	9,187
Advance payments	0	0	0	0	0	0	0	1,508	523
Total	**8,115**	**0**	**279**	**122**	**0**	**0**	**8,272**	**12,529**	**11,233**
Property, plant and equipment									
Property, real estate, leasehold rights, rights equivalent to real property and buildings, incl. buildings	8,898	0	755	0	0	42	9,695	16,542	17,047
Technical equipment	19,279	0	1,562	144	0	153	20,850	11,782	10,584
Other assets, operating and office equipment	6,940	0	745	52	0	38	7,671	2,787	2,721
Advanced payments and construction in progress	0	0	0	0	0	0	0	781	1,061
Total	**35,117**	**0**	**3,062**	**196**	**0**	**233**	**38,216**	**31,892**	**31,413**
Financial assets									
Non-current financial instruments	655	0	0	0	-20	0	635	98	78
Other loans	0	0	0	0	0	0	0	0	0
Total	**655**	**0**	**0**	**0**	**-20**	**0**	**635**	**98**	**78**
	43,887	**0**	**3,341**	**318**	**-20**	**233**	**47,123**	**44,519**	**42,724**

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2017

in €k	Acquisition costs/ historical costs 01.01.2017	Change in the scope of consoli-dation	Additions	Disposals	Reclassifi-cations	Exchange rate differences	Acquisition costs/ historical costs 31.12.2017
Intangible assets							
Concessions, industrial property rights and similar rights and values as well as licences to such rights and assets	2,298	434	139	4	95	1	2,963
Development costs	524	0	281	33	0	0	772
Goodwill	9,161	5,929	0	0	0	0	15,090
Advance payments	294	0	327	4	-94	0	523
Total	**12,277**	**6,363**	**747**	**41**	**1**	**1**	**19,348**
Property, plant and equipment							
Property, real estate, leasehold rights, rights equivalent to real property and buildings, incl. buildings	25,353	0	463	0	277	-148	25,945
Technical equipment	26,113	2,414	636	5	1,347	-642	29,863
Other assets, operating and office equipment	8,868	233	804	135	62	-171	9,661
Advanced payments and construction in progress	730	0	2,023	0	-1,687	-5	1,061
Total	**61,064**	**2,647**	**3,926**	**140**	**-1**	**-966**	**66,530**
Financial assets							
Non-current financial instruments	733	0	0	0	0	0	733
Other loans	0	0	0	0	0	0	0
Total	**733**	**0**	**0**	**0**	**0**	**0**	**733**
	74,074	**9,010**	**4,673**	**181**	**0**	**-965**	**86,611**

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2017

in €k	Accumulated amortisation 01.01.2017	Change in the scope of consolidation	Amortisations financial year	Disposals	Profit-neutral market changes	Exchange rate differences	Accumulated amortisations 31.12.2017	As at 31.12.2017	As at 31.12.2016
Intangible assets									
Concessions, industrial property rights and similar rights and values as well as licences to such rights and assets	1,815	0	302	1	0	1	2,117	846	483
Development costs	60	0	35	0	0	0	95	677	464
Goodwill	5,903	0	0	0	0	0	5,903	9,187	3,258
Advance payments	0	0	0	0	0	0	0	523	294
Total	**7,778**	**0**	**337**	**1**	**0**	**1**	**8,115**	**11,233**	**4,499**
Property, plant and equipment									
Property, real estate, leasehold rights, rights equivalent to real property and buildings, incl. buildings	8,259	0	746	0	0	-107	8,898	17,047	17,094
Technical equipment	17,311	943	1,457	5	0	-427	19,279	10,584	8,802
Other assets, operating and office equipment	6,461	123	642	135	0	-151	6,940	2,721	2,407
Advanced payments and construction in progress	0	0	0	0	0	0	0	1,061	730
Total	**32,031**	**1,066**	**2,845**	**140**	**0**	**-685**	**35,117**	**31,413**	**29,033**
Financial assets									
Non-current financial instruments	642	0	0	0	13	0	655	78	91
Other loans	0	0	0	0	0	0	0	0	0
Total	**642**	**0**	**0**	**0**	**13**	**0**	**655**	**78**	**91**
	40,451	**1,066**	**3,182**	**141**	**13**	**-684**	**43,887**	**42,724**	**33,623**

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 company and the Group, and the combined management report includes a fair review of the development and performance of the business and the position of the company and the Group, together with a description of the principal opportunities and risks associated with the expected development of the company and the Group.”

Gelsenkirchen, 13 March 2019

The Executive Board

Dr. Andreas Bastin
Chief Executive Officer

Mark Becks
Chief Financial Officer

AUDIT REPORT OF THE INDEPENDENT AUDITOR

relating to Masterflex SE, Gelsenkirchen

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

Audit opinions

We have audited the consolidated financial statements of Masterflex SE and its subsidiaries (the Group) – comprising the balance sheet as at 31 December 2018, consolidated profit and loss statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January to 31 December 2018 and the notes to the consolidated financial statements including a summary of the significant accounting methods. We have also audited the combined management report for the financial year from 1 January to 31 December 2018.

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

- the attached consolidated financial statements correspond to the IFRS in all material aspects as applicable in the EU and to the German statutory provisions which are to be applied in accordance with § 315e (1) of the German Commercial Code (HGB) and in compliance of these provisions gives a true and fair view of the financial position and results of the Group as at 31 December 2018 and its results of operations for the financial year from 1 January to 31 December 2018 and
- gives an accurate picture of the position of the Group in the attached combined management report. In all material aspects, this combined management report is consistent with the consolidated financial statements, corresponds to the German statutory regulations and accurately represents the opportunities and risks of future development. Our audit opinion on the combined management report does not extend to the content of the declaration on corporate governance in accordance with §§ 289f, 315d of the HGB.

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

Basis for the audit report

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

Key audit matters in auditing the consolidated financial statements

Key audit matters are such matters which, to the best of our knowledge, were the most significant in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were taken into consideration in the context of our audit of the consolidated financial statements as a whole and in the formation of our audit report; we will not issue a separate audit report on these matters

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

I. Revenue recognition in accordance with IFRS 15

II. Impairment of goodwill

III. Impairment of the active deferred taxes for loss carryforwards

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

1. Facts and discussion

2. Audit procedure and findings

3. Reference to more detailed information

I. Revenue recognition

1. In the consolidated financial statements of Masterflex SE, revenues of € 77,243 thousand for the year under review is reported in the consolidated income statement. The new IFRS Standard IFRS 15 “Revenue from Contracts with Customers” must be applied for financial years beginning on or after 1 January 2018. Against this background, the proper application of the new accounting standard and the rules on revenue recognition within the framework of our audit are of particular importance.

2. In assessing the proper application of IFRS 15, we have examined customer contracts of the most significant Group companies in random samples to determine the extent to which the revenue recognition method applied by the Masterflex Group complies with the provisions of IFRS 15. In addition, we have had balances of receivables confirmed in random samples of customers as of the balance sheet date and have examined the revenue accrual in random samples as of the balance sheet date.

3. The Company's disclosures on revenue recognition and the first-time application of IFRS 15 are included in Note 17 to the consolidated financial statements.

II. Impairment of goodwill

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

2. We are satisfied with the appropriateness of the future cash flows used in the calculation by virtue of, amongst other things, comparing this information with the values from the five-year plan adopted by the legal representative and approved by the Supervisory Board. Here, we convinced ourselves of the plausibility of the five-year plan in discussions with the Group management. Furthermore, we primarily audited the parameters used in calculating the discount interest applied including the average capital costs ("Weighted Average Cost of Capital") and reproduced the method of calculating. Because of the material importance of goodwill (which accounts for 12.2% of Group balance sheet total) and because of the dependence of the valuation on macroeconomic conditions beyond the scope of influence of the company, we have additionally audited the sensitivity analyses created by the company for the cash-generating units (carrying amount compared to cash value). The valuation parameters and assumptions applied by the legal representative correspond with our expectations on the whole.

3. The company's information on goodwill is contained in Note 23 of the consolidated financial statements.

III. Impairment of the active deferred taxes for loss carryforwards

1. In the Masterflex SE consolidated financial statements, active deferred taxes are recognised in the amount of € 1,594 thousand, of which € 614 thousand relate to deferred tax assets on loss carryforwards, net of deferred tax liabilities. The impairment of active deferred taxes on tax loss carryforwards is measured on the basis of the forecast on the future earnings situation of the respective company. From our perspective, these were issues of particular significance because they depended, to a large extent, on the assessment and assumptions of the legal representative and are subject to uncertainty.

2. As part of our audit, we assessed the impairment of deferred tax assets on tax loss carryforwards based on the plan established by the legal representative and acknowledged the adequacy of the planning basis used. We were able to reproduce the assumptions made by the legal representative regarding the approach and calculation of deferred taxes.

3. The company's information on active deferred taxes on tax loss carryforwards is contained in the consolidated financial statements in the section "Accounting principles" and under Note 25.

Other information

The legal representative is responsible for other information. Other information consists of:

- The insurance of the legal representative,
- The Corporate Governance report in accordance with Section 3.10 of the German Corporate Governance Index,
- The non-financial reporting in accordance with §§ 315b to 315c of the HGB,
- The Corporate Governance statement in accordance with § 315d (5) in conjunction with § 289f (1) of the HGB,
- Other parts of the Masterflex SE annual report not required by law to be audited for the financial year ending 31 December 2018.

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

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

- contains any significant discrepancies in the consolidated financial statements, the combined management report or the knowledge acquired in our audit or
- otherwise appears to be substantially misrepresented.

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

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

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

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

The Supervisory Board is responsible for monitoring the Group's accounting process used for the preparation of the consolidated financial statements and combined management report.

Responsibility of the auditor for auditing the consolidated financial statements and the combined management report

Our objective is to obtain sufficient certainty as to whether the consolidated financial statements as a whole are free of material – intentional or unintentional – misrepresentations and whether the combined management report as a whole gives a true picture of the Group's position and corresponds with the consolidated financial statements as well as the findings obtained during the audit, in accordance with German statutory provisions and the opportunities and risks of future development, and to issue a report which contains our audit opinions on the consolidated financial statements and the combined management report.

Sufficient certainty provides a high level of certainty, but no guarantee that an audit carried out in accordance with § 317 of the HGB and the EU-APrVO, in compliance with the German principles established by the Institute of Auditors (IDW), will always reveal a material misrepresentation. Misrepresentations may result from violations or inaccuracies and are considered material if it could be reasonably expected that they could individually or collectively influence the economic decisions taken by the addressees on the basis of this consolidated financial statement and the combined management report.

During the audit, we exercise our professional judgement and maintain a critical stance. In addition, we

- identify and audit the risks of material – intentional or non-intentional – misrepresentations in the consolidated financial statements and in the combined management report; plan and conduct audit activities, in response to these risks and the auditing evidence obtained, which are sufficient and appropriate in order to serve as the basis for our audit opinions. The risk that material misrepresentations are not revealed is higher for violations than for inaccuracies, as violations may include fraudulent interaction, falsifications, intended incompleteness, misleading representations, or derogation of internal controls.
- gain an understanding of the internal control system for auditing the consolidated financial statements and the relevant precautions and measures for auditing the combined management report in order to plan auditing activities which are appropriate under the given circumstances, but not with the aim of giving an audit opinion on the effectiveness of these systems.
- assess the appropriateness of the accounting methods applied by the legal representatives and the viability of the estimated values and related information presented by the legal representatives.
- draw conclusions on the appropriateness of the accounting principle applied by the legal representatives for the continuation of the business activity and, on the basis of the audit evidence, of whether there is significant uncertainty in connection with events or circumstances which may raise significant doubts about the Group‘s ability to continue its business. If we come to the conclusion that there is a significant uncertainty, we are obliged to draw attention to the relevant information in the consolidated financial statements and the combined management report in the audit report or, if this information is inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the evidence that has been obtained up until the date of our auditor‘s report. However, future events or circumstances may cause the Group to no longer be able to continue its business activities.
- assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and determine whether the consolidated financial statements represent the underlying business transactions and events in such a way that the consolidated financial statements, in compliance with IFRS, as it applies in the EU and to German statutory provisions applicable in accordance with § 315 e (1) of the HGB, provide an accurate picture of the actual circumstances of the Group‘s assets, financial position and results of operations.
- collect adequate audit evidence for the accounting information of the company or business activities within the Group in order to make audit opinions on the consolidated financial statements and the combined management report. We are responsible for the guidance, monitoring and execution of the consolidated financial statements. We bear sole responsibility for our audit opinions.
- assess the conformity of the combined management report with the consolidated financial statements, its legal equivalent and the picture it has given of the Group‘s position.
- conduct audits on the forward-looking statements presented by the legal representatives in the combined management report. On the basis of sufficient suitable audit evidence, we take into consideration in particular the important assumptions based on the future-oriented statements from the legal representatives and assess the appropriate derivation of the future-oriented statements from these assumptions. We do not give a stand-alone examination of the future-oriented statements and the underlying assumptions. There is a significant unavoidable risk that future events will be substantially different from the future-oriented statements.

We will discuss with the person responsible for monitoring, amongst other things, the planned scope and schedule of the audit as well as significant audit findings including any deficiencies in the internal control system which we determine during our audit.

We will issue a statement to the person responsible for monitoring that we have complied with the relevant independence requirements and discuss with them all the relationships and other issues that can reasonably be assumed to have an impact on our independence and the protective measures to this end.

We will determine from the issues that we have discussed with those responsible for monitoring, those aspects that were the most significant in the audit of the consolidated financial statements for the current reporting period and therefore the most important matters to audit. We will describe these matters in the audit report, unless laws or other legal regulations exclude the public disclosure of said matters.

OTHER STATUTORY AND REGULATORY REQUIREMENTS

Other disclosures in accordance with Article 10 EU-APrVO

We were chosen as auditors by the Annual General Meeting on 26 June 2018 and appointed by the Supervisory Board on 12 November 2018. We have been acting continuously as auditors of Masterflex SE since the 2010 financial year.

We declare that the audit opinions in this audit report are consistent with the additional report to the Supervisory Board in accordance with Article 11 EU-APrVO (audit report).

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Helmut Meurer.

Dusseldorf, 13 March 2019

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Dusseldorf)

Thomas Gloth	**Helmut Meurer**
Auditor	Auditor

Matzen & Timm bellows protect against possible failure of fuel lines in aircraft.

The performance during de-icing is tested in a climatic chamber.

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

Masterflex SE performed well in 2018 in an overall challenging environment characterized by rising raw material and energy prices, adverse exchange rate developments and increasing economic uncertainty. The long-term growth curve was continued and the sustained earnings trend gives the Executive Board and Supervisory Board the opportunity to propose a continuation of the dividend distribution policy to the Annual General Meeting in 2019.

Nevertheless, it should be noted that the company‘s own targets were only partially achieved. Profit expectations had to be adjusted during the course of the year. The development that led to this step was a central point in the consultations and reviews by the Supervisory Board in the 2018 financial year. In addition to the direct exchange with the Executive Board, the ongoing target/actual development in the individual subsidiaries as well as in the central financial key figures was the basis for monitoring by the Supervisory Board in order to be able to discuss with the Executive Board at any time any measures and considerations for the further stabilization of the earnings development. On this basis, we intensively discussed with the Executive Board how the company‘s earnings power will be raised in the coming years to a level that we had already set ourselves as a target for 2018 in the form of a double-digit EBIT margin.

Reports and meetings

In the 2018 financial year, the Supervisory Board of Masterflex SE performed the duties assigned to it by the German Stock Corporation Act (AktG) and the company’s articles of association in full as well as regularly monitoring and advising the Executive Board. The basis was the regular written and oral reports provided by the Executive Board to the Supervisory Board about all issues concerning the planning, business development, risk situation and risk management of the company and the Group. The Supervisory Board was and is closely involved at all times in the approach and measures taken by the Executive Board and was properly informed by the Executive Board.

In total, four meetings of the Supervisory Board took place in the 2018 financial year and all members of the Supervisory Board and Executive Board were present. In addition to the regular face-to-face meetings, several telephone conference calls were held to exchange information and pass resolutions. The Supervisory Board also discussed submissions by the Executive Board and issues concerning the Executive Board in separate conference calls.

In its meetings and conference calls, the Supervisory Board was comprehensively informed by the Executive Board about the Group’s course of business, financial position, further development of the Compliance System, the personnel or organisational changes also in the subsidiaries, and the status of corporate planning. The reports and proposals for resolution by the Executive Board were discussed in detail and evaluated following in-depth examination and consultation. In addition, various meetings amongst Supervisory Board members have taken place with the Executive Board providing professional support of their activities.

2018 focus issues

The Accounting Supervisory Board meeting took place in Gelsenkirchen on 14 March 2018. The Supervisory Board discussed the separate financial statements and the consolidated financial statements for the 2017 financial year in detail. The Declaration on Corporate Governance and the Corporate Governance Report were adopted and then published together with the Annual Report 2017. The report of the Supervisory Board was also decided upon. With regard to the remuneration of the Executive Board, resolutions were passed to determine the achievement of targets for the 2017 financial year, to set targets for the bonus agreements with Executive Board members for the 2018 financial year and to review and redefine

Executive Board remuneration. Other topics at the Supervisory Board meeting to discuss the financial statements included the current business development, the Group's risk management, the new data protection guideline and the non-financial statement.

The second Supervisory Board meeting of Masterflex SE took place following the Annual General Meeting on 26 June 2018. After a brief follow-up to the Annual General Meeting, the Supervisory Board had the Executive Board inform it about the current economic development of the Masterflex Group. The focus was on the delayed revenue recognition, the continued high level of sick leave in some cases and the countermeasures taken, such as additional shifts, Sunday and holiday work and a further increase in the number of employees.

The Supervisory Board meeting on 11 September 2018 took place at the Halberstadt site of the subsidiary Novoplast Schlauchtechnik GmbH. Therefore, the development of this location was the focus of this Supervisory Board meeting. In addition, the topic of digitisation, the dates for the Supervisory Board meetings and the Annual General Meeting as well as the Supervisory Board elections in 2019 and current developments were discussed.

At the last Supervisory Board meeting of the year on 12 December 2018, the Executive Board reported on the current status of the five-year plan and business development. Together with the Executive Board, the Supervisory Board also resolved to update the Declaration of Conformity with the German Corporate Governance Code and discussed risk management in the Group with the Executive Board.

The Supervisory Board received regular information on the company's revenue and earnings development and change in key balance sheet items. The Executive Board provided the Supervisory Board with extensive information on the current developments of the individual subsidiaries. The Executive Board

Jan van der Zouw
Supervisory Board Member

Georg van Hall
Chairman of the Supervisory Board

Dr. Gerson Link
Supervisory Board Member

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

Trusting cooperation with the Executive Board

The Supervisory Board continued its open and trusting cooperation with the Executive Board seen in the past financial year. The Chairman of the Supervisory Board also remained in contact with the Executive Board between the meetings and was kept informed about significant developments and forthcoming decisions, which were of particular significance for the company. The Chief Executive Officer informed the Chairman of the Supervisory Board without delay of all major events which were of material significance for assessing the situation and performance as well as for managing the company. All members of the Supervisory Board were comprehensively informed of these contents by the Chairman of the Supervisory Board in good time for the following meeting.

There have not been any changes to the Supervisory Board or Executive Board during the financial year.

Supervisory Board committees

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

Corporate Governance

The implementation of the German Corporate Governance Code is a key element of the meetings of the Supervisory Board of Masterflex SE. Again in 2018, the Supervisory Board and Executive Board discussed in depth the recommendations and suggestions of the Code. 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 handled were assessed as efficient and very effective.

In December 2018, the Executive and Supervisory Boards approved and submitted a new Statement of Compliance in accordance with § 161 German Stock Corporation Act (AktG). This was made permanently available to shareholders on the company website.

The company is also committed to the principles of the German Corporate Governance Code. The current declaration of conformity submitted on the basis of the above-mentioned version and the previous explanations can be found at any time on the company website www.MasterflexGroup.com. In addition, the Executive Board reports on corporate governance in the Corporate Governance Report – including on behalf of the Supervisory Board – in accordance with Section 3.10 of the Code.

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

The annual financial statements of Masterflex SE, the consolidated financial statements and the combined management report for the Group and Masterflex SE for the 2018 financial year as submitted by the Executive Board, together with the bookkeeping system, were audited by Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, which was appointed as the Group's auditor by the Annual General Meeting on 26 June 2018 and issued with an unreserved audit certificate. This auditing company, formerly under the name of Rölfs WP Partner AG, was first mandated with auditing the accounts in 2010 for the 2010 financial year; the senior auditor, Thomas Gloth, has been entrusted with this task since the 2012 financial year. The auditor presented the mandate on the required declarations of independence prior to the audit to the Supervisory Board. 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 13 March 2019 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.

In addition, the Supervisory Board examined the planning documents, the risk position and the risk management system of Masterflex SE. All of the risk areas identified by the Executive Board and the Supervisory Board were discussed. Risk management was subject to a thorough examination by the auditor, who confirmed that the Executive Board of the company had implemented the measures required in accordance with § 91 (2) of the German Stock Corporation Act (AktG), 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. Lastly, the Supervisory Board exercised its duty of scrutiny in accordance with § 171 (1), sentence 4 of the German Stock Corporation Act (AktG) with regard to Corporate Social Responsibility and did not raise any objections.

There were no conflicts of interest affecting Supervisory Board members in the period under review.

In 2018, Dr. Link was also a member of the following statutorily mandated Supervisory Boards: at Rodenberg Türsysteme AG, Porta Westfalica, (Chairman of the Supervisory Board) and at Waag & Zübert Value AG, Nuremberg.

Mr van der Zouw had the following notifiable mandates in accordance with § 125 (1), sentence 5 German Stock Corporation Act (AktG) in 2018:

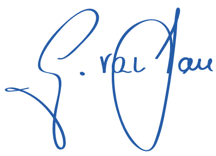
- Chairman of the Supervisory Board of Den Helder Airport CV, Den Helder/Netherlands,
- Supervisory Board member of Aalberts Industries NV, Langebroek/Netherlands,
- Chairman of the Supervisory Board of Van Wijnen Holding NV, Baarn/Netherlands,
- Chairman of the Supervisory Board of HGG Group BV, Wieringerwerf/Netherlands,
- Chairman of the Advisory Committee of VIBA NV, Zoetermeer/Netherlands and
- Supervisory Board member of LievenseCSO Intra BV, Breda/Netherlands.

Mr. van Hall had no notifiable mandates in 2018.

The Supervisory Board would like to thank the Executive Board and all employees of the Masterflex Group for their commitment as well as their constructive, trusting and successful work over the past year.

Gelsenkirchen, 13 March 2019

For the Supervisory Board



Georg van Hall
Chairman of the Supervisory Board

GLOSSARY

Gross Domestic Product (GDP)	The total value of all goods and services produced by an economy for the market within a reporting period.
Cash flow	The cash flows generated in a particular period, adjusted for significant noncash expenses and income. This demonstrates a company's ability to finance itself, i.e. its earning power.
EBITDA	Earnings before interest, taxes, depreciation and amortization
EBIT	Earnings before interest and taxes
EBT	Earnings before taxes
Extrusion process	Procedure for working with plastics. The raw materials in granulated form are broken down and heated in an extruder until they are plasticised, i.e. moldable and can be processed further.
FEP	Fluoridated ethylene propylene: fully fluoridated plastics with high chemical resistance
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
PFA, PTFE	Perfluoroalkoxy (PFA) and polytetrafluoroethylene (PtFE): two fluoridated plastics with very high chemical resistance
Stage-Gate process	Scientific model for the process optimisation of innovation and development. The idea behind is to take into account also aims which so far have been neglected partially or total in innovation processes, e.g. focusing and setting priorities, parallel and rapid process management, assignment of a cross divisional team and an increased market orientation and assessment.
Working capital	Current assets minus current liabilities

IMPRINT

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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 bei inappropriate. We therefore oncur no obligation to update any forecasts or estimates herein made.

REMARK

Only the German version of this Annual Report is legally binding.

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Connecting Values