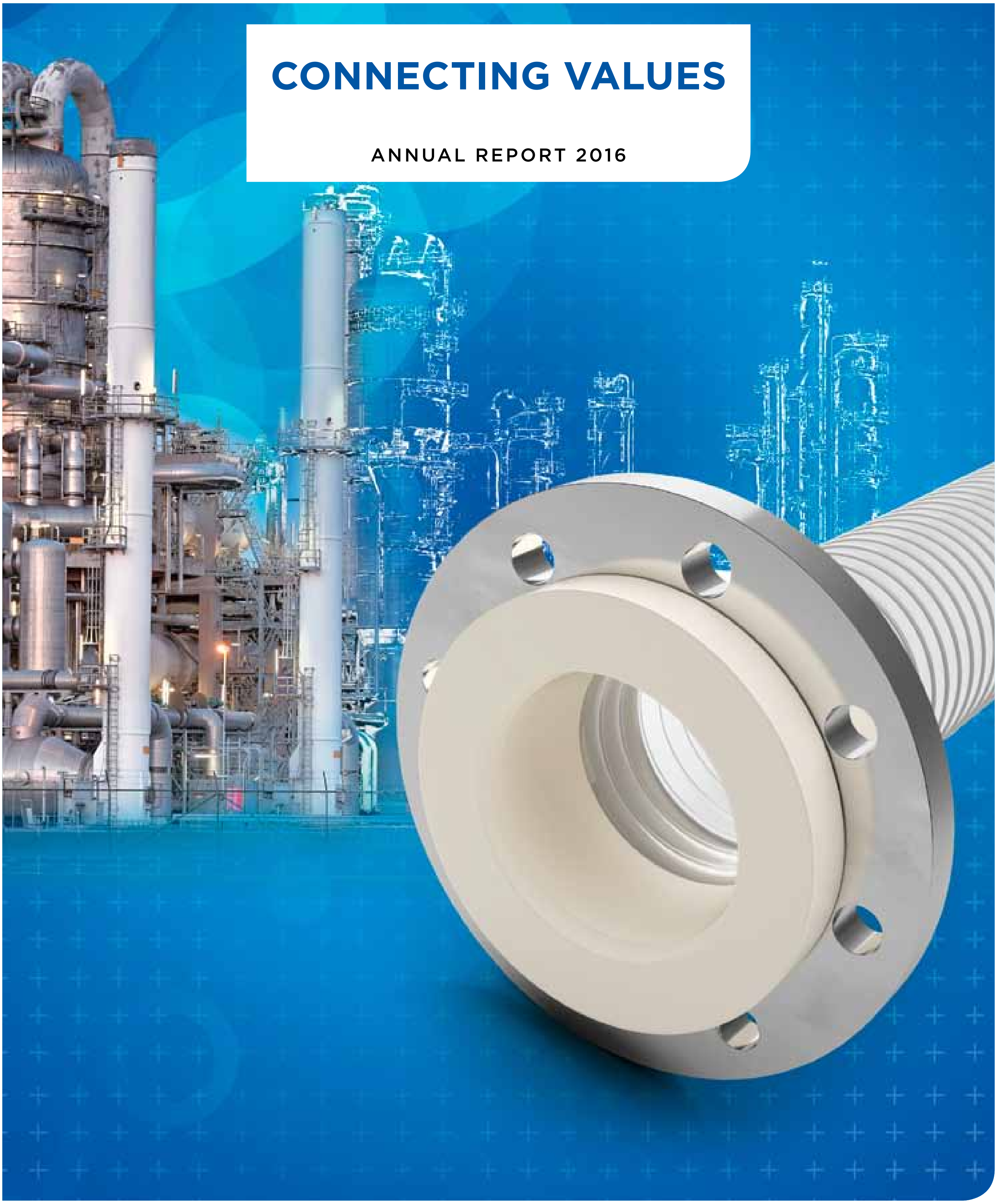
MASTERFLEX GROUP

CONNECTING VALUES

ANNUAL REPORT 2016

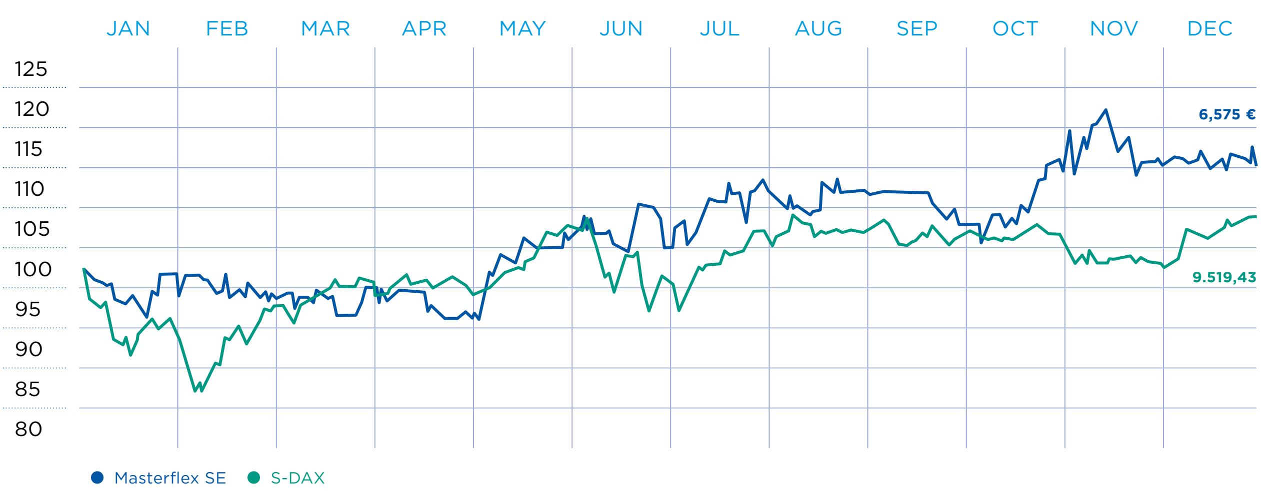


MASTERFLEX AT A GLANCE

In €k	31.12.2016	31.12.2015	31.12.2014
Consolidated revenue	66,486	64,112	62,466
EBITDA	8,811	7,672	9,172
EBIT (operative)	6,097	4,870	6,317
EBIT (adjusted)	5,897	4,870	6,317
EBT	4,574	3,872	5,194
Consolidated earnings from continued business units	3,418	2,252	3,232
Consolidated earnings from discontinued business units	-555	-374	-154
Consolidated net income	2,928	1,948	3,043
Consolidated equity	28,701	26,012	23,835
Consolidated total assets	60,412	54,484	51,982
Consolidated equity ratio (%)	47.5%	47.7%	45.9%
Employees	601	609	567
EBiT margin	9.2%	7.6%	10.1%
Return on sales	5.1%	3.5%	5.2%
Consolidated earnings per share (€)			
from continued business units	0.40	0.26	0.36
from discontinued business units	-0.06	-0.04	-0.02
from continued and discontinued business units	0.34	0.22	0.34

Masterflex share price compared with S-DAX

JANUARY TO DECEMBER 2016



based on daily closing prices

Please note: Only the German version is legally binding.

BRANDS

MASTERFLEX

Spiral hoses and connection systems for all industrial applications

Profile-extruded hoses · clip hoses · film hoses · heated hoses templine™

MATZEN & TIMM

Special vulcanized shapes and hoses for the aerospace sector and the automotive industry

Specialty hoses · suction hoses · elastomer hoses · bellows

NOVOPLAST
SCHLAUCHTECHNIK

Preformed tubes and technical tubings for medical and industrial uses

Pneumatic tubing · expandable tubing · preformed tubes · medical tubes

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FLEIMA-PLASTIC

Injection moulded parts and components for the medical technology

Hose clams · customized components · hose connectors · housing components

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MASTERDUCT

Spiral hoses and connection systems as well as HVAC elements

Spiral hoses · technical tubings · HVAC · film- and clip hoses

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APT

Hoses of fluorpolymers with permanently resistance to almost all chemicals

Tubing · shrink tubing

The solution-orientated development of high-tech hoses and connection systems has huge future potential in an increasingly demanding industrial production landscape.

Dr. Andreas Bastin

Chairman of the Executive Board.
Doctorate in Engineering majoring in mechanical engineering.

Foreword by the Chair of the Board

Dear Shareholders,

An intensive, busy year is behind us. Much has been achieved. The most important news first: the business of the Masterflex Group, the development, production and consultation-orientated sale of high-tech hoses and connection systems has increased by 3.7 percent over the last year. Thus, we have seen a return of the growth rates from the first half of the decade.

Our operating result (EBIT) saw a marked improvement over 2015 and has increased from € 4.9 million to € 6.1 million. Even after adjustment of the special effects of € 0.2 million which had been incurred on an exceptional basis due to reorganisational measures and necessary guarantees in operating activities, the amended EBIT was still a good 20 percent over the previous year's figure.

All this shows us that we are on the right track. The customer and solution-orientated development of high-tech hoses and connection systems has huge future potential in an increasingly demanding industrial production landscape. We intend to exploit this. The prerequisite is that we offer our customers connection solutions that not only keep pace in this increasingly complex production environment but that can also offer added value. True to our slogan – Connecting Values – we had therefore already initiated the development of so-called intelligent hoses in 2015. That's because we want to become the first company on the market to offer network-compatible and intelligent versions for our entire hose programme. And this will be done under the heading of a new, future-orientated, internationally-registered brand name AMPIUS.

But what makes a hose intelligent? We have toiled long and hard on this question and technical solutions that are achievable. As an intelligent hoses, we understand flexible connections made from plastic or fabrics that communicate important information on operating status to plant operators via digitally readable data. This may be information about whether a particular hose can be fitted integrally. Or it may be a reference to maintenance due. Even a warning about an impending stoppage. A wide variety of digitisable information can be crucial when transporting materials. We now want to test this out and develop it further with our customers.

As well as this extremely exciting large-scale project, we also brought several other innovations to market in 2016 such as the development of a PU hose with drinking water approval or the Master-PUR- L-F Trivolution®, a new premium product for suction applications. Other Group brands were also successful concerning innovation, for instance Novoplast Schlauchtechnik with a new hose for the paint industry which features special conductivity and special inner surface qualities. In medical technology, we have successfully developed a multiple tube using the newly employed technology of double hose extrusion. Market launch will take place this year.

Owing to many projects, 2016 was also labour intensive. The largest of which was, without doubt, our extension in which we invested more than € 7 million in buildings and new machinery, including the socalled Industry-4.0-compatible plants. The new two-storey building in Gelsenkirchen expands our production capacity for spiral hoses by up to 2,400 sqm and our warehousing capacity to around 3,700 sqm. Operational offices, an innovative laboratory and new workshop have also been added alongside. More importantly, we have invested in high-tech plant which will significantly increase our delivery capabilities. Yet we have not neglected environmental protection. Take this for example: our new heat recovery facilities with which ideal-case-scenario energy savings of up to 95 percent are achievable.

Additionally, in the previous financial year, we were able to offer a reputable original equipment manufacturer (OEM) in mechanical engineering the solution to an internal problem with a new development of a customer-specific hose. We would like to expand this joint development of new hoses with OEM customers in the future and market them independently under the name „Engineering Services".

In 2016, we were recognised for our innovation and market position on several occasions. The University of St. Gallen positioned us as one of the „global market leaders for Germany, Austria and Switzerland 2016" with our high-tech hoses and connection systems. In cooperation with the magazine „Wirtschaftswoche", the management consultancy company „Munich Strategy Group" classified us as one of the 100 most innovative German SMEs. In addition, the Masterflex Group was honoured with the „TOP 100" prize in summer 2016. This was awarded by the Institute for Entrepreneurship of Vienna Economics University to medium-sized companies which feature outstanding innovation and deliver outstanding innovation success. We are delighted to be accepted into this elite circle!

However, innovation not only requires intelligent minds and a well-timed, integrated process but also requires solid financing. Hence, in the summer, we decided to formalise the good conditions in the capital market as a result of our continued rise in creditworthiness. With the banks that have already been supportive to us for a number of years now, we have concluded a new syndicated loan up to around € 45 million running until June 2021. We have amended the structure of the loan to our significantly changed investment needs – the keywords being: plant extension and acquisitions. Thus, in the medium term, the topic of debt financing is robust and prudent.

However, the main downside of the past year was without doubt the judgement of Dusseldorf Higher Regional Court. The judgement they reached meant we were obliged to pay an amount of € 0.9 million plus interest to a group of investors who had financed a share purchase of our former subsidiary CAB and Velo Drive in 2011. On the basis of our detailed examination of the legal position, we had not expected this outcome, thus we have lodged an appeal (non-admissible complaint). Nonetheless, this judgement-related one-off charge from discontinued operations squeezed our result to around € 0.6 million or 6 cents per share. However – and this is a very nice aspect of the 2016 financial year – despite this court judgement, earnings per share at € 0.34 are still well above last year's (€ 0.22) owing to our operational successes.

When implementing our growth strategy, once again we were able to take a huge step forward over the past year. You will recall that we want to achieve sustainable and profitable growth; our vision is the joint position of technology and market leader in all of our targeted markets. We want to achieve this long-term objective through continued internationalisation, ongoing innovation and also acquisitions in the hose market.

And whilst, since 2011, we have already become very successful ourselves in the two strategy pillars of internationalisation and innovation, we were able to acquire a company from the hose market for the first time in 2016. A few days before Christmas, we signed the purchase agreement for the company shares in APT Advanced Polymer Tubing GmbH, a former family business with its head office in Neuss. The company has built up an outstanding reputation as a supplier of industrial and shrink tubing from fully or partly fluorinated plastics. This tubing with diameters from 0.2 mm to 130 mm can be sustainably used at temperatures of minus 200 degrees to plus 260 degrees; in addition, they have prolonged resistance to almost all chemicals and materials. Thanks to these properties, APT products are very appealing for medical technology applications as well as in the food and manufacturing industries.

The company generates very good profitability with a double-digit EBIT margin and the former owners continue to serve in the management team. For 2017, we expect our first successful joint projects, above all in the medical field. From 2018, we will gradually expand the distribution of APT products globally to all locations served by the internationally operating Masterflex Group which up until now has been restricted due to the small size of the former family business in the DACH region. Thus, we are very pleased not only about our new brand company and outstanding business potential but certainly the same goes for many of our global customers who will be able to obtain these particular specialities from a single source in the future.

This optimism is also reflected in our forecast for the 2017 financial year: We expect an increase in turnover from six to ten percent and a two-digit EBIT margin once again. This would, of course, presuppose stability in our important sales markets.

A final word on the subject of efficiency which is what has driven us on since the end of 2015. Besides the major initiative, the building expansion in Gelsenkirchen which already ensures a lasting reduction in complexity of logistics and warehousing at the headquarters in Gelsenkirchen, we have also identified and introduced numerous and generally small-scale measures. These have already been partially completed. Unfortunately, they can only be fully achieved on a step-by-step basis rather than overnight. And of course, the battle is only half won after the internal reorganisation processes which have started, but we will continue onwards and roll out this process and appropriate measures at all locations. Ultimately, the aim is to shape the Masterflex Group more and more towards a fully integrated group of companies in which synergies and qualities are consistently evolving in the interests of the customers. We firmly believe that we can consolidate our future as a very active, profitable supplier. And yet markedly different and better than the competition: true to our motto „Connecting Values“.

Dear shareholders, let us discuss this at the Annual General Meeting in Schloss Horst on 27 June 2017. My finance colleague, Mark Becks, and I are looking forward to it!

Gelsenkirchen, 14 March 2017

Dr. Andreas Bastin
Chief Executive Officer

CONTENT

CONTENT

MASTERFLEX | spiral hoses

Masterflex hoses are used in the widest range of food processing industries. They not only satisfy the high demands of the sector but also ensure that everything keeps moving - whether that’s now in combining the ingredients of muesli, or in baking delicious waffles, or in mixing chocolate.

COMBINED MANAGEMENT REPORT

OF THE MASTERFLEX GROUP AND MASTERFLEX SE

A Basics of the Group

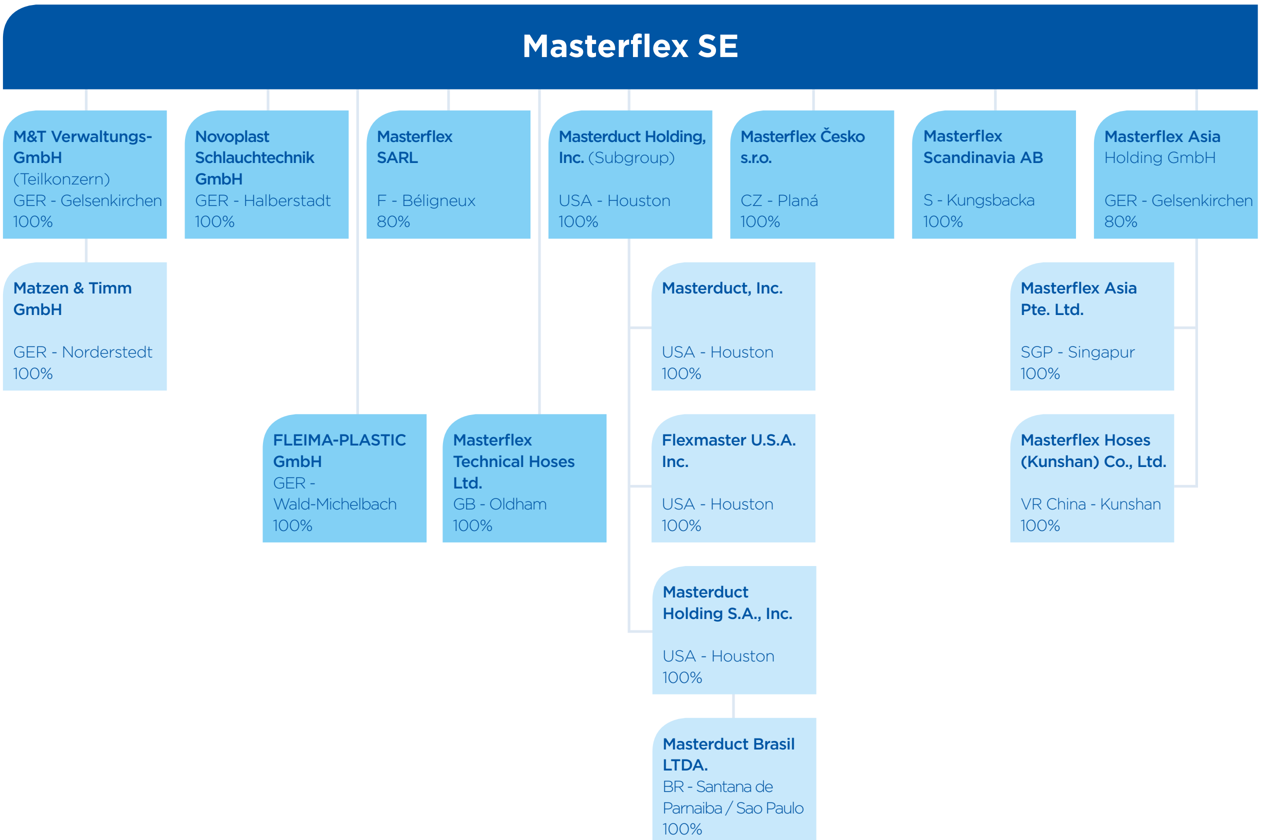
I BUSINESS MODEL

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. This company has been the continuously profitable mainstay of the Masterflex Group since its inception over 30 years ago. Additionally, in future, the planning and devel-opment of hoses and connection systems will be marketed as its own service.

With thirteen operating subsidiaries and five corporate brands, the main production sites of the international Masterflex Group from the start of 2017 are Gelsenkirchen, 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 is illustrated in the following diagram.

ORGANISATIONAL CHART



Since 2000, Masterflex SE shares (Securities Code no 549 293) have been traded on the Frankfurt Stock Exchange in the sector with the highest requirements of transparency (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 sophisticated plastics. Our vision is global market leadership in all our relevant markets.

The development, production and engineering-orientated marketing of high-tech hose and connecting systems hold considerable growth potential. Therefore, we are pursuing the strategy of developing and producing customised and sophisticated products with high value for the customer. This consultation-oriented specialist market strategy, expressed in our slogan 'Connecting Values' differentiates use from other hose manufacturers. In addition, we actively pursue the goal of above-average, profitable growth. Our growth strategy is based on two pillars: internationalisation and innovation.

Internationalisation strategy

Since the start of this decade, we have strived for value-based long-term growth in all of our targeted markets. Above all, we want the core of our activity, which today still lies in Europe, to gradually expand and to achieve a larger share of the sales on the American and Asian continents. Moreover, we have covered a series of markets since then using cooperative partnerships which either adjoin our key regions or which have a close relationship with them. In addition, for some time, our focus has been on providing the entire product range of the Masterflex Group in all the markets we are engaged in.

On the American double continent, we primarily focus on North America and here on the United States (USA). In this highly-developed economy, we see huge potential for our high-tech connection products which we want to expand on through our subsidiary, Masterduct. Over the last year, we have succeeded in significantly increasing revenues and operating income (EBIT). In addition, the current politically-debated investments in US infrastructure and regional industrial zoning promise further growth areas for our products.

In South America, we are concentrating on the Brazilian market which we handle through our near of Sao Paulo-based subsidiary. Since our launch in 2010, the macroeconomic conditions have developed significantly differently than initially expected. Thus, we have taken a series of measures to increase efficiency over the last year. Yet Brazil remains an interesting region for us due to the high degree of industrialisation. After further adjustments to avoid prohibitively high import duties in 2017, we expect to produce a balanced result. On the basis of the results achieved so far, the economic outlook and the gradually slowing recession, we will be able generate earnings contributions from this large market in the medium term.

In Asia, we are focussing on the Chinese market with our internationalisation strategy. There, we were able to further expand and consolidate out activities in 2016. The turnover in this giant and, for us, what we consider to be very interesting market, is now making a seven-digit contribution.

We handle the Russian market through our exclusive partnership after successfully ending our participation in 2015, owing to massive changes in the economic environment in Russia. The business with our former joint venture has gone well in the first year of the partnership. With this modified business structure, we continue to participate in the opportunities in this large market.

Innovation strategy

Our innovation strategy is based on continuously developing, testing and introducing onto the market new products and processes as well as constantly improving our existing production processes. The ideas for new products are normally initiated by customer requests. Our engineers design, test and produce new products from a variety of high-performance plastics and manufacturing processes, which can substitute traditional connection solutions or the materials used, to the benefit of our customers. These products are continuously being launched onto the market. Thanks to this innovation strategy, we maintain our leading market position as technology leader in the specialist market for high-tech hoses which has a positive impact on our price-setting power.

Details of our innovation strategy for 2016 can be found in Section A IV.

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 Supervisory Board which each have their own areas of responsibility.

1. Committees

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 since 2008. Mark Becks has been CFO since 2009.

Supervisory Board
Since the closure of the Annual General Meeting on 14 June 2016, the three-member Supervisory Board of Masterflex SE has consisted of the Chair, 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 separate 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 Chair 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 apportioned to 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 interests and taxes, EBIT) is reported to the Board for the entire Group.

The key performance indicators and their development remain at the forefront for the Masterflex Group; they are modelled on liquidity and the value of the company and support the corporate strategy. These include in particular:
- Turnover compared to actual, target (budget) and previous year
- 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 an important component for the development of the Masterflex Group. Through the development of innovative products and processes and individual connection solutions, we are in a position to satisfy the most demanding of requirements. Moreover, the R&D domain forms the basis for marketing engineering-based connection solutions, which should also be marketed as a service under the „Engineering Services“ banner in the future.

The cooperation between the different product brands and locations which had already started in the previous year was intensified in order to optimise the use of resources for seamless interlinked development. Since the start of 2017, the research and development functions of Masterflex, Novoplast Schlauchtechnik and Fleima-Plastic have come under unified management. The development team also increased in personnel. Furthermore, the ground was prepared for more intensive exchanges with the international sites. With the deployment of one our development engineers to the USA, this will also take place at a staff-exchange level for the first time in 2017.

The innovation process (Stage-Gate-Process) which was re-structured the previous year has proven to reduce throughput times of new products. In the regularly occurring innovation round tables, developments both market, technology and customer-driven as well as in view of their economic significance will be discussed and examined. In addition, external partners from research institutions or selected suppliers will be involved. This ensures a multipolar point of view on potential innovations both market-driven and with regard to new technologies and raw materials.

Important projects in 2016

The focus of our product development in the area of spiral hoses was centred on „Industry 4.0“. Hence, digitalisation and thus possible networking along all stages of the value-added chain in the industry as a whole will also massively change the market for high-tech hoses.

But what makes a spiral hose intelligent or even digital? In this regard, we looked intensively into the requirements for such hoses in 2016 and the technical solutions already achievable. By intelligent hoses, we understand flexible connections made from plastic or fabrics that communicate important information on operating status to plant operators via digitally readable data; for example, whether a particular hose can be fitted integrally, or maintenance is required, or the threat of malfunction. Thus, we ensure that our products contribute to digitalisation and optimisation of the production processes of our customers.

Thanks to the successful preliminary work of 2016, at the beginning of this year we decided to launch our products and product groups on the market with digital functions under the AMPIUS brand. With AMPIUS, our own internationally-registered brand, we want to emphasize even more clearly our technological market leadership and showcase it on the market.

Besides this extremely important issue for the future, a series of further product innovations were developed. In 2016, we could conclude the development of a PU hose with drinking water approval (for cold and warm water). Marketing will commence in 2017. In addition, in the last financial year, we successfully launched the Master-PUR L-F Trivolution®, a new premium product on the market for simple suction applications.

Furthermore, in the previous financial year, we were able to offer a well-known original equipment manufacturer (OEM) in mechanical engineering the solution to an internal problem with a new development of a customer-specific hose. We would like to intensify this joint development of new hoses with OEM customers in the future and market them independently under the name „Engineering Services“.

In the area of smooth hoses which are used industrially, our company Novoplast Schlauchtechnik developed among other things a new hose for the paint industry. The challenges here were features like special conductivity and special inner surface qualities. The product has been well received by customers.

In medical technology, an important project is ready for full-scale production with a newly developed double hose. Up until now, Novoplast Schlauchtechnik has produced multiple tubes for medical use; however these products are generally glued together in parallel in the clean room. Through the newly applied technology of double hose extrusion, the gluing step is omitted; thus larger hose lengths can be realised and production simplified. This double hose will be marketed from 2017.

Moreover, in 2016, in medical technology, several large projects from our companies Novoplast Schlauchtechnik and Fleima-Plastic were also jointly realised with our customers. Fleima-Plastic, the injection moulding experts of the Masterflex Group, produced a tool for making the individual parts of technical-medical components and synchronised them. The items which are manufactured in a clean room were subsequently assembled onto components by means of different bonding methods - which, for the first time, includes a new ultrasonic welding facility. The hoses used for this purpose will be supplied by Novoplast Schlauchtechnik.

Our brand company Matzen & Timm from Norderstedt near Hamburg developed several conductive parts for aerospace customers which are used in the tank ventilation area. Here, up until the final design, several variants were developed, tested and evaluated in close cooperation with the customer. Industrial hoses were developed for a different aerospace customer. Here, the very high level of movement requirements were a challenge. The assembly space was very cramped and thus we were very limited in terms of the length of the so-called bellows. Here, the components proposed by the customer were optimised as far as possible with the aid of FEM software and the design changed in such a way that the requirements could be fulfilled.

For our R&D activities, we don‘t solely rely on our knowledge. In order to remain at the forefront of technology, we remain in close contact with suppliers as well as with universities and research institutions such as the Fraunhofer Institute. Several of these cooperations were contractually governed. This involved optimisation of tools as well as materials with special properties or new production processes to optimise production.

External evaluations

The innovative strength of the Masterflex Group was confirmed again last year by several organisations.

At the beginning of 2016, the University of St. Gallen published the results of the “Global Market Leader for Germany, Austria and Switzerland 2016” in which the Masterflex Group is listed as the global market leader for their business model of “hoses and connection systems manufactured from high-tech plastics”.

The review by the management consultancy company „Munich Strategy Group“ which was published for the first time last year again renewed the position of Masterflex Group as one of the most innovative German companies at the end of 2016.

In addition, the Masterflex Group was honoured with a further accolade in summer 2016: the Group was awarded the „TOP 100“ prize. This prize, which was assessed by way of a demanding, scientific selection process in which both innovation management and innovation success were examined, goes to the 100 most innovative German SMEs. Since 1993, the TOP 100 label for special innovative power and outstanding innovative success has been awarded to medium-sized companied under the scientific leadership of the Institute for Entrepreneurship and Innovation of the Vienna Economics University.

Thanks to our innovation capabilities, our products cannot easily be substituted by other products. Nevertheless, the high-tech plastics we process provide significant substitution potential for conventional materials, most notably for steel and rubber. Moreover, we don‘t undertake contract manufacture. Nearly all our products and services are developed by our own engineers and specialist staff and to a large extent are made in-house.

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

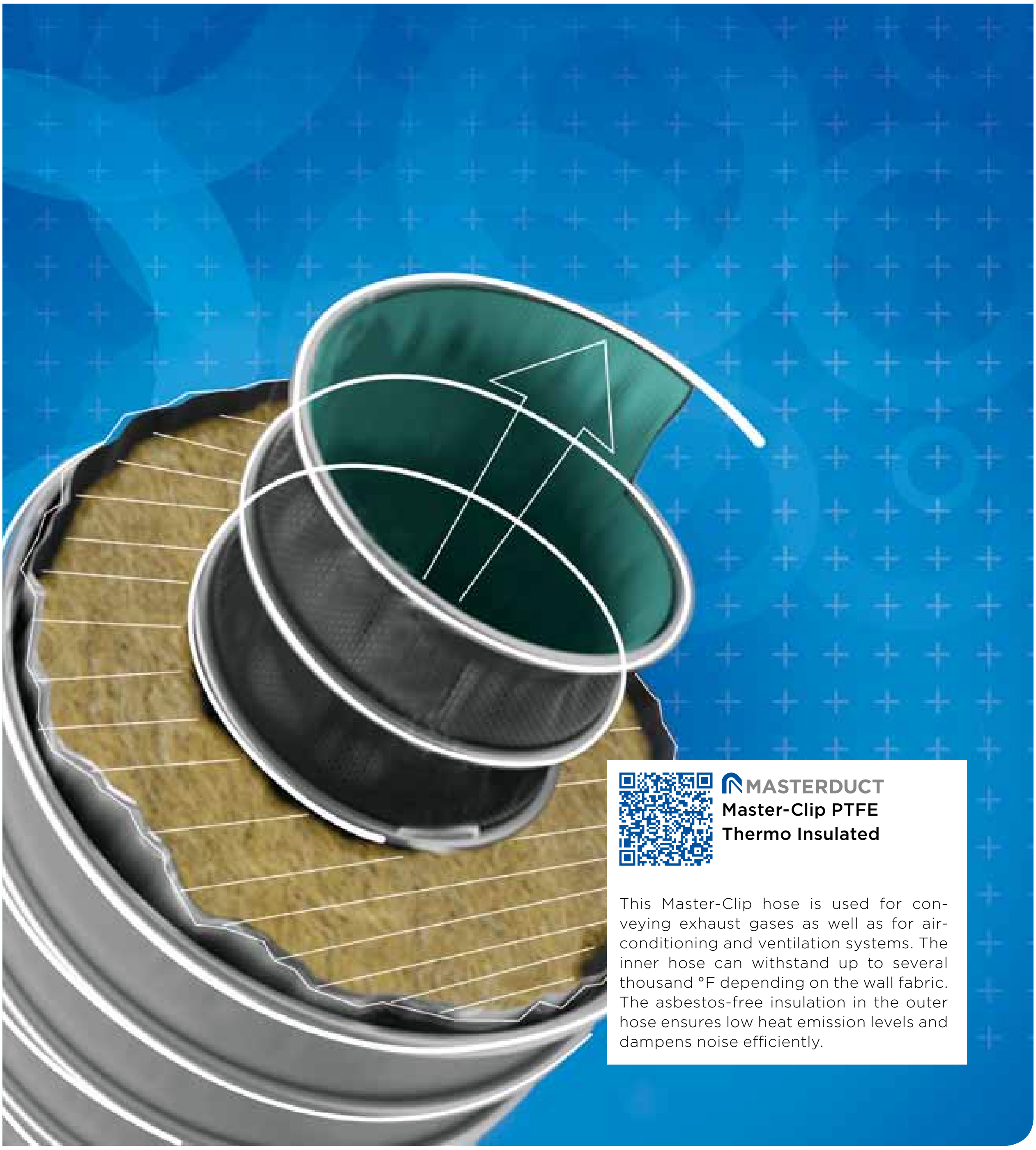
V THE MARKET FOR HIGH-TECH HOSES

The global market for high-tech hoses and connecting systems comprises many rather regionally-oriented specialist markets which are mostly served by SMEs. Customers primarily come from process manufacturing including industrial applications (B2B market); they range from internationally operating corporations to wholesale and medium-sized industrial enterprises down to small regionally-based businesses. Due to the hard-to-come-by expertise in materials, processing and application of the demanding polymers and the diverse possible applications, it is an attractive and profitable market. It is characterised by small batch sizes in both production and sales as well as by the intensity of consulting and development expertise for customer-specific solutions. In contrast, the market better known to the general public for mass-produced hose items and strongly focused on end-customers, is determined by large batch sizes, lower margins and major international providers.

Thereby, due to its rather inconsistent and opaque structure, there is little reliable data about the overall market. Thus, in 2008, the Masterflex Group had already started to carry out systematic data analysis of the global market and its participants. This extensive knowledge constitutes the know-how of the Masterflex Group which it uses to differentiate its product portfolio over its competitors. Moreover, this specialised knowledge is used in its M&A strategy. On the basis of this internal data collection, we estimate the size of the market in all of the regions we serve to have a volume of around € 2 billion.

In the future, the possible uses of high-tech hoses will continue to increase. The general trend in the manufacturing sector - increasingly demanding industrial production processes - will spur this on. In particular, three parameters drive the demand for connection solutions which can meet a variety of demands. Firstly, the increasing speed of a manufacturing process; secondly, the desire for greater flexibility in terms of small end-product volumes with frequent variations in product; thirdly, quality requirements of the end products being manufactured.

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



MASTERDUCT
Master-Clip PTFE Thermo Insulated

This Master-Clip hose is used for conveying exhaust gases as well as for air-conditioning and ventilation systems. The inner hose can withstand up to several thousand °F depending on the wall fabric. The asbestos-free insulation in the outer hose ensures low heat emission levels and dampens noise efficiently.

VI BRAND IDENTITY AND PRODUCTS

By the beginning of 2017, the Masterflex Group comprised five corporate brands which, at the same time, are their main operating companies with their own production capacities. From January 2017, the newly acquired company APT will belong to this brand family as a product brand for fluoridated plastic connections. The six brands with their respective product portfolios are the components for our future unified market presence under the MASTERFLEX GROUP umbrella brand. In addition to these six brand companies, there are eight other operating subsidiaries in Europe, North and South America and Asia which sell these brand products and also manufacture on site.

Our Slogan **Connecting Values** reflects our core competency: holistic connection systems which are adapted to customer-specific requirements, combined with German engineering in global production and close customer contact for advice, service, reliability and safety. In a nutshell, **Connecting Values** means the values we connect create added value for our customers.

MASTERFLEX

The spiral hose business is the core competence of the Masterflex brand with production concentrated in Gelsenkirchen, Germany. Master-Clip and PU hoses are developed, produced and distributed alongside extruded spiral hoses. Connecting elements like cuffs, flanges, threaded sockets, clamps and other accessories complete our range of flexible and individual connection solutions.

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

MATZEN & TIMM

The brand company Matzen & Timm is a highly regarded, international manufacturer of specialist hoses, industrial hoses and many other parts produced from high quality plastic and rubber materials, like for example, silicon. The products are handmade on an industrial scale and are used most notably in sectors in which precision and resilience are paramount. In particular, this includes the aerospace industry and the automotive and rail sectors. Production takes place in both Norderstedt near Hamburg, Germany, and Plana in the Czech Republic. Special hoses can be found, for example, in the air conditioning system of the A380 as well as the A350, under the bonnet of a racing car at the DTM (German Touring Car Masters) or in the latest train systems. As a manufacturer with its own development department, the value added 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 custom-made for specific customers.

Thanks not least to its adept handling of requirements and its considerable development expertise, Matzen & Timm has ranked as one of the key suppliers to the aviation and space industry, special service vehicles and mechanical engineering for more than 50 years. Innovative products such as lightweight and/or electrically conductive hoses or conduits for aircraft fuel lines meet the highest requirements in terms of safety and function.

The brand company Novoplast Schlauchtechnik GmbH in Halberstadt, Germany, specialises in the extrusion of hoses and profiles with diameters of 0.5 to 50mm for industrial and technical-medical applications. These products are sometimes also further processed such as by thermosetting or special assembly and moulding processes. Thanks to thermofixing, hoses can be precision-manufactured in 2D and 3D with complex geometry and bending radii in accordance with customer requirements. It is precisely these skills that open up previously little-known areas of application like in the substitution of metal piping with low-noise or vibration-free plastic compounds.

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

Novoplast Schlauchtechnik works closely with the subsidiary 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 just one source, consisting of hose and medical components such as Luer lock connectors, drip chambers or roller clamps.

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 sectors. In the modern factory, injection moulded components (also in multi-component assemblies) are manufactured, assembled and finished in ISO class 7 and 8 clean rooms. In addition, we have vast experience in the area of building precision injection moulding tooling in our in-house tool-making department and in the creation of prototypes for use in all the usual rapid prototyping procedures.

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

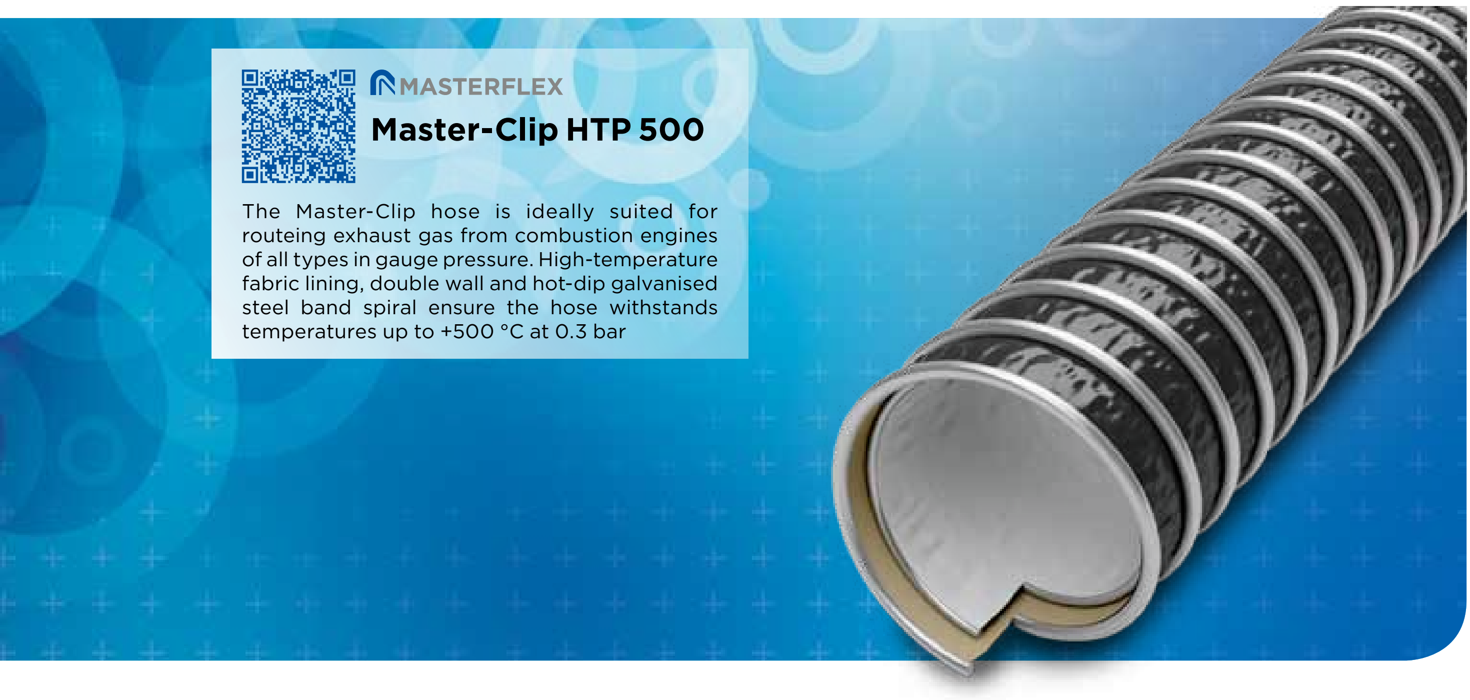
The companies operating in North and South America, Masterduct and Flexmaster U.S.A. also act as brand companies with a corresponding product portfolio.

Flexmaster U.S.A. is a hose specialist for heating, ventilation and air conditioning (HVAC), and the air conditioning and ventilation field and is market leading in public sector construction applications, such as in hospitals, school sports facilities and universities. Flexmaster U.S.A. is the preferred supplier in the health sector because the products it manufactures do not contain any adhesives or solvents of any kind. Further, in place of rigid metal pipes, sound-insulated hose designs prove not only to be more cost effective and flexible but absorb sound more intensively.

Masterduct sells the portfolio of the Masterflex and Novoplast Schlauchtechnik brands to the American market under its brand. The clientèle ranges from the wood industry to the aviation and service industry right up to the US government.

APT At the beginning of 2017, we acquired the company APT, Advanced Polymer Tubing GmbH, from Neuss. The company specialises in tubing and shrink tubes from fully or partly fluoridated plastics. APT hoses can be sustainably used at temperatures from minus 200 to plus 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 (fluorinated ethylene/ propylene), PFA (perfluoralkoxy) and PTFE (polytetrafluoroethylenes). These fluoroplastics require very special processing know-how and high specification plant designed for this purpose. The Masterflex Group has benefited from this specialised expertise since the acquisition of APT.

AMPIUS In the future, all networkable, intelligent hoses and connection solutions of the Masterflex Group will be marketed under the brand name AMPIUS which was introduced to the market in February 2017. The digitalisation possibilities of hoses and connection systems will play a significant role in the future especially in operations monitoring of industrial production processes. The scope and application of digital data collection and its use in hoses will be adapted to individual customer requirements. With these new so-called „smart products", the Masterflex Group will take a leading role in the development of digitalised connection solutions.



MATZEN & TIMM | special hoses

These pre-formed special hoses reinforced with spiral wiring are fitted in commercial aircraft. They are used for example in vacuum toilet systems or galley cooling and ventilation systems.

In aircraft generally, vacuum toilet systems are installed as water consumption is vastly reduced that way, airlines save weight and their aircraft fly more economically.

COMBINED MANAGEMENT REPORT

OF THE MASTERFLEX GROUP AND MASTERFLEX SE

B Financial report

I MACROECONOMIC CONDITIONS

Economic performance in Germany, measured on gross domestic product, rose by a notable 1.9 percent in 2016. This also applied to the Euro zone (by 1.7 percent) and in the EU combined (by 1.8 percent). However, several of the targeted national markets like Great Britain (up 2.0 percent to 2.2 percent in 2015) or Sweden (3.2 to 3.9 percent in 2015) recorded a smaller increase over the previous year.

Moreover, global economic growth remained below the previous year's figure (3.1 percent) and also below our own expectations at the beginning of the year (2.9 percent) with a 2.8 percent increase. This would presumably be largely due to the somewhat weaker US economy (growth rate of only 1.6 percent against 2.6 percent the previous year) or the deeper than expected recession in Brazil (minus 3.4 percent). In China, the growth rate remained stable at a high level of 6.7 percent (previous year: 6.8 percent).

The causes for the regionally different, slightly lower increase in economic activities may generally be due to regional conflicts, unexpected election decisions in large countries of the western world and also in changing currency parities.

The different growth paths over the years in Europe, America and Asia continue to reinforce our belief in our internationalisation strategy. Our broad geographical base is deliberate in order to position the Masterflex Group as a diversified and profitable company, largely independent of single-cycle products, single sectors and single regions. In addition, this internationalisation is also desired by the customer: not only our major customers but also those who are for us the crucial European hidden champions, for example in machine and plant engineering, who require an increasing global presence from us as a supplier and solutions provider. Thus, our international activities positively affect business development in Europe and Germany.

ECONOMIC GROWTH IN COUNTRIES WHERE THE MASTERFLEX GROUP HAS A PRESENCE

Change of GDP compared to previous year in percent

Country	2016	2015
Euro zone	**1.7**	**2.0**
Germany	1.9	1.7
France	1.5	1.2
EU combined	**1.8**	**2.2**
Great Britain	2.0	2.2
Sweden	3.2	3.9
Czech Republic	2.4	2.9
World	**2.8**	**3.1**
Brazil	-3.4	-3.8
China	6.7	6.8
Singapore	1.3	0.9
USA	1.6	2.6

Source: Commerzbank AG

In 2016, turnover in the plastics processing industry increased by 3.2 percent to € 60.8 billion. The volume of raw materials processed matched the previous year's level of 14.1 million tons. The number of employees in the predominantly medium-sized companies rose slightly again from 316,000 to 317,000.

The German Plastics Processing Industry Association notes with concern the high energy costs in Germany which could hamper competitiveness. Furthermore, a growing number of companies in the industry are suffering from problems attracting apprentices, skilled workers and engineers. Nevertheless, the overall mood of the companies in the sector continues to be cautiously optimistic at the start of 2017.

II BUSINESS DEVELOPMENT

Turnover of the Masterflex Group has increased in 2016 on the previous year by 3.7 percent from € 64.1 million to € 66.5 million.

We were able to achieve our internationalisation strategy objective in the reporting year, namely a broader continental distribution of turnover. Turnover outside Germany increased more markedly than the average figure for the group by 3.7 percent. Thus, our turnover in the rest-of-Europe region increased by 10.9 percent to € 16.7 million. Business in rest-of-world countries rose by 4.7 percent to € 19.2 million.

This was due to several brands and regions developing in a good-to-extremely positive manner in Europe. These included primarily Novoplast Schlauchtechnik within its medical field; Masterflex Scandinavia; and Matzen & Timm with its related operation Masterflex Cesko. The year was more subdued for us particularly in Great Britain and France; the general economic situation and increased competition had an effect here.

As for the rest-of-world regions, in Asia – where we have been active in China and Singapore for several years – we have established a very good, initial market position with stable sales of our products, engineered in Germany'. The focus for 2017 will be on increasing profitability in this region.

In North America, our core business under the Masterduct brand has seen positive improvement over the past year. This can be attributed to the positive effects of our personnel and organisational restructuring introduced mid-2015. However, our share of sales in this vast region still continues to be relatively small so that we continue to see a good opportunity for growth, particularly in the USA. The development of the HVAC business under the sub-brand Flexmaster U.S.A. performed significantly better over the last year both in terms of sales and on the earnings front.

We continue to pursue our long-term strategy geared towards internationalisation, as the economic prospects in Europe are more positive than even a few years ago. However, the projected growth rates still lag behind those of North America and Asia in particular.

Our innovation strategy will be one of the overriding issues over the next few years. Digitalisation changes the economy permanently. We want to participate with innovative products and market these „smart hoses“ under our own, internationally registered AMPIUS brand.

III SIGNIFICANT EVENTS IN THE 2016 FINANCIAL YEAR

The Masterflex Group has significantly increased its warehousing and production capacities at its Gelsenkirchen site over the past year. At the end of 2016, a two-storey multifunctional building with a gross floor space of 7,700 sqm was completed according to plan. Already in the first quarter, a warehousing facility of around 850 sqm became operational. Thus, today, the Masterflex Group has additional space for production of up to 2,400 sqm and for warehousing of almost 4,600 sqm; moreover, new offices, a modern laboratory, a new workshop and larger social rooms. The loading and unloading bays at the site in Gelsenkirchen have been significantly improved and a smoothly functioning vehicle circulation scheme introduced for lorries. All external warehousing has now been centralised in one location. The Masterflex Group has invested around € 7.6 million in new buildings and machinery including modern, Industry-4.0-capable plant for the entire expansion of the site.

In June 2016, Dusseldorf Higher Regional Court (OLG) passed its judgement against the Masterflex development in the legal dispute with Clean Air Mobility GmbH. After a claim for damages which was rejected in the first instance, Masterflex SE was sentenced by the Court of Appeal to repay the purchase price plus interest, altogether totalling around € 1.1 million. As the accounting provision of € 0.5 million was not sufficient and further provisions of over € 0.6 million had to be set aside, the capital market was informed about this judgement and its effects on the profitability of the Masterflex Group in an ad-hoc release on 16 June 2016. The Company has lodged an appeal against the ruling (non-admissible complaint against the appeal which was not permitted by the OLG) which, to date, has not been ruled on.

In the same month, Masterflex SE was able to complete a new syndicated loan with four credit institutions of up to € 45 million. Thus, Group financing could be fixed for a further five years with attractive terms. This syndicate loan consists of four instalments - including one line of credit which is to be used for just this purpose - and has a term until June 2021. This agreement replaces the previous syndicated loan which ran until 2018. Running parallel to the previously existing arrangement, covenants are also agreed for the equity ratio, interest coverage and the debit equity ratio; details of which can be found in the Risk Report (Section D IV).

Further, in June 2016, the Masterflex Group was voted as one of the TOP 100 most innovative German SMEs. The hose group had to undergo a demanding scientific selection process beforehand. Innovation management and innovation success were examined in particular. Since 1992, this prize has been publicly awarded under the scientific leadership of the Institute for Entrepreneurship and Innovation of Vienna Economics University. Further project partners are the Fraunhofer Society for the promotion of Applied Research and the BVMW Association [German Association for Small and Medium-sized Businesses].

In December 2016, Masterflex SE agreed to acquire all the shares in APT Advanced Polymer Tubing GmbH from Neuss. The acquisition of the shares at a purchase price of a higher single digit million-amount took place at the beginning of January 2017. Above all it was the outstanding know-how of APT in the area of high-tech plastics like FEP, PFA, PTFE and other fully and partly fluorinated polymers that supported this acquisition. Such hoses have not formed part of the product portfolio of the Masterflex Group up to now. Moreover, the acquisition has opened up access to further potential markets in Germany and Europe. The seller of the shares, the former Managing Directors, will continue to manage APT and thus guarantee the know-how and keep a firm foothold in the industries that APT serve. The takeover was financed by borrowed capital.

IV ECONOMIC SITUATION

1. Results of operations

	2016		2015		Change	
	in €k	in %	in €k	in %	in €k	in %
Revenue	66,486	99.2	64,112	97.4	2,374	3.7
Stock changes	-174	-0.3	1,461	2.2	-1,635	-111.9
Capitalised services	763	1.1	236	0.4	527	223.3
Total operating performance	**67,075**	**100.0**	**65,809**	**100.0**	**1,266**	**1.9**
Other operating revenue	1,041	1.6	1,558	2.4	-517	-33.2
Gross revenue	**68,116**	**101.6**	**67,367**	**102.4**	**749**	**1.1**
Cost of materials	-20,804	-31.0	-20,827	-31.6	23	-0.1
Staff costs	-26,496	-39.5	-25,958	-39.4	-538	2.1
Depreciation, amortisation and impairments	-2,714	-4.0	-2,802	-4.3	88	-3.1
Other business expenses	-11,740	-17.2	-12,614	-19.2	874	-6.9
Other taxes	-265	-0.4	-296	-0.4	31	-10.5
Operating expenses	**-62,019**	**-92.1**	**-62,497**	**-94.9**	**478**	**-0.8**
Operating profit = operating EBIT	**6,097**	**9.1**	**4,870**	**7.4**	**1,227**	**25.2**
Financial result	-1,323		-998		-325	
Non-operating expenses	-200		0		-200	
Net profit before income taxes	**4,574**		**3,872**		**702**	
Income taxes	-1,156		-1,620		464	
Earnings after taxes from continued operations	3,418		2,252		1,166	
Earnings after taxes from discontinued operations	-555		-374		-181	
Consolidated net income	**2,863**		**1,878**		**985**	
thereof minority interests	-65		-70		5	
thereof attributable to Masterflex SE	**2,928**		**1,948**		**980**	

*Due to the identification of non-operating effects amounting to € 200 k, an adjustment was made to the revenue of € 111 k and to the other operating expenses of € 89 k .

1.1 Turnover development
In 2016, the Masterflex Group with the production and sales of high-tech hoses and connection systems turned over € 66.5 million; this is a growth of 3.7 percent.

Apart from the sites in France and Great Britain, all the Group companies contributed to this growth. Growth was particularly strong with Masterflex SE, Novoplast Schlauchtechnik and in America. In percentage terms, the company achieved the strongest growth in Scandinavia where we made a significant leap forward with an increase of around 60 percent. In our Asian companies, we grew overall around 20 percent.

1.2 Earnings development
Earnings before interest and taxes (EBIT before discontinued operations and non-operating income and expenditure) amounted to € 6.1 million compared to € 4.9 million in 2015. This corresponds to a gross revenue-related EBIT margin of 9.1 percent (7.4 percent previous year). The development of individual items in the consolidated income statement are explained in brief below.

Changes in inventories of finished goods and work in progress has reduced in 2016 by € 0.2 million owing to merging of warehousing capacities. Capital services have increased by € 0.2 million to € 0.8 million due to the stepping up of development activities. Other income fell by 33.2 percent to € 1.0 million compared to the previous year. The marked decline is predominantly attributable to special effects in the previous year, mostly the sale of the Russian participation.

The material costs remained roughly the same at € 20.8 million (previous year € 20.8 million). From this data, a material usage ratio (material costs in relation to gross revenue) of 31.0 percent can be derived. This renewed decrease over the previous year (31.6 percent) can be primarily attributed to a favourable raw materials procurement, reduction in set-up times and a low reject rate.

Personnel expenses in the last financial year amount to € 26.5 million and thus stand at 2.1 percent above the previous year's figure (€ 26.0 million) primarily due to annual wage and salary adjustments. The slight increase in the staff cost ratio (staff costs in relation to gross revenue) at 39.5 percent compared to the previous year (39.4 percent) is mainly attributable to an increase of wages. In 2016, there was an average of 601 employees employed in the Masterflex Group (609 previous year).

Other expenses amount to € 11.7 million, € 6.9 percent below the previous year (€ 12.6 million). Despite increased cost of space at the Gelsenkirchen site owing to the temporary leasing of further capacity, savings in marketing, travel and consultancy costs could be achieved.

Depreciation at € 2.7 million dropped slightly over the previous year's level of € 2.8 million due to the planned discontinuation of write-downs on essential technical equipment. The building expansion was completed at the end of the year.

The consolidated operating result (EBIT) increased by 25.2 percent from € 4.9 million to € 6.1 million. Improved business development, capitalised services, cost savings and the exclusion of one-off special effects are reflected in the substantially greater profitability.

After consideration of one-off charges of € 0.2 million, from guarantees of over € 0.1 million which relate to the previous year as well as legal consultancy fees of € 0.1 million in connection with the reorganisational measures, the adjusted EBIT amounts to € 5.9 million.

The financial result fell by 32.6 percent from minus € 1.0 million (previous year) to minus € 1.3 million. This drop is mainly due to the additional expenses for the old syndicated loan as well as the increased financial liabilities for the building expansion investment.

The income tax expenses of € 1.2 million have fallen compared to the previous year by almost € 0.5 million. Current income tax liabilities of € 0.6 million (previous year € 0.8 million) are reported under this item as well as expenses owing to the consumption of deferred taxes of € 0.5 million (previous year € 0.8 million).

Earnings after taxes from continued operations amount to € 3.4 million. Compared to the previous year (€ 2.3 million), this is an increase of 51.8 percent. The income from discontinued operations amounts to € minus 0.6 million compared to the previous year € minus 0.4 million. This is solely attributed to the increase in income from discontinued operations due to the court judgement of Dusseldorf OLG.

The consolidated net income amounted to € 2.9 million compared with a figure of € 1.9 million for the previous year, of which € 2.9 million is attributable to minority interests in two Group companies (previous year: € 1.9 million). Minority interests reflect ownership of the subsidiary in France (Masterflex SE: 80 percent) and of Masterflex Asia Holding GmbH (Masterflex SE: 80 percent).

Earnings per share for continued operations rose from € 0.26 to € 0.40. Taking into account the earnings per share for discontinued operations (minus € 0.06), the overall earnings per share came to € 0.34 in 2016.

1.3 Comparison of the actual business results with the forecasts

For the 2016 financial year, we forecast an increase in turnover outperforming the expected world economic growth of 2.9 percent. In actual fact, the growth of the world economy decreased slightly below that at 2.8 percent. Nonetheless, except for Great Britain and France, all Group companies were able to achieve an expansion of business; thus our turnover grew by 3.7 percent. Hence, we exceeded our self-defined revenue target.

From a financial perspective, a clear increase in our operating result (EBIT) was expected compared to the previous year (€ 4.9 million). In actual fact, the operating result before special effects increased by 25.2 percent to € 6.1 million. Therefore, we also fully achieved our earnings forecast.

2. Net assets

2.1 Asset structure

	31.12.2016		31.12.2015		Change	
Assets	**in €k**	**%**	**in €k**	**%**	**in €k**	**in %**
Intangible assets	4,499	7.4	3,967	7.3	532	13.4
Fixed assets	29,033	48.1	23,435	43.0	5,598	23.9
Financial assets	91	0.2	266	0.5	-175	-65.8
Other assets	74	0.1	0	0.0	74	
Deferred taxes	1,463	2.4	1,840	3.4	-377	-20.5
Non-current assets	**35,160**	**58.2**	**29,508**	**54.2**	**5,652**	**19.2**
Stocks on hand	13,562	22.4	13,558	24.9	4	0.0
Receivables and other assets	7,696	12.8	7,421	13.6	275	3.7
Current assets	**21,258**	**35.2**	**20,979**	**38.5**	**279**	**1.3**
Cash	**3,994**	**6.6**	**3,997**	**7.3**	**-3**	**-0.1**
	60,412	**100.0**	**54,484**	**100.0**	**5,928**	**10.9**

Total assets increased by 10.9 percent from € 54.5 million to € 60.4 million. This essentially results from the building expansion in Gelsenkirchen that was completed at the end of the year.

Non-current assets rose by € 5.7 million from € 29.5 million to € 35.2 million by the end of 2016. Besides the site expansion in Gelsenkirchen (buildings, technical facilities, warehousing), this is also attributed to the increase in intangible assets due to development activities. However, deferred tax assets fell by around € 0.4 million due to the use of tax loss carryforwards to € 1.5 million (previous year € 1.8 million).

On the other hand, current assets only increased slightly by 1.3 percent or € 0.3 million to € 21.3 million. Income tax receivables of € 0.4 million made a significant contribution to this as a result of advance payments. Conversely, the increase in inventories of finished goods at € 6.3 million (previous year € 6.1 million) was virtually offset by the decline in raw materials, auxiliary materials and operating materials at € 6.4 million (previous year € 6.5 million) and work in progress which now lies at € 0.9 million (previous year € 1.0 million). Receivables and other assets rose slightly at a total of € 7.7 million: higher other assets of € 1.0 million (previous year € 0.8 million) were offset by the lower reporting value of trade receivables of € 6.2 million (previous year € 6.5 million). Likewise, cash in hand remained virtually unchanged at € 4.0 million (previous year € 4.0).

2.2 Capital structure

	31.12.2016		31.12.2015		Change	
Liabilities	**in €k**	**%**	**in €k**	**%**	**in €k**	**in %**
Consolidated equity	29,033	48.0	26,059	47.8	2,974	11.4
Balancing items for minority interests	-332	-0.5	-47	-0.1	-285	606.4
Total equity	**28,701**	**47.5**	**26,012**	**47.7**	**2,689**	**10.3**
Provisions	197	0.3	158	0.3	39	24.7
Financial liabilities	20,694	34.3	11,153	20.5	9,541	85.5
Other liabilities	977	1.6	1,119	2.1	-142	-12.7
Deferred taxes	849	1.4	672	1.2	177	26.3
Non-current liabilities	**22,717**	**37.6**	**13,102**	**24.1**	**9,615**	**73.4**
Provisions	2,135	3.6	2,160	4.0	-25	-1.2
Financial liabilities	2,432	4.0	8,958	16.4	-6,526	-72.9
Other liabilities	4,427	7.3	4,252	7.8	175	4.1
Current liabilities	**8,994**	**14.9**	**15,370**	**28.2**	**-6,376**	**-41.5**
	60,412	**100.0**	**54,484**	**100.0**	**5,928**	**10.9**

The equity of the Masterflex Group increased from € 26.0 million in the previous year to € 28.7 million as at 31 December 2016. This corresponds to an equity ratio (equity in relation to balance sheet total) of 47.6 percent compared with a rate of 47.7 percent. The absolute increase in eligible funds is largely based on the consolidated operating result of € 2.9 million; in addition, there were exchange rate differences and changes in the fair value of financial instruments to be processed. The marginal reduction in the equity ratio is primarily attributable to the balance sheet extension due to the higher fixed assets and the increasing financial liabilities resulting from it.

Non-current liabilities of the Masterflex Group rose by 73.4 percent from € 13.1 million to € 22.7 million. The main reason for this is the re-structuring of the syndicated loan which was accompanied by a re-allocation of short-term financial liabilities in long-term loans and the recording of further amortising loan for full financing of the building expansion. Thus, long-term financial liabilities rose by € 9.5 million to €20.7 million, whilst short-term financial liabilities fell by € 6.5 million from € 9.0 million to € 2.4 million. In addition, income tax liabilities fell due to decreasing tax expenses and other liabilities. Conversely, debts to suppliers grew to € 2.2 million as at the reporting date (previous year: € 1.5 million). The increase in these liabilities primarily resulted from Masterflex SE. This is a reporting date effect and not a change of payment method.

Liabilities from discontinued operations rose from € 0.5 million to € 1.0 million at the end of 2016. The increase in provisions can be exclusively attributed to the Dusseldorf ORG court judgement in which Masterflex was sentenced by the Court of Appeal to repay the purchase price for the subsidiaries sold in 2011 CAB and VeloDrive where the accounting provision of € 0.5 million was not sufficient.

3. Financial position

3.1 Principles and objectives of financial management

The short- to medium-term objectives of financial management were achieved in 2016. These included in particular:

- re-structuring of the syndicated financing taking into account the site expansion
- long-term safeguarding of the interest rate
- further strengthening of our equity.

In June 2016, we concluded a new syndicated loan of up to € 45 million with four banks with a term until June 2021. Thus, the Group financing was able to be fixed for a further five years with attractive terms. This agreement replaces the previous syndicated loan which was running until 2018. Covenants for the equity ratio, interest coverage and the debt equity ratio are also part of the agreement.

With the syndicated financing, we achieved our financial management objectives and the equity ratio remained more or less constant despite a balance sheet extension.

3.2 Financing Analysis

Long and short-term financial liabilities amounted to € 23.1 million as at 31 December 2016, up € 3.0 million on the value at the end of 2015.

The financial result of the Masterflex Group amounted to € 4.0 million at the end of 2016 million (previous year € 4.0 million). This meant the net debt stood at € 19.1 million at the end of 2016 (previous year € 16.1 million). This meant the net debt in relation to EBITDA stood at 2.2 at the end of the year. This key figure is a measure of the Group‘s debt-to-equity ratio and indicates how quickly debt can be reduced. Three covenant regulations in the syndicated loan agreement have been completely complied with. (See Section D. IV.10).

The structure of financial liabilities at € 23.1 million is made up from the long and short-term tranche of the syndicated loan agreement (previous year € 20.1 million) and from other financial liabilities (previous year € 0.1 million from leasing).

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

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

3.3 Liquidity position
Cash in hand and bank balances remained constant as at the reporting date at € 4.0 million.

This is primarily reflected in the following transactions:
- positive earnings before depreciation (EBITDA, € +8.8 million)
- Capital expenditure on property, plant and equipment and intangible assets (€ -8.8 million)
- Payments from bank loans are offset € +3.0 million
- Interest expenses (€ -1.4 million)
- Income taxes paid (€ -1.2 million)
- Other (€ -0.4 million).

The cash flow statement, showing the transfer of cash in hand and bank balances in the last financial year, appears in Section 3 (consolidated cash flow statement).

The Masterflex Group was solvent at all times throughout 2016. At the 2016 year-end, Masterflex SE has a further freely available non-utilised credit line of € 19.6 million from the syndicated loan agreement – in observance of defined covenants – of which € 3.5 million is short-term overdraft and € 16.1 million from the acquisition facility of credit.

V OVERALL STATEMENT ON THE FINANCIAL POSITION

Overall, Group management considers the net assets, financial position and results of the Masterflex Group as of the reporting date, in terms of
- growth particularly in the international markets
- secure medium-term Group financing
- stability of the Group's equity
- ratio of net debt to EBITDA of 2.2

to be satisfactory and to serve as good foundation for the future development of the Masterflex Group.

In the first two months of the current 2017 financial year, the turnover of the Masterflex Group continued to develop positively. The desired growth targets aspired to in the forecast have been achieved so far. The operating result (EBIT) also lies within the target range. The integration of APT is running to schedule.

VI RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION OF MASTERFLEX SE

In addition to reporting on the Masterflex Group, Masterflex SE's development is described below.

Masterflex SE is the parent company of the Masterflex Group with its headquarters in Gelsenkirchen, Germany. Its business activity essentially comprises the development, manufacture and sale of high-tech hoses and connection systems from high-performance plastic in Germany as well as control of the world-wide operations of the Masterflex Group. Masterflex SE produces hoses and connection systems at its 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 economic development of Masterflex SE is essentially characterised by its production and marketing success, its operating subsidiaries and development of customer industries. Alongside the sales success of Masterflex SE, income from investments, profit transfers and dividend distributions from the investments is of crucial importance to its economic position. Thus, the statements in Section D, Opportunity and Risk Report, also apply in particular to Masterflex SE.

The annual financial statement of Masterflex SE corresponds to the regulations of the German Commercial Code and German Stock Corporation Act. The consolidated financial statement follows the International Financial Reporting Standards (IFRS). The differences result from accounting and valuation policies.

Revenue and earnings of Masterflex SE

PROFIT AND LOSS STATEMENT OF MASTERFLEX SE ACCORDING TO THE GERMAN COMMERCIAL CODE (SUMMARY)

	2016		2015		Change	
	in €k	in %	in €k	in %	in €k	in %
Revenue*	19,011	97.2	18,667	96.5	344	1.8
Stock changes	20	0.1	592	3.1	-572	-96.6
Capitalised services	522	2.7	92	0.4	430	> 100
Total operating performance	**19,553**	**100.0**	**19,351**	**100.0**	**202**	**1.0**
Other operating revenue	113	0.5	861	4.2	-748	-86.9
Gross revenue	**19,666**	**100.5**	**20,212**	**104.2**	**-546**	**-2.7**
Cost of materials	-6,820	-34.9	-6,980	-36.1	160	-2.3
Staff costs	-8,371	-42.8	-8,013	-41.4	-358	4.5
Depreciation, amortisation and impairments	-492	-2.5	-504	-2.6	12	-2.4
Other expenses	-3,855	-19.7	-4,087	-21.1	232	-5.7
Other taxes	-43	-0.2	-65	-0.3	22	-33.8
Operating expenses	**-19,581**	**-100.1**	**-19,649**	**-101.5**	**68**	**-0.3**
Operating profit	**85**	**0.4**	**563**	**2.7**	**-478**	84.9
Financial result	2,169		2,599		-430	
Non-operating expenses	-200		0		-200	
Non-operating result	14		110		-96	
Net profit before income taxes	**2,068**		**3,272**		**-1,204**	
Income taxes	-508		-957		449	
Net income for the year	**1,560**		**2,315**		**-755**	

*Due to the identification of non-operating effects amounting to € 200 k, an adjustment was made to the revenue of € 111 k and to the other operating expenses of € 89 k .

The profitability of Masterflex SE is determined by the business of high-tech hoses and connection systems at the Gelsenkirchen site as well as the distribution and transfer of profits to operating subsidiaries who run this business at other national and international sites.

The turnover of Masterflex SE at € 19,011 k grew by 1.8 percent over the previous year's figure (€ 18,667 k). Even though turnover rose by around 4 percent compared to third countries, turnover in the subsidiaries dropped substantially from the previous year. This is mainly due to the weak dynamic in the UK and France.

Compared to the previous year, inventories in finished goods and work in progress increased to a significantly lesser extent. Thus, the change of inventories of € 572 k was lower than in the previous year. However, capitalised services increased sharply from € 92 k to € 522 k; this was particularly reflected in our heightened development activities. The overall operating performance therefore totalled € 19,553 k, 1.0 percent up on the previous year.

Other income fell by 86.9 percent to € 113 k compared to the previous year. This change is primarily explained by the special effect of selling the Russian joint venture in the previous year which amounted to € 633 k. The operating revenue of € 19,666 k (previous year € 20,212 k) fell slightly by 2.7 percent.

For operating expenses, the cost of materials dropped slightly; at € 6,820 k it stood at around 2.3 percent below the level of the previous year (€ 6,980 k). This corresponds to an improved material cost ratio of 34.9 percent (previous year 36.1 percent) which is predominantly attributable to more favourable raw material procurement, reduction in set-up times and a lower reject rate. Personnel expenses rose by 4.5 percent to € 8,371 k; a staff cost ratio of 42.8 percent derives from this (previous year 41.4 percent). The increase is due to normal wage increases and to a slightly increased number of employees in Production and Logistics. Other operating expenses have fallen considerably. Compared to the previous year (€ 4,087 k) they fell by 5.7 percent to € 3,855 k. This reflects our efforts to reduce material expenses particularly at Head Office; deferrals of one-off non-operating effects were also made. The depreciation of intangible assets and property fell slightly by 2.4 percent to € 492 k (previous year € 504 k).

Due to a lower rate of increase in turnover and the special effect of the previous year – namely the sale of the Russian joint venture – savings in materials and other costs as well as depreciations in comparison to increased staff costs were insufficient in total, with the result that operating profit fell to € 85 k (previous year € 563 k).

The financial result consisting of income from profit and loss transfer agreements of € 3,185 k (previous year € 2,363 k), interest expenses of € 1,449 k (previous year € 1,064 k), income from investments of € 212 k (previous year € 490 k) and income from financial assets of € 260 k (previous year € 598 k) and depreciation of financial assets of € 40 k (previous year € 0 k) dropped by € 430 k or 16.5 percent to € 2,169 k.

Non-operating effects amounted to € 200 k in 2016 (previous year 0). € 111 k of this included comparatively high warranty expenses which related to the previous year as well as costs for legal disputes of € 89 k due to reorganisational measures. The non-operating results primarily fell by € 96 k to € 14 k due to the increased income from the reversal of provisions in the previous year.

Earnings before taxes of € 2,068 k lie around € 1,204 k below the 2015 figure. Income tax expenses virtually halved due to the lower earnings and the use of deferred tax loss carryforwards of € 957 k to a value of a € 508 k. The annual net income of Masterflex SE dropped almost a third to € 1,560 k.

With a growth rate of 1.8 percent, our forecast for Masterflex SE in 2016 of achieving a faster rising revenue growth in comparison to the global economy (+ 2.9 percent) has not been fully fulfilled. This is mostly attributable to the slowing business in Great Britain and France compared with the previous year.

The operating income, defined as earnings before interest and taxes (EBIT), of € 85 k fell below the previous year's figure of € 563 k; this largely corresponds to our forecast that this result would be below that of the previous year.

Development of the net assets and financial position of Masterflex SE

BALANCE SHEET OF MASTERFLEX SE ACCORDING TO THE GERMAN COMMERCIAL CODE (SUMMARY)

	31.12.2016		31.12.2015		Change	
Assets	**in €k**	**in %**	**in €k**	**in %**	**in €k**	**in %**
Intangible assets	970	1.4	516	0.9	454	88.0
Fixed assets	12,516	18.2	6,153	9.9	6,363	103.4
Financial assets	42,234	61.3	42,711	68.7	-477	-1.1
Deferred tax assets	1,393	2.0	1,805	2.9	-412	-22.8
Non-current assets	**57,113**	**82.9**	**51,185**	**82.4**	**5,928**	**11.6**
Stocks on hand	3,094	4.5	3,200	5.1	-106	-3.3
Receivables and other assets	7,010	10.2	6,113	9.8	897	14.7
Prepaid expenses	402	0.6	301	0.5	101	33.6
Current assets	**10,506**	**15.3**	**9,614**	**15.4**	**892**	**9.3**
Cash	**1,257**	**1.8**	**1,389**	**2.2**	**-132**	**-9.5**
Total assets	**68,876**	**100.0**	**62,188**	**100.0**	**6,688**	**10.8**

As at 31 December 2016, the balance sheet total with a value of € 68,876 k was 10.8 percent above the previous year (€ 62,188 k). Non-current assets largely contributed to this, growing by 11.6 percent to a value of € 57,113 k.

The increase in fixed assets primarily reflects the building expansion in Gelsenkirchen. As a result, property, plant and equipment, and in this regard particularly land and buildings as well as technical plant and machines, more than doubled to € 12,516 k. In addition, there were increases in intangible assets of € 516 k to € 970 k due to intensified development activities. Financial assets of € 42,234 k dropped slightly over the previous year's figure (€ 42, 711 k) mainly due to the repayment of loans to affiliated companies. Likewise, the deferred tax assets with a value of € 1,393 k (previous year € 1,805 k) declined as a result of the use of tax loss carryforwards.

Current assets also contributed to the increase in balance sheet assets. These grew 9.3 percent or € 892 k to € 10,506 k. The increase is especially related to the increased receivables and other assets as at the reporting date (€ 7,010 k, previous year € 6,113 k). By contrast, inventories developed as a result of the systematic improvement in our warehousing and inventory holding fell by 3.3 percent to € 3,094 k.

Cash and cash equivalents fell according to plan from € 1,389 k to € 1,257 k.

	31.12.2016		31.12.2015		Change	
Equity & liabilities	**in €k**	**in %**	**in €k**	**in %**	**in €k**	**in %**
Subscribed capital	8,732	12.7	8,732	14.0	0	0.0
Capital reserves	21,067	30.6	21,067	33.9	0	0.0
Retained earnings	4,115	6.0	4,115	6.6	0	0.0
Net profit	5,676	8.2	4,116	6.6	1,560	37.9
Equity	**39,590**	**57.5**	**38,030**	**61.1**	**1,560**	**4.1**
Liabilities to banks	21,000	30.5	11,250	18.1	9,750	86.7
Long-term borrowed capital	**21,000**	**30.5**	**11,250**	**18.1**	**9,750**	**86.7**
Tax provisions	72	0.1	272	0.4	-200	-73.5
Other provisions	2,061	3.0	1,469	2.4	592	40.3
Liabilities to banks	2,505	3.6	9,028	14.5	-6,523	-72.3
Debts to suppliers	1,024	1.5	318	0.5	706	> 100
Liabilities for associated companies	2,519	3.6	1,700	2.8	819	48.2
Other liabilities	105	0.2	121	0.2	-16	-13.2
Short-term borrowed capital	**8,286**	**12.0**	**12,908**	**20.8**	**-4,622**	**-35.8**
Total liabilities	**68,876**	**100.0**	**62,188**	**100.0**	**6,688**	**10.8**

Equity grew due to the net profit for the year of € 1,560 k to € 39,590 k (previous year € 38,030 k). This corresponds to an equity ratio of 57.5 percent compared to 61.1 percent at the end of 2015.

As at 31 December 2016, amounts excluded from distribution totalled € 1,788 k, of which € 1,393 k related to deferred tax assets and € 395 k related to the capitalisation of development costs.

Long-term borrowings have increased by € 9,750 k to € 21,000 k as at 31 December 2016. This is a reflection of the new syndicated loan agreements whereby Group financing was able to be fixed for a further five years at attractive terms. Part of this new contract is a long-term amortising loan of € 7 million. However, short-term financial liabilities fell by € 6,523 k or 72.3 percent to € 2,505 k. This also reflects the new syndicated loan whereby the previously short-term credit line that had been granted was converted into two long-term amortising loans.

Other provisions have increased by 40.3 percent to € 2,061 k. This is predominantly attributable to increased provisions as a result of the OLG judgement of summer 2016 described above. Outstanding invoices and employee reward schemes are also included here but there are no provisions for retirement as Masterflex SE offers its employees a contribution-based company pension plan. Debts to suppliers also rose to € 1,024 k as did liabilities to associated companies by € 819 k to € 2,519 k.

The structure of liabilities to banks primarily consisted of the newly agreed syndicated loan agreement in 2016. At the 2016 year-end, liabilities to banks amounted to € 23,505 k. Collateral has been provided for most of the borrowed funds with the transfer of titles of buildings and inventories as well as ownership interests.

Financial positions of Masterflex SE

Cash and cash equivalents fell by 9.5 percent to € 1,257 k during the reporting period compared to a value of € 1,389 k at 2015 year-end. There are currently no cash and cash equivalents pledged.

in €k	2016	2015
Net income before non-operating expenses	1,760	2,315
Non-operating expenses	-200	0
Write-down on tangible fixed assets	436	408
Write-downs on intangible assets	56	96
Write-downs on non-current financial assets	40	0
Other non-operating income	-3	-37
Cashflow as per DVFA/SG	**2,089**	**2,782**
Increase in medium and short-term provisions	393	264
Increase in inventories, trade receivables and other assets	-4,212	-3,484
Increase in trade payables and other liabilities	1,509	483
Interest expenses	1,193	256
Other investment income	-218	-493
Income tax expense	508	957
Income tax payments	-421	-305
	-1,248	**-2,322**
Cashflow from ongoing business activities	**841**	**460**
Payments for investments in intangible assets	-529	-64
Payments for investments in property, plants and equipment	-6,799	-1,102
Income received from the disposal of affiliated companies	0	-633
Income received from the disposal of financial assets of affiliates	0	788
Income received from the repayment of financial assets	4,190	2,545
Payments for investments in financial assets	-314	-1,028
Interest received	2	90
Dividends received	584	680
Cashflow from investment activities	**-2,866**	**1,276**
Income received from the redemption of bonds and the raising of (finance) loans	28,500	3,500
Payments for the redemption of bonds and (finance) loans	-25,250	-3,750
Interest paid	-1,357	-1,014
Cash flows from financing activities	**1,893**	**-1,264**
Change in cash and cash equivalents	-132	472
Cash and cash equivalents at the start of the financial year	1,389	917
Cash and cash equivalents at the end of the financial year	**1,257**	**1,389**
Composition of cash and cash equivalents at the end of the financial year		
Currency	1,257	1,389

Items having a positive effect on liquid funds comprised essentially:

- payment of newly agreed syndicated loan of € 28,500 k
- repayments of subsidiaries of € 4,190 k
- dividends received of € 584 k
- operating income of € 145 k
- reduction in inventories of € 106 k

Items having a negative effect on liquid funds comprised essentially:

- re-payment of the previous syndicated loan of € 25,250 k
- investments in property, plants and equipment of € 6,799 k
- interest payments of € 1,357 k
- increase in receivables of € 897 k and
- taxes of € 421 k.

Proposal for the appropriation of net profit

The Executive Board proposed to carry forward the balance sheet profit of € 5,676 k as at 31 December 2016 to a new statement of accounts.

FLEIMA-PLASTIC

I-Connectors

Indispensable in modern medical technology: I-shape transparent connectors made from polycarbonate for use in heart-lung machines. Manufactured as a standard injection-moulded product under class 7 and 8 clean room conditions.

VII NON-FINANCIAL INFORMATION

1. Employees and social commitment

Committed, satisfied employees are a very important factor for successful implementation of our corporate strategy. We were able to make further inroads towards internationalisation and the development of product innovations thanks to our dedicated employees. We want to continue this commitment with continuously expanding personnel recruitment and development and to secure the talent in the labour market in order to meet the challenges of the coming years.

In 2016 too, we intensified our personnel marketing activities. In so doing, we expanded not only the targeting of potential specialists and young professional talent at career fairs but also via electronic media and through internships. In addition, we have included our trainees in these personnel targeting campaigns. For this purpose, our young employees receive training as „apprentice ambassadors“ in collaboration with the responsible Institute of Chamber and Commerce in North Westphalia in order to recruit talent for us at an as early stage as possible by addressing peers and like-minded young people. The recruitment of women and employees who were not born in Germany is also an aim in all areas of the company.

We are still able to record a low staff turnover rate of around 3 percent on average at our German locations. This indicates a high degree of satisfaction of our workers. Alongside fair, performance-related remuneration, the main reason for this is a corporate structure in our Group which is characterised by openness, tolerance and mutual respect. We intend to maintain this acceptance as an employer. Hence we have further intensified our staff recruitment and development. It is imperative to secure good talent in the labour market for the challenges of the coming year.

Targeted staff development remains the focus of our personnel development. The annual employee discussions that take place serve as a means of performance assessment, as well as for setting personal objectives for the coming year which are an integral part of variable remuneration. Furthermore, individual development objectives are also determined at this point and suitable measures drawn up. These could involve external training measures and also internal mentoring. If our employees would like to embark on employee-based training, we support this financially through ad-hoc leave of absence. Thus we have been able to fill several management positions from within our own ranks. Within the scope of personnel development, we promote the targeted staffing of management positions by women; not just in all commercial and administrative areas but also in technology. Not least as part of our continuing internationalisation, potential managers with international backgrounds are supported.

For 20 years, we have provided training to young school leavers in the commercial and industrial sectors; for this purpose, more than a dozen of our employees have acquired an instructor‘s licence. Over the last year, we were able to offer two further apprenticeships for the first time. In this way, we intend to guard against skill shortages which are already noticeable at times.

At the end of 2016, we employed 20 teenagers and young adults taking part in training at our German sites. Four young employees successfully completed their training in 2016; one of the successful graduates is now expanding his professional qualifications – with our support – through further industrial training. The other three have been offered jobs by Masterflex SE. Further, we have once again enabled a longstanding employee without vocational qualifications to take part in an external training programme by means of temporary leave of absence so that he can take his North Westphalia Chamber of Industry and Commerce exam in a recognised apprenticeship trade.

Ongoing contact with training institutions and vocational schools gives us the reputation of an attractive employer. In 2016, we were able to offer apprenticeship placements to school pupils and students as well as provide an insight into the vocational world within the framework of several practice days.

Through flexible working hours and part time employment, we enable working mothers and fathers to balance work and family life. In this way, we retain the expertise and experience of these employees.

In the area of occupational retirement provision, the Company continues to offer each employee the opportunity of taking out a direct insurance policy or otherwise regular contractual arrangement within the realms of private old-age provision.

For particular motivation, managers and sales employees who impact on the success of the Company to an above-average extent are involved in a form of profit-sharing scheme (incentives).

We are pleased to work with several organisations at selected locations who have set themselves the objective of including persons with disabilities in the labour market. Of greatest significance here is the cooperation of Matzen & Timm with the Elbe-Werkstätten in Hamburg who provide workshops for persons with disabilities. Nine Elbe-employees are currently posted at Matzen & Timm in Nordestedt and tend to hold low-skilled jobs. The model has brought mutual satisfaction for over six years.

2. Environmental protection

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

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

With regard to our new building expansion, we were able to realise several projects at the Gelsenkirchen site which not only reduced environmental impact but reduced costs and improved our efficiency. In two new heat recovery installations, production workshop air that is heated via regular manufacturing processes is fed through heat exchangers. The charged heat exchangers then heat the incoming fresh outdoor air in such a way that the production facility enjoys pleasant temperate, good quality air. These heat recovery plants will in an ideal case scenario achieve energy savings of up to 95 percent. Following installation in both plants, we will be able to measure these effects for the first time in 2017.

In addition, nearly all production and warehousing facilities were switched over to low-cost LED lighting in 2016. The existing facilities not yet converted will likewise be fitted out with this modern technology in the near future. We expect this to bring us savings of up to 50 percent of the electricity lighting costs at Head Office.

In the production of our hoses, we mainly process polymers which do not contain any toxic components. The production of our extruded profile PUR-hoses is practically waste-free. Any rejects produced in the start-up and shut-down phases are recycled as far as possible: wires and polyurethane are separated from each other and resold.

NOVOPLAST SCHLAUCHTECHNIK | smooth hoses

A good car seat should normally be adjustable for height, depth and angle of recline for squab and back. In prestige models, the spine's natural curvature is ideally supported by means of a pneumatic lumbar support included in the seat recline controls.

Novoplast Schlauchtechnik hoses are installed for this purpose.

COMBINED MANAGEMENT REPORT

OF THE MASTERFLEX GROUP AND MASTERFLEX SE

C Corporate Governance Report

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

I CORPORATE GOVERNANCE STATEMENT IN ACCORDANCE WITH § 289A AND § 315 OF THE GERMAN COMMERCIAL CODE

1. Declaration of Conformity to Corporate Governance pursuant to § 161 of the German Stock Corporation Act

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

In accordance with § 161 of the German Stock Corporation Act (AktG), the Executive Board and Supervisory Board are both required to submit an annual declaration stating that the company has complied with, and will comply with the recommendations of the Government commission on the German Corporate Governance Code published by the German Federal Ministry of Justice 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 2016 and, since then, has been available for inspection on the website at **www.MasterflexGroup.com** under *Investor Relations>Corporate Governance*.

A central Compliance Officer supports the implementation of the Code of Conduct in the Group and reports regularly in the Executive Board and to the Supervisory Board. Under his leadership, the Group-wide Compliance Management System is being continuously developed as part of good Corporate Governance. He will be supported by locally based and appropriately equipped compliance staff who are to be established at all Masterflex Group sites.

2. Relevant disclosures on corporate management practices

Structures for the management and supervision of the Masterflex Group are set out in the Company's Articles of Association as well as the Rules of Procedure for the Executive Board and Supervisory Board. The Company's Articles of Association can be examined on the Internet at **www.MasterflexGroup.com** under *Investor Relations/ Annual General Meeting*.

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

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 Supervisory Board which each have their own areas of responsibility.

Details of the working methods of the Executive and Supervisory Boards are outlined on the Company's Website (**www.MasterflexGroup.com** under *Investor Relations/Corporate Governance/Corporate Governance-Report*).

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 and on the other hand sets standards for ethical and law-abiding behaviour. It is available for download in German and English at any time. With this Code of Conduct we reinforce the claim that we make regarding the conduct of our employees and board members as well as our business partners and at the same time introduce 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 violations. All managers of the Masterflex Group commit to it in a written declaration and pledge to inform their employees of the contents and relevance of the Code of Conduct and make them aware of the legal risks. Managers, on their own initiative, must regularly verify compliance to the Code's principles 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 vital contribution not only to risk avoidance in the Group but also as an expression of Masterflex's own self-awareness 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 a breakdown of the individual compensation of the Executive and Supervisory Boards. Compensation paid to the Executive and Supervisory Boards includes fixed and variable components; members of the Supervisory Board exclusively receive a fixed remuneration.

1. Executive Board compensation

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

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

The compensation system in force was adopted by the Supervisory Board in April 2010 and adopted by resolution of the Annual General Meeting in 2011 and again in the last financial year by the Annual General Meeting on 14 June 2016 in accordance with § 120 (4) of the German Stock Corporation Act.

Criteria for the appropriateness of compensation paid to the Executive Board are the responsibilities of the individual Executive Board member, his personal performance, the economic situation, the success and future prospects of the company and the extent to which the compensation can be seen as normal taking into consideration comparable industry peers and the compensation structure in force at the company. Performance-related components – the bonus – include components with an investment basis spread over several years. These provide long-term performance based incentives and gear the compensation structure towards sustainable company development. There are no further share-based incentive systems, such as a stock option plan, in place at the company.

The total compensation paid to the Executive Board in 2016 and the division into fixed and variable components recommended by the Corporate Governance Code is presented in the following table:

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			
in €k	**2015** *Initial value*	**2016** *Initial value*	**2016** *Minimum*	**2016** *Maximum*	**2015** *Initial value*	**2016** *Initial value*	**2016** *Minimum*	**2016** *Maximum*
Fixed remuneration	337	342	342	342	233	237	237	237
Fringe benefits	33	31	31	31	39	41	41	41
Total	**370**	**373**	**373**	**373**	**272**	**278**	**278**	**278**
Annual variable remuneration								
Bonus	112	137	0	158	61	75	0	86
Multi-annual variable remuneration								
Bonus 2016 - 2018		71	0	82		38	0	44
Bonus 2015 - 2017	58		0	82	31		0	44
Total compensation	**540**	**581**	**373**	**695**	**364**	**391**	**278**	**452**

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			
in €k	**2015** *Initial value*	**2016** *Initial value*	**2016** *Minimum*	**2016** *Maximum*	**2015** *Initial value*	**2016** *Initial value*	**2016** *Minimum*	**2016** *Maximum*
Fixed remuneration	337	342	342	342	233	237	237	237
Fringe benefits	33	31	31	31	39	41	41	41
Total	**370**	**373**	**373**	**373**	**272**	**278**	**278**	**278**
Annual variable remuneration								
Bonus	138	111	0	158	75	60	0	86
Multi-annual variable remuneration								
Bonus 2013 - 2015		29	0	82		16	0	44
Bonus 2012 - 2014	41		0	82	22		0	44
Total compensation	**549**	**513**	**373**	**695**	**369**	**354**	**278**	**452**

In the 2016 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. Not all the objectives referred to in the contractual agreement were achieved in the past financial year and thus variable remuneration was applied in accordance with the level of target achievement.

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

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

2. Supervisory Board compensation

The Supervisory Board's compensation system, which was last revised in 2015, takes account of the requirements of the German Corporate Governance Code. In accordance with the Articles of Association, compensation paid to the Supervisory Board members since that time includes fixed remuneration which is staggered according to function. Based on this structure, the most recent recommendations of the Corporate Governance Code are followed.

Thus, besides reimbursement of expenses, each member of the Supervisory Board will receive an annual fixed remuneration, payable at the end of a financial year. The Chair's fixed remuneration amounts to € 30,000 per year, the Vice Chair of the Supervisory Board € 25,000 and an ordinary member of the Supervisory Board € 20,000 per year. Supervisory Board members who are only members for part of the financial year will receive remuneration prorated to the duration of their Board activity. Members of the Supervisory Board are also paid attendance fees of € 500 per meeting.

Total compensation paid to the Supervisory Board in 2016 and its distribution is presented in the following table.

in €k	Fixed	Attendance allowance	Total compensation relevant to payment 2016
Chair of the Supervisory Board, Friedrich W. Bischoping (until 14 June 2016)	15	1	16
(Previous year)	(30)	(2)	(32)
Chair of the Supervisory Board, Georg van Hall (from 14 June 2016)	15	1	16
(Previous year)	(0)	(0)	(0)
Vice Chair of the Supervisory Board, Georg van Hall (until 14 June 2016)	13	1	14
(Previous year)	(25)	(2)	(27)
Vice Chair of the Supervisory Board, Dr. Gerson Link (from 14 June 2016)	13	1	14
(Previous year)	(0)	(0)	(0)
Supervisory Board member, Axel Klomp (until 14 June 2016)	10	1	11
(Previous year)	(20)	(2)	(22)
Supervisory Board member, Jan van der Zouw (from 14 June 2016)	10	1	11
(Previous year)	(0)	(0)	(0)
Total compensation	**76**	**6**	**82**
(Previous year)	**(75)**	**(6)**	**(81)**

III OTHER DISCLOSURES IN ACCORDANCE WITH §§ 289 (4) AND 315 (4) OF THE GERMAN COMMERCIAL CODE

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

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

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

- SVB GmbH & Co. KG/ the Schmidt Family is a long-term investment-orientated investor who, to the company's most recent knowledge, holds 19.9 percent of shares in Masterflex SE. The most recent communication in accordance with § 27a WpHG [German Securities Trading Act] of 22 December 2010 can be found on the Group's website at:
  www.MasterflexGroup.com/investor-relations/nachrichten/stimmrechts-mitteilungen.

- Stichting Administratiekantoor Monolith is a long-term and income-orientated investor from the Netherlands who holds 14.4 percent of the shares in Masterflex according to the company's most recent knowledge. The most recent communication in accordance with § 27a WpHG of 12 November 2014 can be found on the Group's website at:
  www.MasterflexGroup.com/investor-relations/nachrichten/stimmrechts-mitteilungen.

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

In accordance with § 76 of the German Stock Corporation Act and § 7 of the Articles of Association of Masterflex SE, the Executive Board consists of at least one person. In accordance with § 84 of the German Stock Corporation Act and § 7 of the Articles of Association of Masterflex SE, the Supervisory Board is responsible for appointing the members of the Executive Board and for determining the number of members. In the event of a change of control under certain circumstances, the Executive Board is entitled 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, a resolution by the Annual General Meeting requires a majority of at least three quarters of the share capital represented when the resolution is passed. The Articles of Association can stipulate a different majority, although only a larger majority for a change to the purpose of the company. In accordance with § 18 of the Articles of Association, resolutions at the Annual General Meeting are passed by a simple majority of the votes case unless otherwise required. In addition, as far as the German Stock Corporation Act prescribes the majority of the represented share capital for the decision-making process, a simple majority of the represented share capital is sufficient in so far as this is legally permitted. This also applies to amendments to the Articles of Association. In accordance with § 14 (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

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 percent of the Company's share capital as of the date the resolution was passed or – if this value is lower – as of the time the authorisation is exercised. The acquired shares may exceed 10 percent of the share capital in total at any time together with other treasury shares and must not be used for commercial purposes. The acquisition is to be made via the stock exchange or via a public offer to buy directed at all shareholders of the Company.

The Executive Board was also authorised, with the approval of the Supervisory Board, to sell the acquired treasury shares to third parties with shareholders' subscription rights excluded in exchange for non-cash contributions or to sell the acquired treasury shares in exchange for cash contributions in a manner other than via the Stock Exchange or the circulation of an offer to shareholders, with the approval of the Supervisory Board and with shareholders' subscription rights excluded. In addition, the Executive Board is authorised to deliver its own ordinary shares with the approval of the Supervisory Board to the holders of warrant or convertible bonds or to a group company within the sense of § 18 of the Stock Corporation Act in accordance with the terms and conditions of the warrants or bonds. 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. In the context of withdrawal, it is also authorised to withdraw no-par value shares either with or without a capital reduction. In addition, the Executive Board is authorised to withdraw the treasury shares to carry out a stock dividend through the sale of the transfer of dividend claims from shareholders.

Neither the Executive Board nor the Supervisory Board exercised any of these authorisations in 2016.

Authorised capital 2016

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the Company's share capital on one or more occasions up to 14 June 2021 by issuing up to 4,432,937 no-par value bearer shares in exchange for cash and/or non-cash contributions by a maximum value of € 4,432,937 (authorised capital 2016). The Executive Board can exclude the subscription rights in the following cases:

- for fractional amounts;
- for capital increases in exchange for non-cash contributions, in particular for granting shares for the acquisition of companies, parts of companies or equity interests in companies as well as other assets and completion of a stock dividend (scrip dividend);
- for cash contributions up to an amount not exceeding 10 percent of the Company's share capital at the date the authorisation comes into effect and the date the authorisation is exercised, providing that the issue price of the shares is not significantly lower than the quoted price of the listed shares of the Company at the date the issue price is finalised whereby such shares are to be included in the 10 percent limit that were acquired when exercising the right to buy treasury shares and under exclusion of the subscription right to be reissued and not used to service these option and conversion rights.
- in order to grant the holders of any bonds with warrants or convertible bonds previously issued by the Company subscription rights to new shares to the extent that they would have been entitled to these after exercising the option or conversion right or after fulfilling an option or conversion obligation as a shareholder.e.

The total shares issued under the exclusion of the subscription right must not exceed 20 percent of the share capital at the time the proposed authorisation took effect or if this value should be less, then at the time that this authorisation of existing share capital is exercised.

The total of new shares issued under the exclusion of the subscription right, whose issue price is not significantly lower than the listed price of the existing shares, must not exceed 10 percent of the share capital at the time the proposed authorisation took effect or if this value should be less, then at the time that this authorisation of existing share capital is exercised. Shares are included in this limit that were issued or sold during the term of this authorisation on the basis of other authorisations which also fall under exclusion of the subscription right.

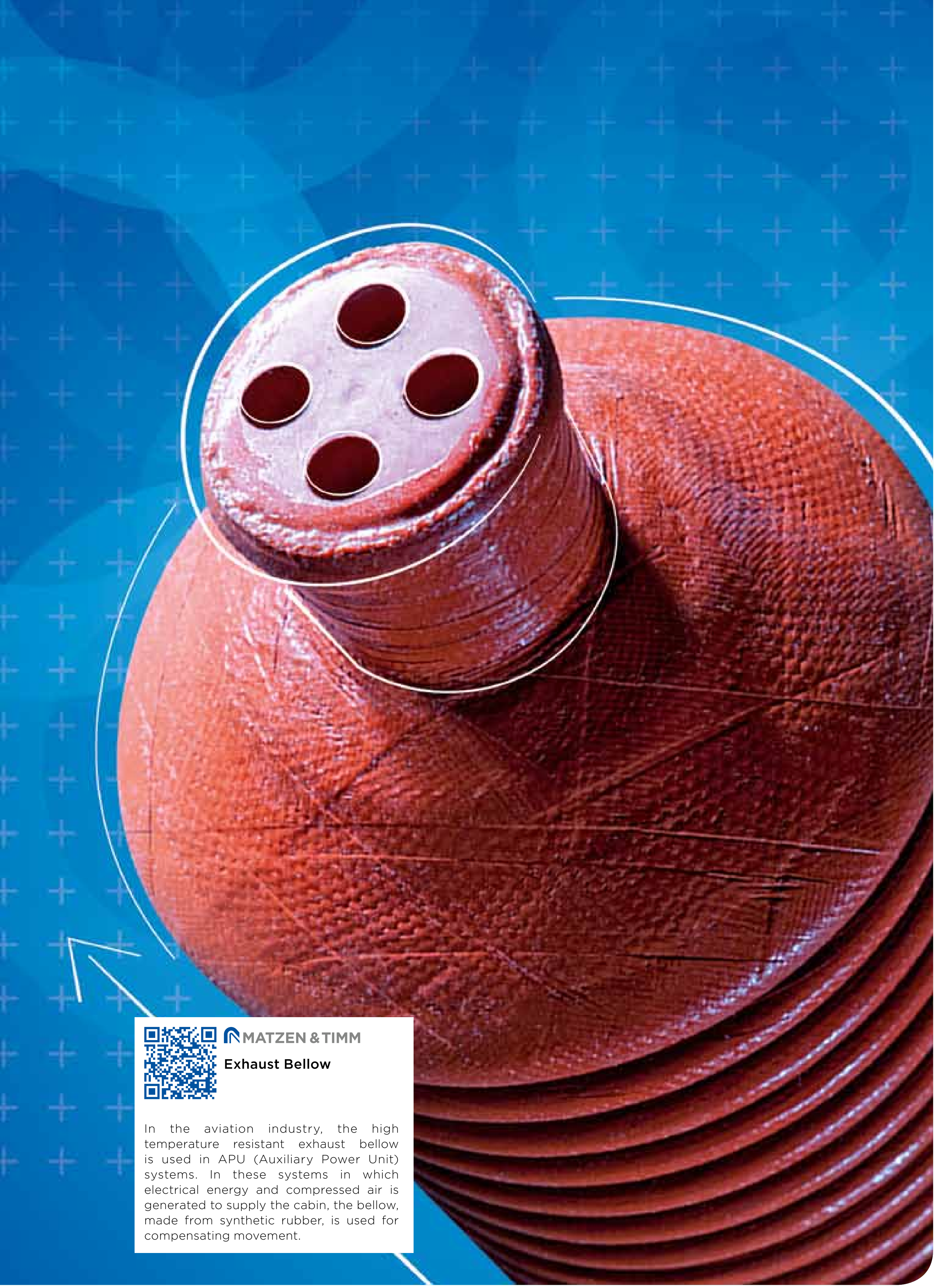
The Supervisory Board is authorised to amend the wording of § 4 of the Articles of Association following the full or partial implementation of the share capital increase to reflect the extent to which authorised capital I has been utilised and, if the authorised capital II is not fully utilised by 14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

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

Contingent capital increase

The Company's share capital has been contingently increased by up to € 4,432,937 through the issue of 4,432,937 new no-par value bearer shares. The contingent capital increase served to secure the granting of options and the arrangement of warrant obligations in accordance with the conditions for bonds with warrants to the bearers or creditors of warrants from bonds with warrants or to secure the fulfilment of conversion rights and conversion obligations in accordance with the conditions for convertible bonds for the bearers or creditors of convertible bonds issued by the Company during the period up to 23 June 2019 on the basis of the authorisation granted at the Annual General Meeting on 24 June 2014. The shareholders basically have a legal right to bonds and debentures issued by the Company. However, the Executive Board is authorised, with the approval of the Supervisory Board, to disapply shareholders' subscription rights in individual cases. The new shares participate in the Company's profits from the beginning of the financial year in which they arise. The Executive Board is authorised, with the approval of the Supervisory Board, to determine the further details of the implementation of the limited capital increases.

Neither the Executive Board nor the Supervisory Board exercised any of these authorisations in 2016.



MATZEN & TIMM

Exhaust Bellow

In the aviation industry, the high temperature resistant exhaust bellow is used in APU (Auxiliary Power Unit) systems. In these systems in which electrical energy and compressed air is generated to supply the cabin, the bellow, made from synthetic rubber, is used for compensating movement.

NOVOPLAST SCHLAUCHTECHNIK & FLEIMA-PLASTIC | medical technology

In the medical technology sector, it's not only a question of hoses with constantly stable diameter but also of high quality connectors. Luer lock connectors are internationally standardised connecting pieces used for ensuring safe supply to cannula, sprays, catheters, three-way taps and infusion tubes.

COMBINED
MANAGEMENT REPORT

OF THE MASTERFLEX GROUP AND MASTERFLEX SE

D Opportunities and risks report

I OPPORTUNITIES AND RISK MANAGEMENT SYSTEM FOR VALUE-ORIENTATED CORPORATE MANAGEMENT

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

For all business activities we engage in, the opportunities must clearly outweigh the risks. We strive to limit existing risks to an acceptable and manageable level. Amongst other things, we use insurance and contractual provisions for this purpose.

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

We analyse market data within the framework of our opportunity management, analyse our competitors and scrutinise the orientation of our product portfolio, our organisation‘s efficiency and resources, as well as the changes in customer requirements. Market opportunities are derived from this and 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.

II 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. 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. With ongoing optimisation, we use recognised methods for continuous 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. We also cooperate with external partners in part here. Measures for optimisation and implementation are identified in regular workshops aimed at improving effectiveness, avoiding inefficiencies and continuously increasing our efficiency.

3. Opportunities through internationalisation

The focus of our sales will continue to be Germany and Europe. These regions have forecast growth rates of between 1.5 and 1.8 percent. Our internationalisation strategy predominantly assumed higher growth rates in the global target markets addressed by us, namely 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, then the growth in these regions will exceed our forecasts.

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

4. Opportunities through Research and Development

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

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

5. 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, on the EBIT margin and cash flow.

III THE RISK MANAGEMENT SYSTEM

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 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 external auditors, 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 is 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 operational units. This controlled approach is intended to safeguard the net assets, financial position and results of the group. The Masterflex Group's risk management is integrated into existing structures and is therefore an inextricable component of corporate management and business processes. Strategic corporate planning, internal reporting and the internal control system are the core elements of the risk management together with the risk manual.

Our risk management is standardised and applicable throughout the Group. This ensures that all risks are analysed and assessed systematically, 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.

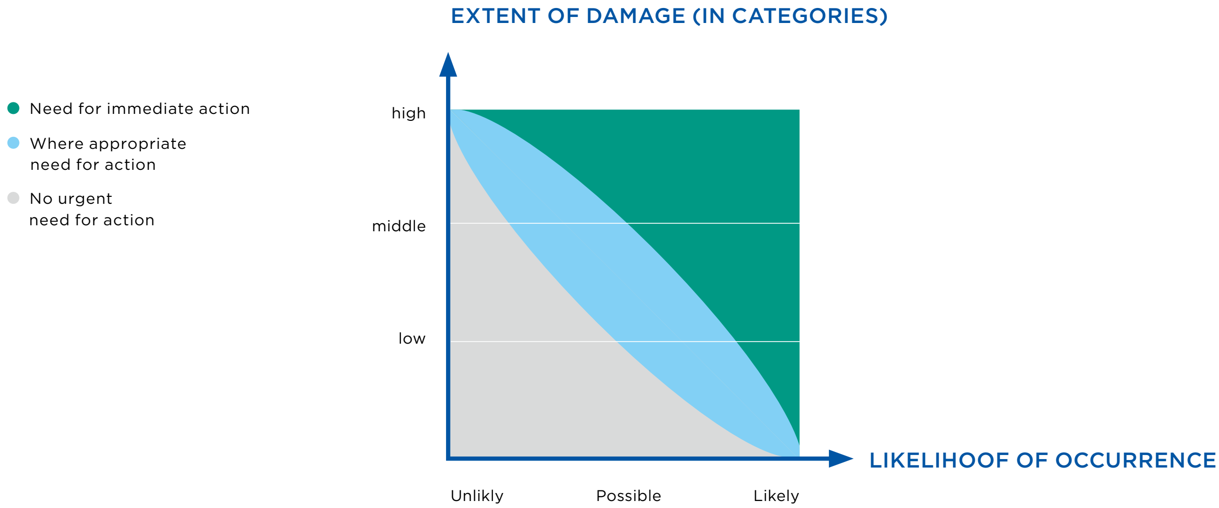
With the likelihood of occurrence of a risk, we distinguish between the categories ‚unlikely' (less than 30 percent probability), ‚possible' (probability greater than or equal to 30 per cent and lower than 60 percent) and ‚probable' (probability of above or equal to 60 percent).

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.

With the combination of both components, we distinguish between

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

The following diagram illustrates these relationships:



The following section contains information on the key risk areas potentially affecting our business development 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.

IV INDIVIDUAL RISKS

1. Economic, political and social risks

The global economy, financial markets, as well as the broader political framework are characterised by a high level of uncertainty around the world. Events such as a global financial crisis, collapse of the Euro zone, recession in our target countries, unsustainable increase in public debt as well as significant tax increases and natural disasters can all affect our business negatively. Growing nationalism, pioneering elections, increasing protectionism and terror threats also constitute increasing political and economic risks. An instability of the economic and political situation could thus have a negative impact on our net assets, financial position and results.

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

The ability of the Masterflex Group to retain young technical and management staff in the Company will also become increasingly important in the future. The necessary personnel development steps have already been introduced. They include performance-related pay, conducting annual assessment meetings, providing employees with further qualifications, developing future prospects and cooperating with technical colleges and research institutions. These efforts will be intensified in future. Women, people with international backgrounds, 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 an SME, we see a chance in the already noticeable shortage of technical and management staff to balance out possible competitive disadvantages against large-scale enterprises on the human resources market.

3. IT risks

The continuous availability of IT systems is a vital factor in ensuring operations at the Group's individual sites and offices. Accordingly, internal and external experts work continuously to optimise the Group's central and decentralised information security systems, their availability and reliability. Accordingly, internal and external experts work continuously to optimise the Group's central and decentralised information security systems, their availability and reliability. Amongst 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 external cyber attacks cannot be ruled out. We see the likelihood of this against the background of the general discussion held on issues of data security and espionage or external attacks as entirely possible. This would have serious impacts on our net assets, financial position and results so we view this as a high risk.

4. Production risks

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

5. 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. 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.

Acquisitions are always a significant risk. We meet this through a variety of methodical and organisational measures. So we will be carrying out technical, operational, financial and legal due diligence of 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 this potential future event as a medium risk.

No divestments are planned at this time. Acquisitions supporting the Masterflex Group strategy may follow in the next few years. The Masterflex Group has already strengthened its workforce with the necessary skills to handle this process in a structured and professional manner. In December 2016, a binding sales agreement for the acquisition of APT Advanced Tubing GmbH was concluded. APT has outstanding know-how in the area of fully and partly fluorinated polymers. The Masterflex Group does not yet have this material and application know-how and considers the rounding off of the product portfolio to be strategically valuable. Moreover, the acquisition has opened up access to further potential markets in Germany and Europe in a positive way. Potential risks like know-how drain of managers are safeguarded through employment and corporate law measures, such as competition clauses. The guidance under the purchase agreement will take place by lawyers, auditors and tax accountants.

6. 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 Company. 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, the exclusion of suppliers as well as an unfavourable development of purchase prices to be of medium risk, with potential impact on the net assets, financial position and results of medium probability.

7. Legal risks

We only know of two cases of legal proceedings that could have a tangible effect on the net assets, financial position and results of the Masterflex Group.

This is based on the buyer of the two companies which belonged to the former Mobility Group, Clean Air Bike GmbH and Velodrive GmbH, suing Masterflex SE primarily for rescission of the trade sale agreement. In the first instance, this claim has been rejected. The pending court case before Dusseldorf Higher Regional Court came to an end on 16 June 2016. Afterwards, Masterflex SE was sentenced to pay the plaintiff € 880,827.82 plus interest amounting to 5 percentage points above the base interest rate since 9 November 2012. The costs of the legal dispute of both instances were offset against each other. Masterflex SE could not comply with this ruling and lodged an appeal (non-admissible complaint) before the Federal Supreme Court. As Masterflex SE had made an accounting provision of € 0.5 million for this legal dispute in their consolidated and annual financial statements, the judgement of € 0.6 million affects expenses from discontinued operations for the 2016 financial year. Thus, in equal measure, the consolidated net profit and the earnings per share is also be impacted but not the operating result (EBIT).

Furthermore, the former Managing Director of the French subsidiary took legal action against the reasons for his termination and is suing Masterflex S.a.r.l for damages of € 1.3 million. The trial which held at Bourg en Bresse Labour Court in France is currently suspended and has been forwarded to the Social Court.for review. Based on our documentation and the decision to suspend the procedure, we feel there is a good chance of winning and therefore there is currently no need for a provision. Should it end in a different conclusion in either of the two legal proceedings than the ones we are expecting, there is a risk that the costs of this will exhaust or exceed our accounting provisions.

Similarly, the likelihood that such risks will arise from legal proceedings in future cannot be entirely ruled out. Provision has been made for threatened or pending legal disputes to an appropriate and sufficient extent. Nevertheless, it also cannot be excluded that balance sheet provisions are insufficient. In order to avoid new legal risks, contracts of economic significance for the Masterflex Group are reviewed by external lawyers before they are concluded.

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

8. Risks associated with deteriorating efficiency

Through a series of efficiency measures, savings could be achieved in the reporting year which are particularly reflected in the personnel area - streamlining of the leadership structures. less manpower owing to process improvements including 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 and in the context of site expansion by outsourcing part of the warehousing 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 have to be implemented to last in all areas and must not be allowed to be consumed by negative effects again.

9. Tax risks

Due to future audits, there is a risk of tax back payments. Tax back payment would impact on the liquidity of the Group.

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

10. 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.

With effect from 8 June 2016, two currency option transactions were concluded by Matzen & Timm of $ 0.75 million each. The option agreements run until 28 June 2017. No hedging relationships are based on either of the option transactions. Due to an unfavourable price trend, the management team assumes a high probability of expiration of the option transactions on the completion date. The market value of the option transactions each with a nominal value of € 0.6 million is € 1.4 k as at the balance sheet date. The fair value of the currency option was determined on the basis of a Black Scholes evaluation.

Cross-currency financing within the Group which naturally leads to foreign exchange situations in the Group, does not exist to any noteworthy degree. Translation risks arising from the conversion of balance sheet items originally in foreign currency are not hedged in the Group. Likewise, Masterflex SE does not hedge its net asset claims from group companies outside the Euro zone.

The financial risks in the Masterflex Group are viewed as low through the use of the new syndicated loan agreement which was concluded in 2016 with a remaining term of four and a half years plus fewer foreign currency transactions as well as the relatively small scale of the business.

The interest-rate risk is significantly limited because of 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 were no noteworthy financing with variable rates of interest in the Masterflex Group.

The interest rate cap was completed by Masterflex SE with effect from 30 September 2016. The agreement runs until 30 June 2021. The market value of the interest rate cap with a nominal value of € 13.3 million (previous year € 15.3 million) is € 0.03 million (previous year 0) as at the balance sheet day. The fair value of the interest rate cap was determined on the basis of a Black Scholes evaluation.

Three covenants have been agreed in the syndicated loan agreement. Here, Masterflex SE agrees to comply at Group level with defined financial key ratios, the debt-to-equity ratio, the equity ratio and the interest-cover ratio. If Masterflex is not in compliance with these covenants, the 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 2016 was initially 3.0. However, Masterflex SE has maintained a debt-to-equity ratio below 2.2 since the beginning of 2016. As of the 2016 balance sheet date, this key figure was 2.4.

The lower limit of the second key figure (calculated according to the credit agreement, which fixes the balance sheet equity capital to certain assets), reached a value of 30 percent at the end of 2016. In contrast Masterflex SE initially achieved an equity ratio of 44.7 percent until the 2016 balance sheet date of 44.8 percent 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 2016. In contrast Masterflex SE initially achieved an equity ratio of 10.6 percent until the 2016 balance sheet date of 9.1 percent and thus was also always considerably above the prescribed lower limit. Thus, the covenants would only be breached by a dramatic deterioration of future results.

11. Sales market risks

On the sales market side, long-standing existing customers can fall away.

However, since the Masterflex Group is involved in many sectors and markets and also supplies many different customers, it is not dependent on one sector or one individual customer.

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

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

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

12. 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 sensitising employees to 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 also guarantee this in the future, there has been an innovation management process 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 as low.

13. Regulatory risks

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

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

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

The Code of Conduct of Masterflex SE sets out the ethical and legal framework for our economic activity. Our compliance management system should ensure that our economic activity is in line with the laws and legal systems worldwide as well as our internal company implementing provisions. We will pursue this goal through staff training amongst others. We are working continuously to further reinforce compliance in our group and to reduce compliance risks.

Despite the comprehensive compliance programmes and existing internal controls, it is however impossible to entirely prevent employees from bypassing control mechanisms, infringing laws or acting fraudulently for their personal gain. Even if we classify this risk as low, we cannot completely exclude it. A violation could have a significant impact on our net assets, financial position and results, as well as on the reputation of the Company. We regard this risk as low, although an exact assessment is difficult because of the amount of relevant statutory provisions and a wide variety of possible violations.

V OTHER INDIVIDUAL RISKS

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

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

In addition to global risk factors, the expected positive development of the results of operations, net assets and financial position of the Masterflex Group may be severly 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 doesn‘t 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. Any new risks arising will quickly become known to the Executive Board and dealt with purposefully, both with regard to processes and due to short communication channels.

VII 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 the success of the Masterflex Group. Compliance describes the measures which ensure that the Executive and Supervisory Boards and in fact the entire management team and all the employees of the Masterflex Group behave legitimately.

As an internationally orientated 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 that is valid Group-wide for all employees and managers which encompasses all areas and sites. These codes of conduct set standards for ethical and law-abiding behaviour.

With regard to their shareholders, employees, business partners, competitors and society in general, the Masterflex Group is committed to comply with the highest ethical and legal standards. As an essential component of the corporate structure, they are embedded and 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. In the reporting year, the Executive Board of the Group reaffirmed the importance of compliance to their specialist departments and to the entire Group as well as the adoption of the Code of Conduct of the Masterflex Group. Every newly employed member of the Masterflex Group receives their own copy of this and is instructed in writing to make the Code's principles a binding framework for their 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 mere appearance of incorrect behaviour by the company management or employees should be avoided over the entire business activities of the Masterflex Group.

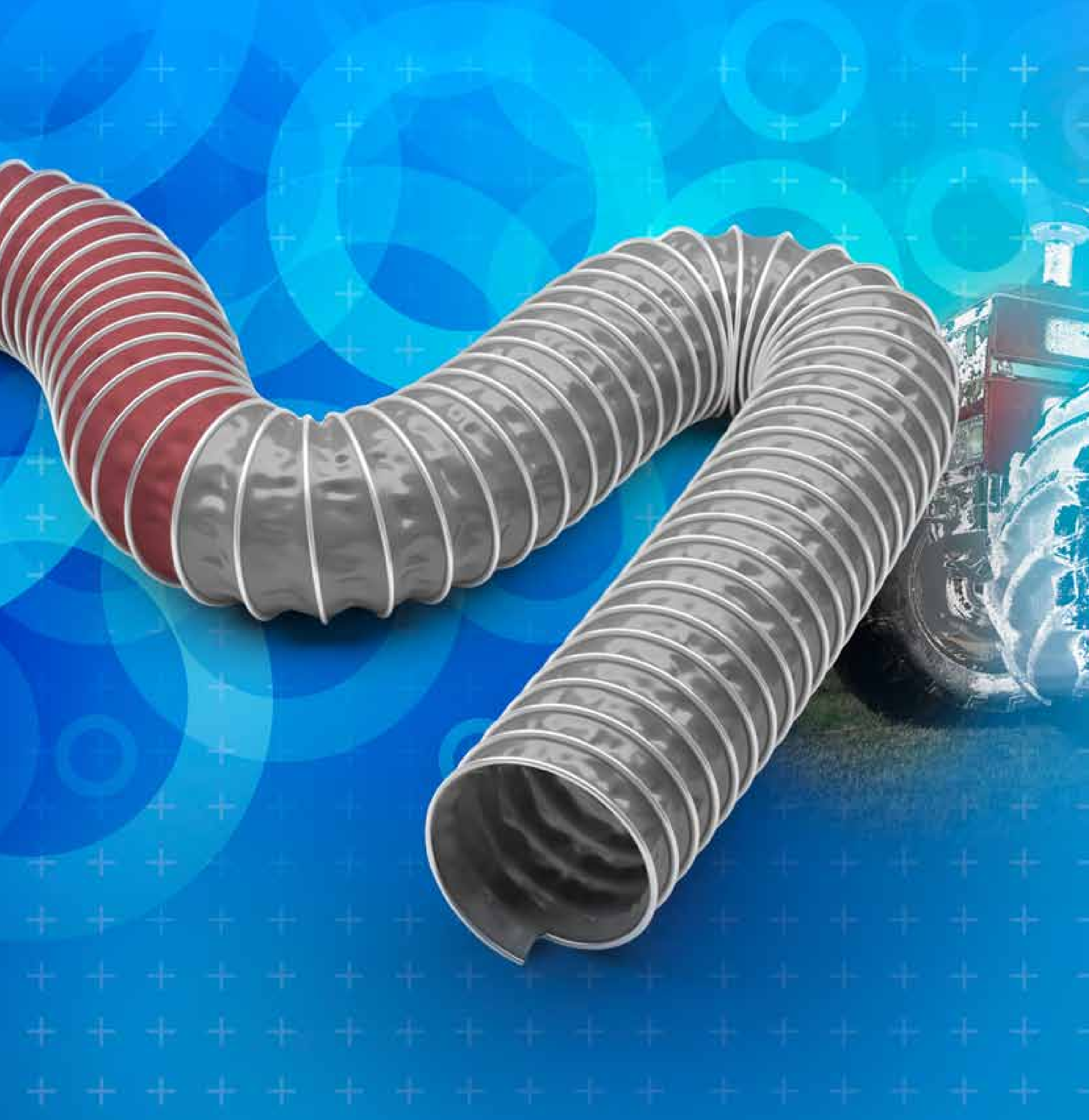
The Masterflex Group has established a Compliance Management System (CMS) which pursues a preventive compliance approach and strives to create a corporate culture that sensitises and raises awareness amongst employees and thus detects and eliminates potential rule violations in advance.

The compliance organisation is headed by the Chief Compliance Officer (CCO) who reports directly and regularly on all compliance-relevant issues to the chair of the Executive Board of Masterflex SE. In particular, about the steps towards the 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 and other relevant compliance issues took place which aimed to ensure lawful and ethnically sound, autonomous actions. In addition, special measures are 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.

In 2016, the CMS of the Masterflex Group was further expanded through initialisation and training of local compliance officers. The task of the local compliance officers, together with the CCO, includes ensuring that the CMS of the Masterflex Group where measures, processes, controls and reporting, are designed, is implemented on a local level in order to avoid systematic and individual misconduct on-site and to avert and reduce compliance risks of the Masterflex Group.

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



MASTERDUCT | spiral and ventilation hoses

Heavy duty engines sometimes produce very hot exhaust gases. So that these gases can be rapidly removed, special hoses are required which tolerate temperatures of up to 2010 degrees Fahrenheit (1100 degrees Centigrade) without failing regularly. The Master-Clip COMBO hose is one such hose. Available from Masterduct, the brand representing Masterflex Group in America.

COMBINED MANAGEMENT REPORT

OF THE MASTERFLEX GROUP AND MASTERFLEX SE

E Forecast report

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

I OUTLOOK

1. Projected macroeconmic development

The financial experts at Commerzbank whose forecast on global economic development is used for our future planning, expect improved economic momentum for 2017 and largely for 2018 too (see table of forecasted economic growth). Particularly in respect to forecasted growth in Germany, Great Britain and China, experts are rather more cautious compared to the previous year.

Beyond the European continent, economic growth was, is and remains more pronounced in the regions addressed by the Masterflex Group according to economic experts. This applies, in particular, to the large economic regions of North America and Asia: here, growth rates of 2.3 percent (USA) and 6.5 percent (China) are expected. All in all, economists expect global economic growth of 3.3 percent in 2017 which should increase slightly in 2018 to 3.4 percent.

FORECASTED ECONOMIC GROWTH IN STATES WHERE THE MASTERFLEX GROUP IS PRESENT
(CHANGE IN PERCENT COMPARED TO PREVIOUS YEAR)

Country	2017	2018
Euro zone	**1.8**	**1.6**
Germany	1.6	1.5
France	1.6	1.7
EU combined	**1.8**	**1.7**
Great Britain	1.6	1.7
Sweden	2.0	1.9
Czech Republic	2.5	2.6
World	**3.3**	**3.4**
Brazil	0.8	2.1
China	6.5	6.3
Singapore	1.7	1.7
United States of America	2.3	2.3

Source: Commerzbank

2. Projected development of the Masterflex Group

Since the start of the decade, the growth strategy of the Masterflex group has been based on two pillars, namely ongoing internationalisation and innovation.

The Masterflex Group accesses international markets

We strive for value-orientated, dynamic growth in all our relevant markets in Europe, North and South America and Asia. Initial milestones were the commencement of activities in Brazil, China, Singapore and Russia. Due to changed conditions, we now cover the Russian market through an exclusive cooperation.

In the 2017 financial year, we will concentrate on further intensification of the markets in North America and China and the parts of Europe where we are less represented. Here, it is our goal to continue growing through an expansion of export activities. Focussing on certain regions, however, does not mean that we will exclude other regional entries in the future if we feel there are attractive prospects there.

The Masterflex Group grows through innovation

The requirements of our customers who come from a variety of industries are an important measure for our product development. We have joined forces with them to realise technologically enhanced or completely new products at the major production sites. We sometimes employ the know-how of selected suppliers for this. We will continue to develop sophisticated product and material solutions in the future and use our high material, application and technological expertise in the business of connection solutions.

The acquisition of a company from the hose and connections market can enable us to get new technologies and expertise from external sources in addition to the know-how already available in the Company. The new brand company APT which we purchased at the beginning of 2017 is an example of this approach.

A focus of our product innovations in 2017 lies in digital hoses, so-called intelligent hoses. Here, collaboration with the customer will be particularly focused on, as it not just the hose with special properties that is important but also the digital link to the customer‘s peripheral devices to operate such connections. These products will be marketed under the AMPIUS brand.

The economic prospects in the regions and countries we serve have differed significantly over the past years. In Germany where we are the market leader for high-tech hoses and connection systems, we anticipate a good, if not quite as strong growth than in 2016; in the Euro zone, this applies to the same extent. In Great Britain, the economic dynamic is rather subdued due to the changed political conditions.

We anticipate further good opportunities in the medical technology market. Already in the last five years, we have been able to increase the share of this business from 13 percent to 15.3 percent. We expect further expansion in the future because, with our new brand company APT and its fluorinated polymer products, we have been able to expand our product range especially for this market.

One of the strategically important markets for us over the next few years will be North America and more specifically, the USA. The prospects are good here; at the same time we still have some catching up to do. Following the course set over the last couple of years, we expect a further rise in sales and earnings contributions here.

Our expectations for our activities in Brazil are more reserved due to the prevailing recession. However, our business volume is still comparably low. It will be important this year to further improve profitability.

In conclusion, we expect that our long-term growth path will continue. On average over the last three years, our business without acquisitions has grown annually by around 5 percent. Since 2017, the fluoropolymer expert, APT, has been part of the Masterflex Group. Here alone, we expect a clear increase in turnover. Overall, we expect that our turnover in 2017 will rise by around six till ten percent. This would, of course, presuppose stability in our important sales markets.

Further improvement to our profitability will be the focus of our 2017 financial year. To this end, at the end of 2015, we began a series of measures to optimise the internal processes and in 2016, persistently expanded and intensified them. It was because of these steps - some very small-scale and some of a longer duration – that we were able to greatly improve the EBIT margin in the 2016 financial year to 9.2 percent. This process will be further continued and extended over all sites. We want to achieve an EBIT margin of over ten percent in the 2017 financial year. In the medium term, we want to close up the profitability ratios again to well above the 10 percent mark.

3. Projected development of Masterflex SE

In 2016, the turnover of Masterflex SE increased by 1.8 percent. In 2017, we are expecting a growth rate on about the same level. However, this presupposes a comparably stable economic development without any major external challenges. From a financial perspective, we will concentrate on an improved efficiency of our business. Despite the centralisation of Group activity, we expect an operating result (EBIT) to be stronger than that of 2016 of € 0.1 million.

II SUMMARY STATEMENT ON THE ANTICIPATED DEVELOPMENT OF THE GROUP

In summary, the Executive Board of the Masterflex Group are well on track with their long-term growth trajectory. With growth of 3.7 percent, we look to close the decade at the growth rates we enjoyed at the start of this decade. The potential for our innovative connection systems is predominantly characterised by our markets. With active digitalisation of our solutions under the AMPIUS brand, we will intensify our position as technology leader and strengthen our relationship with strategic customers. For some time, we have driven the necessary structural and procedural changes in order to set the Masterflex Group up on a clearly growing scenario. Thus, 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, 14 March 2017

Dr. Andreas Bastin
(Chief Executive Officer)

Mark Becks
(Chief Financial Officer)

Master-PUR L Food A

Spiral hose, light-weight PU suction and transport hose with very good flexibility, food-safe and permanently anti-static. Ideal for connecting to pipelines in the food or pharmaceutical industries, the Combiflex food connecting elements provide liquid-tight connections.

NOVOPLAST SCHLAUCHTECHNIK | smooth hoses

Pneumatic hoses in the form of reel-based or shaped hoses are used in driver and passenger seats for commercial vehicles such as lorries, buses, trains and tractors as well as off-road vehicles. Thanks to air suspension the seats are ergonomic, user-friendly, comfortable and safe.

MASTERFLEX SHARES

Share information

ISIN-Code	DE0005492938
German Securities Code Number (WKN)	549 293
Class of shares	Bearer shares
Stock Ticker Symbol	MZX
Bloomberg symbol	MZX GR
Reuter code	MZXG.DE
Market segment	Prime Standard
Member of the following indices	CDAX Prime All Share Index Classic All Share Index Prime Industrial Index
Designated Sponsor	ICF Bank AG
Number of shares	8,865,874
Theoretical interest in share capital per share	€ 1.00

Masterflex Shares

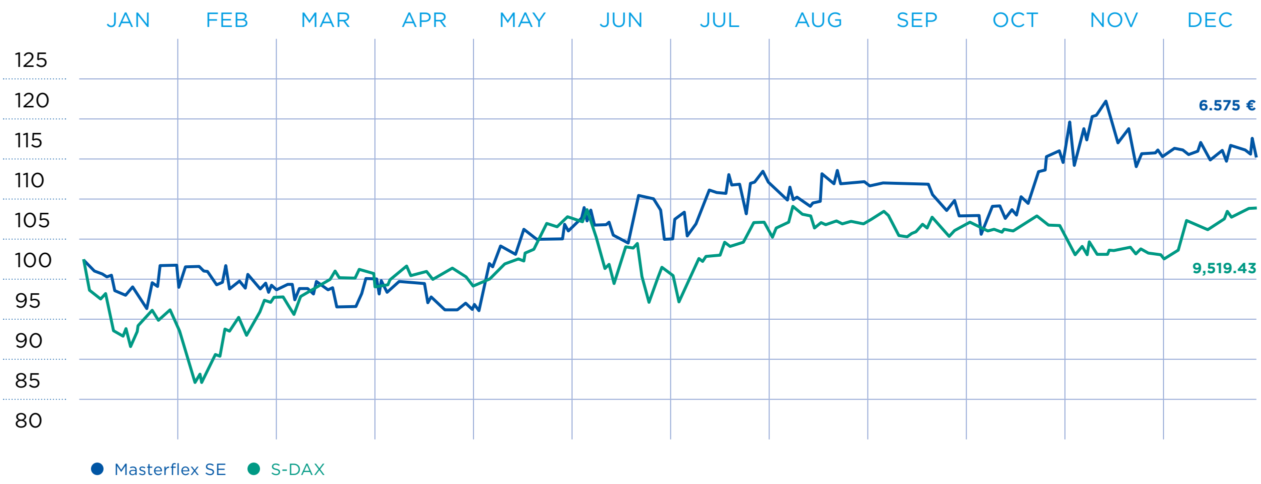
THE STOCK MARKET YEAR

2016 was more successful than average from the point of view of a Masterflex shareholder. Our share rose by 12.4 percent in 2016 to a closing price of € 6.57. The S-DAX on which we compare our performance, only increased by 6.5 percent. And yet the Masterflex share moved comparatively little in the first third of the year, whilst the stock exchange as a whole fell sharply particularly in February. According to first quarter figures, our share grew to a price of up to around € 6.40 in the autumn and then in the fourth quarter with comparably buoyant trading, after a short burst, close to a price of € 7 and in mid November to a level between € 6.55 and 6.7.

Overall over the last year, our share fluctuated between a low of € 5.453 (January 2016) and the highest price of € 6.99 in November 2016. In the new year, the share continued to gain further in March, following the publication of the provisional figures, evening out to a level of around € 6.90.

Masterflex share price compared with S-DAX

JANUARY TO DECEMBER 2016

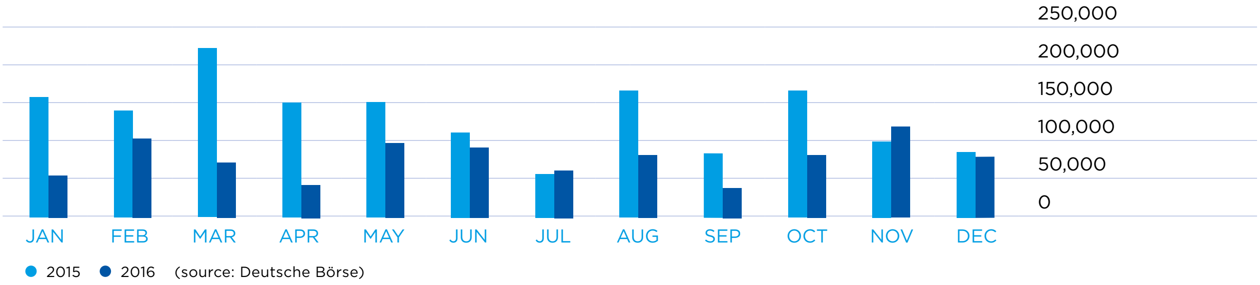


based on daily closing prices

Notwithstanding the good performance, in 2016, liquidity in the Masterflex title was less pronounced than in the previous year. The share turnover with total sales of around 0.9 million shares on all German stock exchanges was below the level of the previous year (1.6 million shares). In particular, prior to the 1st quarter figures and in the late summer, the trade in shares had been quiet. This turnover development is also probably attributed to the increased involvement of bulk shareholders. With the announcement of a new major shareholder in January 2016 (J.F. Müller & Sohn Beteiligungs GmbH), the free float of share capital only amounts to little more than 48.1 percent.

Liquidity of the Masterflex share

ORDER BOOK TURNOVER

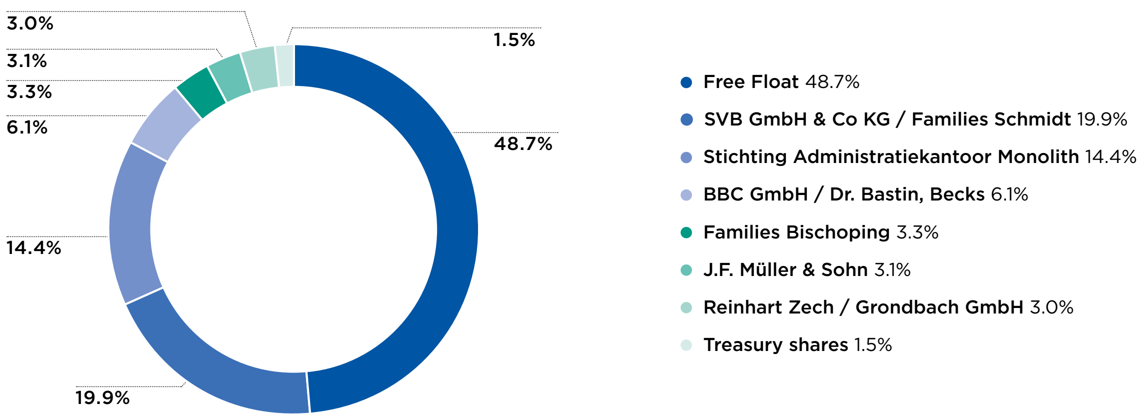


The Masterflex Group promotes the liquidity of its share in exchange trading through a Designated Sponsor. In 2016, this function was assumed by the stockbroker Lang & Schwarz originally commissioned by WGZ Bank. At the end of last year, ICF Bank in Frankfurt assumed this role since they looked after it.

Shareholder structure

Over the past financial year, there have not been any huge changes to the shareholder structure. However, the free float of share capital reduced from 51.9 percent to 48.1 percent due to the new involvement of J.F.Müller & Sohn Beteiligungs GmbH. There had not been any fundamental change at the beginning of 2017: Versorgungswerk für Ärzte, Zahnärzte und Tierärzte disclosed in February that it would reduce its involvement below three percent of the share capital. At the beginning of March, Grondbach GmbH communicated that they have held 3.0003 percent of the voting shares since the beginning of March.

The remaining 48.7 percent of the share capital is distributed amongst 6 shareholders and shareholder groups (see graphic).



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

Share price statistics

Xetra		2016	2015	2014	2013	2012
Highest price	€	6.99	7.41	7.650	7.30	5.74
Lowest price	€	5.453	5.60	6.39	4.80	4.47
Opening price	€	5.806	7.00	7.00	4.999	5.15
Closing share price	€	6.575	5.95	6.97	7.00	4.84
Performance		+ 12.4 %	- 15.0 %	- 0.4 %	+ 40.0 %	- 6.0 %

Analyst research

WGZ Bank, which had followed the Masterflex share for four years had updated their research in the context of financial reporting up to May 2016 concluding with a share price of 7 Euro. After this institute merged with DZ Bank AG, the share research for the Masterflex share continued with an identical share price (7 Euro) after the 2016 half-yearly figures were published. After publication of the provisional figures at the beginning of March 2017, new research from DZ Bank was issued with a recommendation to buy (share price 8.50 Euro).

SMC Research which specialises in small-cap shares has followed the Masterflex share for two years. Over the course of 2016, five updated reports have been issued with a recommendation to buy the share; most recently in March following the provisional results with a share price of 9.0 Euro.

Since the beginning of January 2016, Bankhaus Lampe based in Dusseldorf, has followed the development of the Masterflex Group and its share. The share price, accompanied with the recommendation to „Keep", most recently increased to 7.0 Euro at the end of 2016.

Analysts are supported with their work by the IR team. The staff maintain regular contact with investors and analysts. Since professional corporate analysis is important to investors from all sectors; a research report illustrates significant orientation to the capital market. Hence, the increasing coverage for the Masterflex share is welcome. Research reports can be downloaded at **www.MasterflexGroup.com** under *Investor Relations/ Analysts*. In addition, the IR team regularly visit roadshows for institutional as well as private investors.

EARNINGS DEVELOPMENT OVER THE LAST 3 YEARS

Xetra		31.12.2016	31.12.2015	31.12.2014
Number of shares	Unit	8,865,874	8,865,874	8,865,874
Treasury shares	Unit	134,126	134,126	134,126
Closing share price	€	6.57	5.95	6.97
Market capitalisation	€ m	58.2	52.8	61.8
Market capitalisation - not including treasury shares	€ m	57.4	52.0	60.9
Free Float	%	48.7	51.9	56.7
Earnings per share	€	0.34	0.22	0.34

Annual General Meeting 2016

The 2016 Annual General Meeting once again took place on 14 June at the traditional venue, Schloss Horst, in Gelsenkirchen. In all, 55.3 percent of the share capital were represented when the vote was taken. Again, this is a slight increase over the previous year (54.75 percent) which probably also related to the increasing number of bigger shareholders.

The Supervisory Board members Dr. Gerson Link and Jan van der Zouw who were proposed by the management team due to departure of office of Messrs Friedrich-Wilhelm Bischoping and Axel Klomp, were elected by a large majority of the AGM. In addition, Mr Bischoping, one of the founding members of the Company was elected Honorary Chair of the Supervisory Board. In the inaugural meeting of the Supervisory Board immediately after the AGM, Georg van Hall was appointed Chair of the Supervisory Board. Up until now, van Hall has been Vice Chair; he has been a member of the Board since 2009.

The remaining agenda items proposed by the management team were adopted by a large majority. These included the appointment of Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft as auditor for the 2016 financial year as well as the renewal of the so-called anticipatory resolutions for equity financing (see Section D III). At the same time, the majority of the meeting endorsed the system of Executive Board remuneration.

The amended statute has been available on the Group's website (**www.Masterflexgroup.com**) under *Investor Relations/Annual General Meeting* since July since its entry into the Commercial Register. The voting results and several images can also be viewed there.

Capital market communications

In the context of Investor Relations, the Masterflex Group maintains an open, simultaneous, consistent information policy which is directed to all participants of the capital market. Concerns of investors or analysts are eagerly satisfied as far as the competitive standing of the Masterflex Group as one of the few publicly listed hose manufacturers permits. The opportunity was once again taken to present the Company at stock exchange conferences. The financial calendar was published on the Group's website at (**www.Masterflexgroup.com/investor-relations/finanzkalender.html**) at the end of 2016.

Dialogue with investors is to be strengthened in 2017. The aim of capital market communications is to contribute to a fair evaluation of the share through regular reporting on the capital market. The aim of the Masterflex Group is to become a global leader in all the addressed markets. To this end, we want to grow in a sustainable and profitable fashion. This growth should also be reflected in the growth in share value.

FINANCIAL CALENDAR 2017

27 March	Financials press conference, presentation of the 2016 annual report, Dusseldorf
31 March	Analysts' conference, Frankfurt/Main
5 May	Communication on Q1/2017
27 June	Annual General Meeting, Gelsenkirchen
7 August	2017 half-year report
6 November	Communication on Q3/2017
27 – 29 November	German Equity Forum, Frankfurt

MASTERFLEX | spiral hoses

Aircraft need to be maintained and refuelled when on the ground during a stopover so that they're properly equipped for the next part of the journey. Using a microbe and hydrolysis-resistant PU spiral hose from the Masterflex brand range ensures clean and trouble-free emptying of the user water system including toilets.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet - Assets

Assets in €k	**Notes**	**31.12.2016**	**31.12.2015**
NON-CURRENT ASSETS			
Intangible assets	3, 23	**4,499**	**3,967**
Concessions, industrial and similar rights	3	483	351
Development costs	3	464	146
Goodwill	3, 23	3,258	3,258
Advance payments	3	294	212
Property, plant, and equipment	3	**29,033**	**23,435**
Land, land rights and buildings		17,094	11,169
Technical equipment and machinery		8,802	8,715
Other equipment, operating and office equipment		2,407	2,284
Advance payments and assets under development		730	1,267
Non-current financial assets	3	**91**	**266**
Non-current financial instruments		91	131
Other loans		0	135
Other assets	5	**49**	**0**
Other financial assets	5, 16	**25**	**0**
Deferred taxes	26	**1,463**	**1,840**
		35,160	**29,508**
CURRENT ASSETS			
Inventories	4	**13,562**	**13,558**
Raw materials and consumables used		6,397	6,474
Work in progress		878	957
Finished products and goods purchased and held for sale		6,266	6,114
Advance payments		21	13
Receivables and other assets	5, 6	**7,254**	**7,307**
Trade receivables	6	6,240	6,465
Other assets	5	1,007	842
Other financial assets	5, 16	7	0
Income tax assets	7	**431**	**109**
Cash in hand and bank balances	8	**3,994**	**3,997**
		25,241	**24,971**
Assets held for sale	5	**11**	**5**
		25,252	**24,976**
Total Assets		**60,412**	**54,484**

Consolidated Balance Sheet - Liabilities

Liabilities in €k	**Notes**	**31.12.2016**	**31.12.2015**
SHAREHOLDERS' EQUITY			
Consolidated equity	9	**29,033**	**26,059**
Subscribed capital		8,732	8,732
Capital reserve		26,252	26,252
Retained earnings		-5,341	-7,726
Revaluation reserve		-616	-576
Exchange differences		6	-623
Minority interest	10	**-332**	**-47**
Total equity		**28,701**	**26,012**
NON-CURRENT LIABILITIES			
Provisions	11	**197**	**158**
Financial liabilities	12	**20,694**	**11,153**
Other liabilities	14	**977**	**1,119**
Deferred taxes	26	**849**	**672**
		22,717	**13,102**
CURRENT LIABILITIES			
Provisions	11	**2,135**	**2,160**
Financial liabilities	12	**2,432**	**8,908**
Other financial liabilities	12	**0**	**50**
Income tax liabilities	13	**163**	**899**
Other liabilities	14, 15	**3,236**	**2,847**
Trade payables	15	2,232	1,476
Other liabilities	14	1,004	1,371
		7,966	**14,864**
Liabilities directly connected with assets held for sale	14	**1,028**	**506**
		8,994	**15,370**
Total Equity and liabilities		**60,412**	**54,484**

Consolidated Income Statement

Continued business units in €k	Notes	2016	2015
1. Revenue	17	66,486	64,112
2. Changes in inventories of finished goods and work in progress		-174	1,461
3. Work performed by the enterprise and capitalised		763	236
4. Other operating income	18	1,041	1,558
Gross revenue		**68,116**	**67,367**
5. Cost of materials	19	-20,804	-20,827
6. Staff costs	22	-26,496	-25,958
7. Depreciations		-2,714	-2,802
8. Other expenses	20	-12,005	-12,910
9. Financial result	24		
Financial expenses		-1,339	-1,093
Other financial result		16	95
10. Earnings before taxes and non-operating expenses		**4,774**	**3,872**
11. Non-operating expenses	25	-200	0
12. Earnings before taxes		**4,574**	**3,872**
13. Income tax expense	26	**-1,156**	**-1,620**
14. Earnings after taxes from continued business units		**3,418**	**2,252**

Discontinued business units in €k			
15. Earnings after taxes from discontinued business units	27	**-555**	**-374**
16. Consolidated net income		**2,863**	**1,878**
thereof minority interests		-65	-70
thereof attributable to Masterflex SE		**2,928**	**1,948**
Earnings per share (diluted and non-diluted)			
from continued business units	28	0.40	0.26
from discontinued business units	28	-0.06	-0.04
from continued and discontinued business units	28	0.34	0.22

Consolidated Statement of Comprehensive Income

in €k	Notes	2016	2015
Consolidated net income		2,863	1,878
Other result			
Items, that may be reclassified subsequently to profit or loss if specific conditions are met			
1. Exchange differences on translation of foreign financial state	9	33	694
2. Changes in fair values of financial instruments		-40	0
3. Income taxes		53	-29
4. Other earnings after taxes		**46**	**665**
5. Overall result		2,909	2,543
Overall result		**2,909**	**2,543**
thereof minority interests		-65	-70
thereof attributable to Masterflex SE		**2,974**	**2,613**

Consolidated Statement of Changes in Equity

in €k	Subscribed capital	Capital reserve	Retained earnings	Revaluation reserve	Exchange differences	Company's shareholder interest	Minority interest	Equity
Notes	9	9	9	9	9		10	
Equity at 01.01.2015	**8,732**	**26,252**	**-9,674**	**-576**	**-1,288**	**23,446**	**389**	**23,835**
Dividends	0	0	0	0	0	0	-120	-120
Capital measures	0	0	0	0	0	0	-249	-249
Other changes	0	0	0	0	0	0	3	3
Overall result	**0**	**0**	**1,948**	**0**	**665**	**2,613**	**-70**	**2,543**
Consolidated net income	0	0	1,948	0	0	1,948	-70	1,878
Other earnings after taxes	0	0	0	0	665	665	0	665
Changes in fair values of financial instruments	0	0	0	0	0	0	0	0
Exchange differences on translation of foreign financial statements	0	0	0	0	694	694	0	694
Income taxes on other comprehensive income	0	0	0	0	-29	-29	0	-29
Equity at 31.12.2015	**8,732**	**26,252**	**-7,726**	**-576**	**-623**	**26,059**	**-47**	**26,012**
Dividends	0	0	0	0	0	0	0	0
Capital measures	0	0	0	0	0	0	0	0
Other changes	0	0	-543	0	543	0	-220	-220
Overall result	**0**	**0**	**2,928**	**-40**	**86**	**2,974**	**-65**	**2,909**
Consolidated net income	0	0	2,928	0	0	2,928	-65	2,863
Other earnings after taxes	0	0	0	-40	86	46	0	46
Changes in fair values of financial instruments	0	0	0	-40	0	-40	0	-40
Exchange differences on translation of foreign financial statements	0	0	0	0	33	33	0	33
Income taxes on other comprehensive income	0	0	0	0	53	53	0	53
Equity at 31.12.2016	**8,732**	**26,252**	**-5,341**	**-616**	**6**	**29,033**	**-332**	**28,701**

Consolidated Cash Flow Statement

in €k	2016	2015
Result for the accounting period before taxes, interest expenses and financial result	5,406	4,566
Cash from non-operating results	-200	0
Income taxes paid	-1,187	-721
Depreciation of intangible assets	166	270
Depreciation expense for property, plant and equipment	2,548	2,532
Increase of provisions	14	99
Other non-cash income and gains from the disposal of non-current assets	-831	-305
Increase of inventories	-4	-1,864
Changes in trade receivables and other assets that cannot be allocated to investment or financing activities	1,264	-2,196
Changes in trade payables and other equity and liabilities that cannot be allocated to investment or financing activities	-957	416
Net cash from operating activities	**6,219**	**2,797**
Proceeds from the disposal of non-current assets	9	21
Payments to acquire intangible assets	-759	-160
Payments to acquire property, plant and equipment	-8,047	-3,339
Increase of cash and cash equivalents due to the sale of consolidated subsidiaries	0	788
Increase of cash and cash equivalents due to the repayment of financial assets	135	45
Net cash from/used in investing activities	**-8,662**	**-2,645**
Payments to owners and minority interests (dividends, purchase of own shares)	0	-120
Interest and divident receipts	5	94
Interest expenses	-1,361	-1,024
Payments to acquire financial assets	-32	0
Proceeds from raising loams	28,500	3,500
Payments for the repaiment of loans	-25,295	-3,690
Net cash from in financing activities	**1,817**	**-1,240**
Net change in cash and cash equivalents	**-626**	**-1,088**
Changes in cash and cash equivalents due to exhange rates and other factors	629	665
Cash and cash equivalents at start of period	**4,002**	**4,425**
Cash and cash equivalents at the end of period	**4,005**	**4,002**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 Articles of Association exist in the version adopted on 14 June 2016. The company name is Masterflex SE.

The present consolidated financial statements have been prepared in accordance with § 315 a of the German Commercial Code ("Consolidated financial statements in accordance with international accounting standards") in conjunction with the International Financial Reporting Standards (IFRS) and the interpretations issued by the International Accounting Standards Board (IASB) as applicable within the EU in accordance with Regulation No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards. These comprise the obligatory IAS, IFRS and relevant interpretations (SIC/IFRIC) as of balance sheet date 31 December 2016. The prior-period amounts were calculated in accordance with the same principles.

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

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

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

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 single-entity financial statements of the companies included in consolidation are prepared to the same reporting date as the consolidated financial statements.

The Executive Board of Masterflex SE released this financial statement for publication on 14 March 2017. Endorsement took place in the Supervisory Board meeting on 14 March 2017.

2. ACCOUNTING PRINCIPLES

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

As of 31 December 2016, a total of 8 domestic (previous year: 8) and 11 foreign subsidiaries (previous year: 11) were consolidated in addition to Masterflex SE. The table below shows the subsidiaries that were fully consolidated as of 31 December 2016:

Company name	Registered office		Equity interest held by Masterflex in %
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 Entwicklungs GmbH*	Germany	Gelsenkirchen	100
Masterflex Vertriebs GmbH	Germany	Gelsenkirchen	100 *
Masterflex Asia Holding GmbH*	Germany	Gelsenkirchen	80
Masterflex Asia Pte. Ltd.	Singapur	Singapur	100 *
Masterflex Hoses (Kunshan) Co., Ltd.	People's Republic of China	Kunshan	100 *

*) Subgroup

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.

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

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. A list of the exemption clauses made use of by these companies can be found in Note 39.

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 shareholders' equity. The shareholders' equity of acquired subsidiaries is calculated at the acquisition date on the basis of the fair values of the assets, liabilities, contingent liabilities and deferred taxes of the subsidiaries and any goodwill as of this date.

Currency translation

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

Foreign-currency transactions by consolidated companies are 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 2016, these differences amounted to € 6 k (previous year: € - 623 k).

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.

The following exchange rates were applied as at the balance sheet date for currency translation purposes:

In €	31.12.2016
1 Pound Sterling (£)	1.1680
1 US Dollar ($)	0.9487
1 Brazilian Real (BRL)	0.2915
1 Czech Koruna (CZK)	0.0370
1 Swedish Krona (SEK)	0.1047
1 Singapore Dollar (SGD)	0.6564
1 Renminbi (CNY)	0.1366

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

In €	2016
1 Pound Sterling (£)	1.2212
1 US Dollar ($)	0.9037
1 Brazilian Real (BRL)	0.2590
1 Czech Koruna (CZK)	0.0370
1 Swedish Krona (SEK)	0.1056
1 Singapore Dollar (SGD)	0.6545
1 Renminbi (CNY)	0.1361

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 business combinations is recognised as an intangible asset.

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

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

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

Fixed assets

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

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

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
Software	3 years	Linear
Licences and similar rights	Over the term of the lease	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

Non-current financial assets

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

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

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

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

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

Financial assets or groups of financial assets are tested for impairment at each balance sheet date, with any write-downs recognised in income. Write-downs are 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.

Stocks on hand

Inventories are carried at the lower of cost and net realisable value. The majority of the Company's inventories are measured using the FIFO (first-in, first-out) method. The cost of inventories includes direct costs, indirect materials and indirect labour costs relating to production and depreciation, as well as production-related administrative expenses, but not borrowing costs. Net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale. 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 amortised cost. 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 thus associated payment obligations or an imminent insolvency. The necessary value adjustments are orientated 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 principal amount. Cash and cash equivalents denominated in foreign currencies are converted at the exchange rate at the balance sheet date.

Subscribed capital

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

Provisions

Provisions are recognised when the Group has a current (legal or constructive) obligation from a past event that it is expected to be required to settle, and the amount of this obligation can be reliably estimated. The amount recognised as a provision is the best estimate of the consideration required to settle the current obligation as of the balance sheet date, taking into account the risks and uncertainties underlying the obligation.
If the economic benefit required to settle the provision is expected to be reimbursed by a third party, either in part or in full, the corresponding right is recognised as an asset if reimbursement is virtually certain and the amount to be reimbursed can be reliably estimated.

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

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

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

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

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

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

Revenue recognition

Revenue from the sale of products is recognised when the respective products are delivered and transferred to the buyer. Revenue is measured at the fair value of the consideration received or receivable. No revenue is recognised if significant risks relating to the receipt of the consideration or a possible return of goods exist. Customer bonuses, trade discounts and volume rebates serve to reduce revenue.

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

Borrowing Costs

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

Research and development

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

Government grants

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

Estimates

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

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

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

a. Development costs

In order to calculate the goodwill of amounts capitalised, the management must make assumptions on the amount of the future expected cash flow from assets, the time period of the inflow of the future expected cash flow generated by the assets, and the interest rates to be applied. Best possible estimates were calculated at the balance sheet date (see Note 3).

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 examines the dates at which the deferred tax liabilities are expected to reverse and the future taxable income is expected to be received. Based on Masterflex's expected future business development, the Group's management assumes that the deferred tax assets recognised will be realisable (see Section 26).

d. Provisions and contingent liabilities

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

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

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

New accounting standards

The option regarding the early application of new standards, revisions of standards and interpretations already approved as of 31 December 2016 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 Financial Reporting Interpretations Committee (IFRIC) and are to be applied for the first time in the current financial year:

- IAS 16, 38 — Changes aimed at clarifying acceptable depreciation methods
- IFRS 11 — Changes and clarification of the accounting for the acquisition of shares in a joint venture

- IAS 27 — Changes whereby the equity methods will again be approved as an accounting option for shares in subsidiaries, Joint Ventures and associated companies in the separate financial statements of an investor
- IAS 1 — Changes as a result of the information initiative
- IFRS 10, 12, IAS 28 — Changes regarding the application of consolidation measures
- IAS 16, 41 — Changes to bring fruit-bearing plants within the scope of IAS 16.
- IFRS 14 — Regulatory deferred income*

** Adoption in European Law is still pending. Thus, the IFRS applied in the EU differs from the regulations of the IASB.*

As well as the changes to various IFRSs within the framework of the annual "Improvement" project cycle 2012-2014.

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

The following accounting standards, interpretations and amendments to existing standards were published as of the reporting date, but were not yet required to be applied in preparing the IFRS consolidated financial statements for the year ending 31 December 2016:

- IFRS 9 — Financial Instruments: Classification and Measurement
- IFRS 15 — Revenue from contracts with customers
- IFRS 16 — Leases

The new standard relating to Financial Instrument IFRS 9 is broken down into several phases and was published in its final version by the IASB in July 2014. The new regulations include fundamental changes to their classification and evaluation which, in the future, will be based on the characteristics of the business model and the contractual cash flows, in particular for financial assets. In this context, the recording of write-downs was also amended to that effect that these are now no longer just based on incurred losses (incurred loss model) but also on expected losses (expected losses). In addition, the recognition of hedging relationships took place in so far as they align more strongly to the company's economic risk management. With the complete reworking of IAS 39 into IFRS 9, additional disclosure requirements result.

The date of the initial application has been set for the first fiscal year beginning on or after 1 January 2018. The initial application has to take place retrospectively whereby possibilities for simplification are provided. Early application is permitted. Adoption of the standard in European Law took place in November 2016. The new regulations will lead to a re-classification of its financial assets for the Masterflex Group from today's perspective. The new regulations concerning financial liabilities will not have any fundamental consequences for the Masterflex Group. Further qualitative and quantitative effects may arise from the fundamental change in the recording of write-downs and the recognition of hedging relationships.

In May 2014, the IASB adopted the IFRS 15 standard „Revenue from contracts with customers" with the aim of bringing together the regulations pertaining to revenue recognition previously contained in different standards and interpretations into one standard. In so doing, IFRS 15 will apply across industries for all revenues from contracts with customers, unless these contracts fall under the scope of another standard, like for instance leases, insurance and financial instruments. Both the extent and the timing of revenue recognition period is determined on the basis of the following five steps:

(1) identification of the contracts with customers,
(2) identification of contractual obligations,
(3) determining the transaction price,
(4) breakdown of the transaction price for the contractual obligations,
(5) Revenue recognition, if (or as soon as) a performance obligation was fulfilled.

In addition to this basic model, in IFRS 15, a series of further factual circumstances, like for instance, contractual costs and contractual amendments are regulated and additional disclosure requirements are disclosed in the Notes. The new standard must be applied for the first time for the financial year which begins on or after 1 January 2018 whereby an early application is possible. Adoption of the standard in European Law took place in November 2016. The Masterflex Group will not make use of the early application. From today's perspective, it is assumed from the Masterflex consolidated financial statement that there are no significant changes in the representation of revenues because the type of contractual obligations and the revenue recognition has no impact on the time of the transfer of the control of goods to the customer.

With the standard that was adopted by the IASB in January 2016, IFRS 16 „Leasing relationships" are essentially new regulations laid down to classify leasing relationships with the lessee. This means that the previously valid risks and rewards approach will be relinquished in favour of recognition of all leasing relationships in the form of use rights (right-of-use asset) and an appropriate corresponding leasing obligation. Exemptions from this rule only exist for leases with a term of up to 12 months or for low-value non-current assets. By contrast, the lessor continues to be classified taking into consideration the opportunities and risks to the leasing asset in operating and finance leases. The new standard IFRS 16 must be applied for the first time for the financial year which begins on or after 1 January 2019. An early application is possible. Adoption in European Law is still pending. Due to the current inventories in operating leasing, an increase in assets and liabilities would be recorded in the balance sheet. Other impacts on the Masterflex Group are currently being examined.

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

• IAS 12	Amendments regarding the recognition of deferred tax assets for unrealised gains
• IAS 7	Changes as a result of the information initiative
• IFRS 2	Changes to certain issues relating to accounting for providing share-based subsidies with cash settlements
• IFRS 4	Changes in the correlation between IFRS 4 and IFRS 9
• IAS 40	Changes in relation to real estate held as financial assets
• IFRS 10, IAS 28	Changes in relation to the sale or transfer of assets between an investor and an associated company or Joint Ventures*
• IFRIC 22	Share-based payments

As well as the changes to various IFRSs within the framework of the annual "Improvement" project cycle 2014-2016.

**The original initial application period planned was postponed for an indefinite period and newly issued by the ISAB.*

Notes to the consolidated balance sheet: Assets

3. NON-CURRENT ASSETS

The development of non-current assets is presented in a separate statement of changes in non-current assets (see annex). Liabilities to banks are secured by way of entries in the land register in the amount of € 15,678 k (previous year: € 5,848 k) and transfers of title to production facilities totalling € 7,933 k (previous year: € 7,848 k).

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 translation are shown separately in the statement of changes in non-current assets.

a) Intangible assets

All intangible assets are purchased, with the exception of individual industrial rights and developments by Masterflex SE, 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 costs of acquisition, as well as additions, disposals and reclassifications comprise as follows:

in €k	Internally generated intangible assets	Acquired tangible assets	Goodwill	Total
As at 01.01.2015	**476**	**2,644**	**9,161**	**12,281**
Additions	22	138	0	160
Disposals	0	34	0	34
As at 01.01.2016	**498**	**2,748**	**9,161**	**12,407**
Additions	420	339	0	759
Disposals	0	828	0	828
Reclassifications	-61	0	0	-61
As at 31.12.2016	**857**	**2,259**	**9,161**	**12,277**

Current and accumulated amortisation comprise as follows:

in €k	Internally generated intangible assets	Acquired tangible assets	Goodwill	Total
As at 01.01.2015	**263**	**2,038**	**5,903**	**8,204**
Depreciation and amortisation for fiscal year	23	247	0	270
Disposals	0	34	0	34
As at 01.01.2016	**286**	**2,251**	**5,903**	**8,440**
Depreciation and amortisation for fiscal year	28	138	0	166
Disposals	0	828	0	828
As at 31.12.2016	**314**	**1,561**	**5,903**	**7,778**

The carrying amounts of intangible assets comprise as follows:

in €k	Internally generated intangible assets	Acquired tangible assets	Goodwill	Total
As at 31.12.2015	212	497	3,258	3,967
As at 31.12.2016	543	698	3,258	4,499

b) Financial assets

Financial assets comprise as follows:

in €k	31.12.2016	31.12.2015
Non-current financial instruments	91	131
Loans and receivables	0	135
Total	**91**	**266**

Investment securities relate to income-yielding stock from a European Share Index and available-for-sale financial instruments within the meaning of IAS 39. The financial instruments are categorised at level 1 as input factors with quoted prices in active markets for identical assets or liabilities.

In the 2016 financial year, write-downs amounting to € 40 k were recognised in equity with neutral effects on profits (See note 9).

The following table shows the costs of acquisition, unrealised gains and losses and fair values of available-for-sale securities as of 31 December 2016:

Costs of acquisition in €k	**Unrealised losses** in €k	**Fair value** in €k
707	616	91

Income from available-for-sale securities totalled € 5 k (previous year € 3 k).

In the previous year, trade receivables in the amount of € 135 k were reported as non-current receivables on account of a financing agreement. In the 2016 financial year, related interest income was recognised in the amount of € 2 k.

4. STOCKS ON HAND

Inventories comprise as follows:

in €k	31.12.2016	31.12.2015
Raw materials and consumables used	6,397	6,474
Work in progress	878	957
Finished products and goods purchased and held for sale	6,266	6,114
Advance payments	21	13
Total inventories	**13,562**	**13,558**

Inventories were expensed in the amount of € 20,545 k (previous year: € 20.545 k) (see note 19).

Depreciation of inventories to the net realisable value amounted to € 99 k (previous year. € 138 k).

5. RECEIVABLES AND OTHER ASSETS

Receivables and other assets comprise as follows:

in €k	31.12.2015	31.12.2014
Trade receivables	6,240	6,465
Other assets	1,056	842
Other financial assets	32	0
Assets classified as available-for-sale	11	5
Total receivables and other assets	**7,339**	**7,312**

Other assets of 49 € k (previous year: € 0 k) have a residual maturity of more than 1 year.

Other assets comprise as follows:

in €k	31.12.2016	31.12.2015
Deferred income	418	411
Bonus receivables	336	130
Receivables from tax authorities	115	132
Deposits	83	48
Receivables from health insurance companies	34	19
Receivables from employees	22	16
Creditors with debit balances	14	55
Other	34	31
Total other assets	**1,056**	**842**

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

Receivables from tax authorities primarily relate to VAT receivables.

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

“Other financial assets” are discussed in Note 16.

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

- Masterflex Entwicklungs GmbH (formerly Masterflex Mobility GmbH)
- Masterflex Vertriebs GmbH (formerly Masterflex Brennstoffzellentechnik GmbH).

6. TRADE RECEIVABLES

The maturity structure of trade receivables comprises as follows:

in €k	31.12.2016	31.12.2015
Nominal value of trade receivables	6,272	6,500
Write-downs	-32	-35
Trade receivables	**6,240**	**6,465**

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

The total write-downs from trade receivables for individual risks amount to € 32 k (previous year: € 35 k).

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

The maturity structure of trade receivables comprises as follows:

2016	€k	€k
Carrying amount:		**6,240**
1. of which: non-impaired and non-overdue at the balance sheet date		**4,794**
2. of which: non-impaired, but overdue at the balance sheet date		**1,446**
less than 30 days	1,029	
30 to 59 days	248	
60 to 89 days	92	
90 to 119 days	60	
120 days or more	17	

2015	€k	€k
Carrying amount:		**6,465**
1. of which: non-impaired and non-overdue at the balance sheet date		**4,798**
2. of which: non-impaired, but overdue at the balance sheet date		**1,667**
less than 30 days	972	
30 to 59 days	159	
60 to 89 days	301	
90 to 119 days	151	
120 days or more	84	

7. INCOME TAX ASSETS

Income tax assets amounted to € 431 k at the balance sheet date (previous year € 109 k). 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	31.12.2016	31.12.2015
Cash in hand and bank balances	3,994	3,997

The effective interest rate for short-term bank deposits was between 0.00% and 0.35%.

Notes to the consolidated balance sheet: Liabilities

9. TOTAL EQUITY

Capital management

The Masterflex Group strategic orientation determines 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 its business processes. This requires a balance between the business and financial risks within the Group's financial flexibility, to be achieved through intensive communications with the financial markets and banks in particular.

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

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

Subscribed capital

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

No treasury shares were sold or newly acquired in the 2016 financial year. At the balance sheet date, Masterflex SE held a total of 134,126 treasury shares (previous year: 134,126).

The 134,126 no-par value bearer shares have a nominal amount of € 134,126. They represent 1.51% 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, 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 issued capital of € 8,731,748.

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+ percent of the company's share capital as of the date the resolution was passed or – if this value is lower – as of the time the authorisation is exercised.

The 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, cannot exceed 10% of the Company's share capital at any time, neither from 10 percent of the share capital which exists at the time the authorisation is granted, nor 10 percent of the share capital which exists at the time the authorisation to exclude subscription rights is utilised. Shares are to be included in the 10 percent 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 Stock Corporation Act under exemption of subscription rights. This authorisation may not be used for the purpose of trading in treasury shares.

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

The Executive Board can sell the acquired treasury shares subject to compliance with the principle of equal treatment (§ 53a AktG). In particular, a 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 further authorised, with the approval of the Supervisory Board, to offer or grant the acquired treasury shares to third parties with shareholders' subscription rights disapplied for cash, particularly in the context of company mergers and the acquisition of companies, to fulfil conversion and option rights, as employee shares in the context of agreed remuneration or of special programmes to Company employees, to carry out a stock dividend or transfer of shareholders' entitlement to dividends.

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 (authorised capital I).

The Executive Board is authorised to determine the further content of the equity rights and the terms and conditions of the issue of these shares, subject to the approval of the Supervisory Board. The new shares are to be offered to shareholders for subscription. The new shares can also be taken over by a bank or a company that operates in accordance with § 53 para 1 sentence 1 or § 53b para 1 sentence 1 or § 7 of the German Banking Act with the obligation to offer them to shareholders for subscription. However, the Executive Board is authorised, with the approval of the Supervisory Board, to disapply shareholders' subscription rights in the following cases:

a) for fractional amounts;

b) 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, providing that the issue price of the shares is not significantly lower than the quoted price of the listed shares of the Company at the date the issue price;

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.

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

Contingent capital

At the company's 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 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 disapply shareholders' subscription rights in the following cases:

I. for top 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 percent 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 up to 4,432,937 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 can be or the corresponding obligations are agreed. To satisfy these rights and obligations, the share capital of the Company was conditionally increases by resolution off the General Meeting of 24 June 2014.

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

Retained earnings

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

Revaluation reserve

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

Exchange differences

The exchange differences recognised in equity comprise as follows:

in €k	Exchange differences from the translation of foreign financial statements	Exchange differences in accordance with IAS 21.17	Exchange differences in accordance with IAS 21.19	Total
As at 31.12.2014	**-1,095**	**-288**	**95**	**-1,288**
Change in 2015	596	69	0	665
As at 31.12.2015	**-499**	**-219**	**95**	**-623**
Change in 2016	752	-123	0	629
As at 31.12.2016	**253**	**-342**	**95**	**6**

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 € -123 k (previous Year: € 69 k) 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

Non-controlling interests held in Masterflex companies total € -332 k (previous year: € -47 k).

11. PROVISIONS

Provisions comprise as follows:

in €k	As at 01.01.2016	Utilisation	Reversal	Addition	As at 31.12.2016
Incentive payments, severance payments and commission	744	714	30	630	630
Bonuses	377	216	4	321	478
Outstanding invoices	427	421	6	411	411
Year-end closing costs	164	163	1	161	161
Customer bonuses	133	131	2	126	126
Vacation	65	65	0	106	106
Employers' Liability Insurance Association	124	124	0	103	103
Warranties	89	89	0	92	92
Other	195	47	48	125	225
Total	**2,318**	**1,970**	**91**	**2,075**	**2,332**

a) Non-current provisions

Non-current provisions relate to the performance-related components of Executive Board remuneration amounting to € 197 k (previous year: € 158 k) which are only to be paid out in the third year following the base year.

b) Current provisions

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

Expenditure for goods and services for the past financial year for which no invoice has been received as at the balance sheet date were recorded under the provisions for outstanding invoices.

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

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

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

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

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

12. FINANCIAL LIABILITIES

As of 31 December 2016, financial liabilities comprised as follows:

in €k	31.12.2016	31.12.2015
Liabilities to banks	20,694	11,153
of which due in > 5 years	0	0
Non-current financial liabilities	**20,694**	**11,153**
Liabilities to banks	2.432	8,908
Other financial liabilities	0	50
Current term financial liabilities	**2,432**	**8,958**
Total financial liabilities	**23,126**	**20,111**

Liabilities to banks

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

in €k	31.12.2016	31.12.2015
Liabilities due within 1 year	2,432	8,908
Liabilities due between 1 and 5 years	20,694	11,153
Liabilities due in more than 5 years	0	0
Total liabilities to banks	**23,126**	**20,061**

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 € 23.5 million on the balance sheet date. Owing to the use of effective interest methods, a difference arose between the credit amount used of € 23,500 k and the liabilities to banks reported at amortised cost of € 23,084 k as at 31 December 2016 amounting to € 416 k.

The syndicated loan agreement was reduced in the balance sheet by the directly attributable transaction costs of € 480 k 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 amongst other by assets with a book value of € 36,156 k (previous year: € 26,535 thousand).

Of this, € 15,642 k is attributable to land charges, € 7,933 k to other non-current assets, € 8,932 k to inventories, € 3,649 k 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 2.5 percent p.a. depending on the maturity and purpose of the respective liabilities (previous year between 2.51 percent and 2.63 percent p.a.). The Company also had foreign-currency liabilities in US dollars, on which like the previous year interest was charged at between 3.85 percent and 5.7 percent p.a.

As of 31 December 2016, the Company had cash advance facilities totalling € 45,616 k. Of this, credit lines totalling € 22,116 k were not utilised. Additional guarantee facilities for contractual fulfilment, advance payments and warranties comprised € 1,500 k in 2016, of which € 1,162 k were utilised.

Other financial liabilities

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

13. INCOME TAX LIABILITIES

Income tax liabilities relate to current taxes and totalled € 163 k at the balance sheet date (previous year: € 899 k).

14. OTHER LIABILITIES

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

in €k	31.12.2016	31.12.2015
Trade payables	2,232	1,476
Other liabilities	1,844	2,044
Advanced payments received for orders	137	446
Liabilities directly connected with assets held for sale	1,028	506
Total other liabilities	**5,241**	**4,472**

Miscellaneous other liabilities include the following items:

in €k	31.12.2015	31.12.2014
Deferred income	1,075	1,243
Tax liabilities	326	317
Liabilities to employees	186	157
Social security liabilities	111	92
Debtors with credit balances	62	99
Other	84	136
Total	**1,844**	**2,044**

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

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

in €k	31.12.2016	31.12.2015
Investment grants	679	781
Subsidies	396	462
Total	**1,075**	**1,243**

The following amounts were reversed to income in each year:

in €k	31.12.2016	31.12.2015
Reversal of investment grants	102	76
Reversal of subsidies	66	56
Total	**168**	**132**

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 € 977 k (previous year: € 1,119 k), 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. Receivables and other assets are discussed in Note 5.

15. TRADE PAYABLES

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

in €k	31.12.2016	31.12.2015
Trade payables	2,232	1,476

The fair values of trade payables are the same as their carrying amounts. Trade payables amounting to € 2,232 k (previous year: € 1,476 k) are due within one year.

16. DERIVATIVE FINANCIAL INSTRUMENTS

Recognition of future transaction and options carried the fair value of € 32 k (previous year: € 0 k). Derivative financial agreements for hedging against varying interest payments from variable-rate loans (interest cap) were completed amounting to € 32 k and for the hedging of operating currencies US dollar and Euro of € 26 k.

It is reported under other financial assets on the basis of the current market conditions on the balance sheet date. The financial instruments are categorised at level 2 as input factors which are to be observed for assets or liabilities either directly or indirectly.

Level 2 evaluation was carried out according to the Black Scholes model and was conducted by the financial institutions with which they were concluded.

The change in fair value shall be recognised in profit and loss amounting to € 26 k (previous year: € 28 k.)

Derivative financial instruments	Measurement category in accordance with IAS 39	Historical carrying amount in €k	Fair value in €k 31.12.2015	Fair value in €k 31.12.2014
Derivatives without hedging relationship	held-for-trading	58	32	0

Notes to the consolidated income statement

The position of „Income from discontinued operations“ is recognised in the expenses from winding up these companies:

- Masterflex Entwicklungs GmbH (formerly Masterflex Mobility GmbH)
- Masterflex Vertriebs GmbH (formerly Masterflex Brennstoffzellentechnik GmbH).

17. REVENUE

Revenue comprises as follows:

in €k	2016	2015
Gross revenue	71,426	69,056
Elimination of intragroup revenue	4,940	4,944
Total	**66,486**	**64,112**

18. OTHER INCOME

The other income generated by the Group was as follows:

in €k	2016	2015
Other income	**1,041**	**1,558**

Other income comprises as follows:

in €k	2016	2015
Currency translation gains	231	140
Other prior-period income	229	0
Investment grants	142	56
Income from non-typical incidental sales	116	8
Income from the reversal of provisions	91	451
Subsidies	66	76
Compensation	65	26
Income from the reversal of value adjustments for receivables	45	154
Proceeds from the sale of Masterflex RUS	0	529
Other	56	118
Total	**1,041**	**1,558**

19. COST OF MATERIALS

The cost of materials comprises as follows:

in €k	2016	2015
Cost of raw materials, consumables and supplies	20,545	20,545
Expenditure for related transactions	259	282
Total	**20,804**	**20,827**

20. OTHER EXPENSES

Other expenses comprise as follows:

in €k	2016	2015
Other expenses	**12,005**	**12,910**

Die sonstigen Aufwendungen gliedern sich wie folgt auf:

in €k	2016	2015
Selling costs	4,826	5,124
Incidental premises expenses	2,278	2,070
Operating costs	2,151	2,257
Administrative expenses	1,683	2,231
Insurance costs	430	388
Currency translation losses	143	265
Cost of valuation allowances	84	101
Other	145	178
Other taxes	265	296
Total	**12,005**	**12,910**

21. RESEARCH AND DEVELOPMENT COSTS

Capitalisable development costs are reported in “intangible assets”. Research costs and noncapitalisable development costs are expensed as incurred. In the 2016 financial year, research and development costs totalled € 399 k (previous year € 369 k).

22. STAFF COSTS

In 2016, staff costs increased by € 538 k to € 26,496 k (previous year: € 25,958 k). Staff costs include wages and salaries in the amount of € 21,964 k (previous year: € 21,262 k) and social security, post-employment and other employee benefit costs totalling € 4,532 k (previous year: € 4,696 k).

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 € 218 k (previous year: € 211 k). 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 completed are subject to regular impairment tests.

Goodwill and internally generated intangible assets which have not yet been completed 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, the residual carrying amounts of the individual cash-generating units are compared with their recoverable amounts, i.e. the higher of the fair value less costs to sell and the value in use.

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

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

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

In order to take into account the different yield/risk profile in our areas of activity, we calculate individual capital cost rates for our companies (CGUs). The weighted average costs of capital before taxes that have been applied when discounting cash flow are between 2.40 and 10.23 percent (previous year: 5.57 and 9.05 percent).

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

in €k	
Flexmaster U.S.A., Inc.	1,488
FLEIMA-PLASTIC GmbH	1,075
Novoplast Schlauchtechnik GmbH	462
Matzen & Timm GmbH	233
Total	**3,258**

No impairment requirement arose in the impairment test of the business or goodwill in the 2015 and 2016 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

Net finance costs comprise as follows:

in €k	2016	2015
Other interest and similar income	16	95
Interest and similar expenses	-1,339	-1,093
Total	**-1,323**	**-998**

Interest income relates to current items.

25. NON-OPERATING EXPENDITURE

The non-operating expenses include non-recurring and/or unusual transactions. In the interests of clarity, these expenses were removed from „Other expenses“ and included as a single item in the income statement.

This also includes extraordinary legal disputes in the amount of € 89 k and income and expenditure from guarantee obligations which in the previous year comprised € 111 k.

in €k	2016	2015
Non-operating expenditure	**200**	**0**

26. INCOME TAX EXPENSE

The income tax expense in the income statement comprises as follows:

in €k	2016	2015
Income tax expense	-623	-825
Deferred taxes		
From time differences	-263	-72
From loss carryforwards	-270	-723
Total deferred taxes	-533	-795
Total income tax expense	**-1,156**	**-1,620**

The following reconciliation of income tax expense for the 2016 financial year is based on an overall tax rate of 30.0% (previous year: 30.0%) reconciled to an effective tax rate of 25.3 percent (previous year: 41.8 percent):

in €k	2016	2015
Net profit before income taxes	4,574	3,872
Expected tax expense 30 percent	-1,372	-1,162
Changes to deferred tax assets for tax loss carryforwards and the use of loss carryforwards in the financial year / unused losses	-215	-419
Tax refunds / tax payments for previous years	0	-64
Effect of non-deductible expenses and tax-exempt income	242	-82
Other	189	-57
Total income tax expense	**-1,156**	**-1,620**

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

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

	31.12.2016		31.12.2015	
in €k	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Tax loss carryforwards	1,535	0	1,805	0
Non-current assets	274	1,282	245	991
Stocks on hand	21	0	19	0
Receivables	0	54	4	20
Other assets	96	0	71	0
Provisions	0	0	0	0
Liabilities	192	168	223	188
Before offsetting	**2,118**	**1,504**	**2,367**	**1,199**
Of which non-current	1,230	1,305	1,513	1,061
Offsetting	-655	-655	-527	-527
Consolidated balance sheet	**1,463**	**849**	**1,840**	**672**

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

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

As of 31 December 2016, Masterflex recognised deferred tax assets for tax loss carryforwards in the amount of € 1,535 k (previous year: € 1,805k).

For foreign companies, the applicable tax rates vary between 19.0 percent and 39.62 percent.

No deferred tax assets were recognised for tax loss carryforwards in the amount of € 7,871 k (previous year: € 6,915 k), 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 time-limited.

Taxes amounting to € -53 k (previous year: € 29 k) relate to other earnings. These taxes relate to currency translation differences in accordance with IAS 21 and are recognised directly in equity.

27. DISCONTINUED BUSINESS UNITS

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

in €k	2016	2015
Earnings from discontinued business units		
Other expenses	-555	-374
Earnings after taxes from discontinued business units	**-555**	**-374**

in €k	2016	2015
Cash flows from discontinued business units		
Net cash flows from operating activities	-31	-85
Total net cash flows	**-31**	**-85**

28. EARNINGS PER SHARE

Earnings per share are calculated as follows:

	Continuing business unit	Discontinued business units	Continuing and discontinued business units
Earnings for 2016 financial year (€k)	3,483	-555	2,928
Weighted average number of shares in circulation	8,731,748	8,731,748	8,731,748
Earnings per share (€)	**0.40**	**-0.06**	**0.34**

	Continuing business unit	Discontinued business units	Continuing and discontinued business units
Earnings for 2015 financial year (€k)	2,322	-374	1,948
Weighted average number of shares in circulation	8,731,748	8,731,748	8,731,748
Earnings per share (€)	0.26	-0.04	0.22

There were no dilutive effects in the 2016 financial year or the previous year.

29. APPROPRIATION OF NET RETAINED EARNINGS

The single-entity financial statements of Masterflex SE in accordance with the German Commercial Code for the year ended 31 December 2016 reported a net profit of € 5,676 k. The Executive Board and the Supervisory Board propose carrying the net profit forward to new account.

As of 31 December 2016, the amounts excluded from distribution by Masterflex SE amounted to € 1,788 k in total of which € 1,393 was allocated to deferred tax assets and € 39 k for capitalisation of development costs.

30. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

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

The sensitivity analysis assuming a 100 bp fluctuation in interest rates results in an increased / reduced cash outflow of approximately € 189 k.

Counterparty default risk management
At Masterflex, risks relating to receivables from customers are monitored and assessed on a decentralised basis, with potential defaults limited by means of trade credit insurance in certain cases.

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

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

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

Liquidity risk management

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

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

2016

in €k	Carrying amount	2017	2018	2019	2020	2021	≥ 2022
Trade payables	2,232	2,232	0	0	0	0	0
Liabilities to banks	23,126	2,432	2,400	2,912	2,925	12,457	0
Other liabilities	769	769	0	0	0	0	0
Total	**26,127**	**5,433**	**2,400**	**2,912**	**2,925**	**12,457**	**0**

2015

in €k	Carrying amount	2016	2017	2018	2019	2020	≥ 2021
Trade payables	1,476	1,476	0	0	0	0	0
Liabilities to banks	20,061	8,908	3,941	7212	0	0	0
Other liabilities	802	802	0	0	0	0	0
Other financial liabilities	50	50	0	0	0	0	0
Total	**22,389**	**11,236**	**3,941**	**7,212**	**0**	**0**	**0**

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

Deferred income reported under "Other liabilities" totalling € 1,075 k (previous year: € 1,243 k) does not have a cash impact. Its reversal is therefore not presented in this table.

31. OTHER FINANCIAL COMMITMENTS

As at 31 December 2016, other financial commitments related to lease obligations and other Commitments.

a) Lease obligations

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

in €k	2017	2018–2021	2022
Notional amount of future minimum lease payments	187	91	0

The operating lease liabilities relate primarily to office and operating equipment. Payments recognised as expenses amount to € 368 k (previous year: € 657 k).

b) Other commitments

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

32. SEGMENT REPORTING

The Masterflex Group operates as a single-segment company. Control is carried out on the basis of the information on the whole Group received by management, to which it refers when measuring the performance of operating segments and allocating resources (“management approach” principle).

As a result of the implementation of the Group strategy and the associated concentration on the core business unit High-Tech Hose Systems (HTS), Masterflex Entwicklungs GmbH and Masterflex Vertriebs GmbH are presented on a uniform basis under “Discontinued business units (GB)”. Masterflex SE thus has one operating segment, the core business unit (HTS). To ensure comparability with IFRS 8.28, the “Reconciliation” column is presented for Group / holding expenditure as well as extraordinary expenses.

In the High-Tech Hose Systems (HTS) segment, which constitutes the core business of the Masterflex Group, 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.

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

Segment information by business unit

2016

In €k	HTS	Total for continued business units	Reconciliation	Discontinued business units	Group
Revenue from non-Group third parties	66,486	66,486	0	0	66,486
EBIT	8,163	8,163	-2,266	-412	5,485
EBIT (operational)	8,363	8,363	-2,266	-412	5,685
Investments in property, plant and equipment and intangible assets	8,806	8,806	0	0	8,806
Scheduled depreciation and amortisation	2,714	2,714	0	0	2,714
Assets	58,416	58,416	1,985	11	60,412

2015

in €k	HTS	Total for continued business units	Reconciliation	Discontinued business units	Group
Revenue from non-Group third parties	64,112	64,112	0	0	64,112
EBIT	7,055	7,055	-2,185	-374	4,496
Investments in property, plant and equipment and intangible assets	3,499	3,499	0	0	3,499
Scheduled depreciation and amortisation	2,802	2,802	0	0	2,802
Assets	52,370	52,370	2,109	5	54,484

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:

2016

in €k	Revenue from non-Group third parties	Of which continued business units
Germany	30,623	30,623
Rest of Europe	16,652	16,652
Rest of the world	19,211	19,211
Total	**66,486**	**66,486**

2015

in €k	Revenue from non-Group third parties	Of which continued business units
Germany	30,737	30,737
Rest of Europe	15,022	15,022
Rest of the world	18,353	18,353
Total	**64,112**	**64,112**

In the 2016 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	2016	2015
Operating EBIT from continued business units	8.,63	7,055
Non-operating expenditure from continued business units	-200	0
Reconciliation	-2,266	-2,185
EBIT from continued business units	**5,897**	**4,870**
Interest income/income from equity interests	16	95
Interest expense etc	-1,339	-1,093
EBT from continued business units	**4,574**	**3,872**
Income taxes	-623	-825
Deferred taxes	-533	-795
Minority interests	65	70
Earnings after taxes (EAT) from continued business units	**3,483**	**2,322**
Earnings from discontinued business units	-555	-374
EAT	**2,928**	**1,948**

Rounding differences may occur.

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	2016	2015
Germany	27,714	21,332
Rest of Europe	1,257	1,346
Rest of the world	4,635	4,722
Total	**33,606**	**27,400**

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

RECONCILIATION TO CONSOLIDATED INCOME STATEMENTS

in €k	2016	2015
Total assets of continued segments	58,416	52,370
Assets of discontinued segments	11	5
Deferred tax assets	1,463	1,840
Tax receivables	431	3
Non-current financial assets	91	266
Total consolidated assets	**60,412**	**54,484**

33. CASH FLOW STATEMENT

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

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

in €k	2016	2015
Cash and cash equivalents at the end of the period	**4,005**	**4,002**
Cash in hand and bank balances included in assets held for sale	11	5
Cash in hand and bank balances	**3,994**	**3,997**

34. GOVERNMENT GRANTS

Grants for depreciable assets are recognised over the depreciation period of the respective assets and in proportion to the depreciation recognised in each period. No government grants related to income were collected in the 2016 financial year.

35. RELATED PARTY DISCLOSURES

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

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, component with long-term incentive effect.

Disclosure of the remuneration for the Chairman takes place in individualised form as it recommends 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 percent 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 01 April 2008				Mark Becks Chief Financial Officer Since 01 June 2009			
in €k	2015 *Initial value*	2016 *Initial value*	2016 *Minimum*	2016 *Maximum*	2015 *Initial value*	2016 *Initial value*	2016 *Minimum*	2016 *Maximum*
Fixed remuneration	337	342	342	342	233	237	237	237
Fringe benefits	33	31	31	31	39	41	41	41
Total	**370**	**373**	**373**	**373**	**272**	**278**	**278**	**278**
Annual variable remuneration								
Bonus	112	137	0	158	61	75	0	86
Multi-annual variable remuneration								
Bonus 2016 - 2018		71	0	82		38	0	44
Bonus 2015 - 2017	58		0	82	31		0	44
Total compensation	**540**	**581**	**373**	**695**	**364**	**391**	**278**	**452**

TABLE 2: COMPENSATION OF THE EXECUTIVE BOARD (INFLOW CONSIDERATION)

	Dr. Andreas Bastin Chief Executive Officer Since 01 April 2008				Mark Becks Chief Financial Officer Since 01 June 2009			
in €k	2015 *Initial value*	2016 *Initial value*	2016 *Minimum*	2016 *Maximum*	2015 *Initial value*	2016 *Initial value*	2016 *Minimum*	2016 *Maximum*
Fixed remuneration	337	342	342	342	233	237	237	237
Fringe benefits	33	31	31	31	39	41	41	41
Total	**370**	**373**	**373**	**373**	**272**	**278**	**278**	**278**
Annual variable remuneration								
Bonus	138	111	0	158	75	60	0	86
Multi-annual variable remuneration								
Bonus 2013 - 2015		29	0	82		16	0	44
Bonus 2012 - 2014	41		0	82	22		0	44
Total compensation	**549**	**513**	**373**	**695**	**369**	**354**	**278**	**452**

The members of the Supervisory Board were compensated as follows:

in €k	Fixed	Attendance allowance	Total compensation relevant to payment 2016
Chair of the Supervisory Board, Friedrich W. Bischoping (until 14 June 2016)	15	1	16
(Previous year)	(30)	(2)	(32)
Chair of the Supervisory Board, Georg van Hall (from 14 June 2016)	15	1	16
(Previous year)	(0)	(0)	(0)
Vice Chair of the Supervisory Board, Georg van Hall (until 14 June 2016)	13	1	14
(Previous year)	(25)	(2)	(27)
Vice Chair of the Supervisory Board, Dr. Gerson Link (from 14 June 2016)	13	1	14
(Previous year)	(0)	(0)	(0)
Supervisory Board member, Axel Klomp (until 14 June 2016)	10	1	11
(Previous year)	(20)	(2)	(22)
Supervisory Board member, Jan van der Zouw (from 14 June 2016)	10	1	11
(Previous year)	(0)	(0)	(0)
Total compensation	**76**	**6**	**82**
(Previous year)	**(75)**	**(6)**	**(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.

36. DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

In December 2016, the declaration of conformity in accordance with § 161 of the German Stock Corporation Act was again submitted by the Executive Board and Supervisory Board of Masterflex SE and made permanently available to shareholders via the Company's website, **www.MasterflexGroup.com/Investor_Relations/Corporate_Governance**.

37. NUMBER OF EMPLOYEES

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

	2016	2015
Production	394	387
Distribution	93	111
Administration	77	85
Technology	37	26
Number of employees in Group	**601**	**609**
Of which trainees	21	21

38. AUDIT AND ADVISORY FEES

The fees expensed (provision) in the 2016 financial year for the auditors of the consolidated financial statements, Baker Tilly Roelfs AG, amounted to € 115 k 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

39. EXEMPTION FROM PUBLICATION

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

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

40. EVENTS AFTER THE BALANCE SHEET DATE

On 4 January 2017, the acquisition of all the shares took place in the fluoropolymer specialist, APT Advanced Polymer Tubing GmbH, Neuss. APT GmbH specialised in the manufacture of high-tech hoses made from fluorinated ethylene/ propylene, PFA (perfluoralkoxy) and PTFE (polytetrafluoroethylenes) as well as other fully or partially fluorinated polymers. Through this acquisition, the Masterflex Group supplements its technological competence with further highly interesting plastics for technical connection systems and thus can provide an even broader spectrum of innovative product variants.

The equity purchase price for 100 percent of the shares amounted to a € high single-digit million Euro range. Acquisition lines of credit agreed in the syndicated loan agreement were used to finance this.

The purchase-price-allocation will only be concluded towards the end of March so at this point in time no capitalised differential amount can be indicated.

41. PUBLICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved for publication by the Executive Board on 14 March 2017 and published on 27 March 2017.

42. EQUITY INVESTMENTS

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

Gelsenkirchen, 14 March 2017

The Executive Board

Dr. Andreas Bastin
(Chief Executive Officer)

Mark Becks
(Chief Financial Officer)

Consolidated Statement Of Changes in Non-Current Assets 2016

€k	Historical costs 01. 01. 2016	Additions	Disposals	Reclassifi-cations	Currency translation differences	Historical costs 31. 12. 2016
Intangible Assets						
Concessions, industrial and similar rights and assets, licences	2,849	277	828	0	0	2,298
Development costs	185	400	0	-61	0	524
Goodwill	9,161	0	0	0	0	9,161
Advance payments	212	82	0	0	0	294
Total	**12,407**	**759**	**828**	**-61**	**0**	**12,277**
Property, plant and equipment						
Land, land rights and buildings on third-party land	18,837	87	69	6,444	54	25,353
Technical equipment and machinery	25,832	516	1,196	859	102	26,113
Other equipment, operating and office equipment	8,311	646	176	80	7	8,868
Advance payments and assets under development	1,267	6,798	5	-7,322	-8	730
Total	**54,247**	**8,047**	**1,446**	**61**	**155**	**61,064**
Non-current financial assets						
Non-current financial instruments	817	0	84	0	0	733
Other loans	135	0	135	0	0	0
Total	**952**	**0**	**219**	**0**	**0**	**733**
	67,606	**8,806**	**2,493**	**0**	**155**	**74,074**

Consolidated Statement Of Changes in Non-Current Assets 2016

€k	Cumulative depreciation and amortisation 01.01.2016	Depreciation and amortisation for fiscal year	Disposals	Fair value changes recognised directly in equity	Currency translation difference	Cumulative depreciation and amortisation 31.12.2016	As of 31.12.2016	As of 31.12.2015
Intangible assets								
Concessions, industrial and similar rights and assets, licences	2,498	145	828	0	0	1,815	483	351
Development costs	39	21	0	0	0	60	464	146
Goodwill	5,903	0	0	0	0	5,903	3,258	3,258
Advance payments	0	0	0	0	0	0	294	212
Total	**8,440**	**166**	**828**	**0**	**0**	**7,778**	**4,499**	**3,967**
Property, plant and equipment								
Land, land rights and buildings on third-party land	7,668	627	69	0	33	8,259	17,094	11,169
Technical equipment and machinery	17,117	1,331	1,196	0	59	17,311	8,802	8,715
Other equipment, operating and office equipment	6,027	590	176	0	20	6,461	2,407	2,284
Advance payments and assets under development	0	0	0	0	0	0	730	1,267
Total	**30,812**	**2,548**	**1,441**	**0**	**112**	**32,031**	**29,033**	**23,435**
Non-current financial assets								
Non-current financial instruments	686	0	84	40	0	642	91	131
Other loans	0	0	0	0	0	0	0	135
Total	**686**	**0**	**84**	**40**	**0**	**642**	**91**	**266**
	39,938	**2,714**	**2,353**	**40**	**112**	**40,451**	**33,623**	**27,668**

Consolidated Statement Of Changes in Non-Current Assets 2015

€k	Historical costs 01. 01. 2015	Changes in the scope of consolida-tion	Additions	Disposals	Reclassifi-cations	Currency translation differences	Historical costs 31. 12. 2015
Intangible Assets							
Concessions, industrial and similar rights and assets, licences	2,774	0	109	34	0	0	2,849
Development costs	163	0	22	0	0	0	185
Goodwill	9,161	0	0	0	0	0	9,161
Advance payments	183	0	29	0	0	0	212
Total	**12,281**	**0**	**160**	**34**	**0**	**0**	**12,407**
Property, plant and equipment							
Land, land rights and buildings on third-party land	18,406	0	116	0	125	190	18,837
Technical equipment and machinery	24,074	-387	912	121	877	477	25,832
Other equipment, operating and office equipment	7,632	-77	618	87	57	168	8,311
Advance payments and assets under development	633	0	1,693	0	-1,059	0	1,267
Total	**50,745**	**-464**	**3,339**	**208**	**0**	**835**	**54,247**
Non-current financial assets							
Non-current financial instruments	817	0	0	0	0	0	817
Other loans	180	0	0	45	0	0	135
Total	**997**	**0**	**0**	**45**	**0**	**0**	**952**
	64,023	**-464**	**3,499**	**287**	**0**	**835**	**67,606**

Consolidated Statement Of Changes in Non-Current Assets 2015

€k	Cumulative depreciation and amortisation 01.01.2015	Changes in the scope of consolidation	Depreciation and amortisation for fiscal year	Disposals	Fair value changes recognised directly in equity	Currency translation difference	Cumulative depreciation and amortisation 31.12.2015	As of 31.12.2015	As of 31.12.2014
Intangible assets									
Concessions, industrial and similar rights and assets, licences	2,279	0	253	34	0	0	2,498	351	495
Development costs	22	0	17	0	0	0	39	146	141
Goodwill	5,903	0	0	0	0	0	5,903	3,258	3,258
Advance payments	0	0	0	0	0	0	0	212	183
Total	**8,204**	**0**	**270**	**34**	**0**	**0**	**8,440**	**3,967**	**4,077**
Property, plant and equipment									
Land, land rights and buildings on third-party land	6,993	0	583	0	0	92	7,668	11,169	11,413
Technical equipment and machinery	15,661	-134	1,389	120	0	321	17,117	8,715	8,413
Other equipment, operating and office equipment	5,450	-32	560	84	0	133	6,027	2,284	2,182
Advance payments and assets under development	0	0	0	0	0	0	0	1,267	633
Total	**28,104**	**-166**	**2,532**	**204**	**0**	**546**	**30,812**	**23,435**	**22,641**
Non-current financial assets									
Non-current financial instruments	686	0	0	0	0	0	686	131	131
Other loans	0	0	0	0	0	0	0	135	180
Total	**686**	**0**	**0**	**0**	**0**	**0**	**686**	**266**	**311**
	36,994	**-166**	**2,802**	**238**	**0**	**546**	**39,938**	**27,668**	**27,029**

OTHER INFORMATION

RESPONSIBILITY STATEMENT

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

Gelsenkirchen, 14 March 2017

The Executive Board

Dr. Andreas Bastin (Chief Executive Officer)	Mark Becks (Chief Financial Officer)

Independent Auditor´s Report

We have audited the consolidated financial statements - comprising consolidated balance sheet, consolidated statement of earings, consolidated statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the consolidated financial statements prepared by Masterflex SE, Gelsenkirchen, Germany, as well as the combined management report for the financial year from January 1, to December 31, 2016. The preparation of the consolidated financial statements and the report of the position of the Company and the Group in accordance with International Financial Reporting Standards (IFRS), as applicable in the EU, and the regulations under German commercial law as complementarily applicable under Sec. 315a (1) German Commercial Code (HGB) and articles of incorporation is the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements, together with the bookkeeping system, and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 German Commercial Code (HGB) with German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable accounting regulations and in the report of the position of the Company and the Group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing of the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Executive board, as well as evaluating the overall presentation of the consolidated financial statements and combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, which is based on the results of our audit, the consolidated financial statements comply with the IFRS, as applicable in the EU, and the regulations under German commercial law as complementarily applicable under Sec. 315a (a) German Commercial Code (HGB) and articles of incorporation and convey a true and fair view of the Group's net assets, financial position and results of operations in accordance with these regulations. The combined management report is consistent with the consolidated financial statements, complies with legal requirements as a whole provides a suitable view of the Company's and Groups position and suitably presents the opportunities and risks of future development.

Düsseldorf, 14 March 2017

Baker Tilly Roelfs AG
Wirtschaftsprüfungsgesellschaft

Thomas Gloth	Alexandra Sievers
Wirtschaftsprüfer	*Wirtschaftsprüferin*
(German Public Auditor)	*(German Public Auditor)*

Report of the supervisory board

Dear Shareholders,

The last financial year, 2016, can be considered to be satisfactory from our point of view. The most important objectives have been achieved and, with turnover of more than € 66 million, the Masterflex Group grew strongly again. Even profitability increased significantly over the previous year measured in terms of operating profit. Moreover, two important investments were implemented and/or fixed, namely, the building expansion for spiral hose production and for the warehouse in Gelsenkirchen and the purchase of fluoropolymer connection specialists APT. In addition, the trend towards increased digitalisation in all stages of the value chain („Industry 4.0“) for the hose sector was seized upon and defined; and an initial brand and market-related positioning could be performed at the beginning of 2017.

There is still a need to catch up when it comes to procedural workflow issues. The Executive Board started a series of activities in this regard at the end of 2015. Over the course of 2016, these were intensified and will also provide support for us in the future in terms of continuous improvement. We expect that these measures will slowly lead to increased profitability for the Group. Thus, we are confident that the company will successfully continue on their growth trajectory in the future based on internationalisation and innovations.

Reports and meetings

In the 2016 financial year, the Supervisory Board of Masterflex SE performed the duties assigned to it by the German Stock Corporation Act and the Company's Articles of Association in full as well as regularly monitoring and advising the Executive Board.

The basis was the regular written and oral reports provided by the Executive Board to the Supervisory Board about all issues concerning the planning, business development, risk situation and risk management of the Company and the Group. The Supervisory Board was and is closely involved at all times in the approach and measures taken by the Executive Board.

In total, four scheduled meetings of the Supervisory Board took place in the 2016 financial year and all members of the Supervisory Board and Executive Board were present. In addition to the regular face-to-face meetings, this group of people held several telephone conference calls to exchange information and pass resolutions. The Supervisory Board also discussed submissions by the Executive Board and issues concerning the Executive Board in separate telephone conference calls.

At its meetings and the telephone conference calls involving the members of the Executive Board, the Supervisory Board was comprehensively informed by the Executive Board about the Group's course of business, financial position, further development of the Compliance System, the personnel and organisational changes, and the status of corporate planning. The reports and proposals for resolution by the Executive Board were discussed in detail and evaluated following an in-depth examination and consultation. In addition, various meetings amongst Supervisory Board members have taken place with the Executive Board providing professional support of their activities.

2016 focus issues

The first meeting of the Supervisory Board, the Accounting Supervisory Board Meeting took place on 16 March 2016. The Supervisory Board discussed the separate financial statements and the consolidated financial statements for the 2015 financial year in detail. The Corporate Governance Report was adopted and then published together with the 2015 financial report. The report of the Supervisory Board was also decided upon. Moreover, the agenda of the Annual General Meeting and the election nominations of the Supervisory Board to be submitted at the Annual General Meeting were adopted following preliminary discussion in this meeting then by subsequent written circular on 19 April. With regard to the remuneration of the Executive Board, the decision was taken on establishing the objectives and variable remuneration for the 2015 financial year as well as the adjustment and fixing of targets for the bonus agreements with the Executive Board members for the 2016 financial year. In addition, the contracts of both Board members were renewed. The Executive Board also reported on the business development in the first two months of the 2016 financial year.

Following the Annual General Meeting on 14 June 2016, the inaugural meeting took place of the partially newly elected Supervisory Board. This included the election of the Chair of the Supervisory Board and his Vice Chair as well as agreement on meeting, objective and development planning for the coming 2017 year. Subsequently, the Supervisory Board was informed about the current financial development of the Group by the Executive Board. The focus was on the largely satisfactory development of Novoplast Schlauchtechnik, particularly in the medical business, as well as organisational personnel considerations regarding the management of this subsidiary, the prospects and measures in the Brazilian subsidiary and further development in China. Furthermore, the Executive Board was informed about a further sales strategy at Head Office and in detail about the newly negotiated Group financing with the bank consortium that has already been involved for several years. Following intensive discussion, the Supervisory Board agreed to the conclusion a credit agreement and approved the associated interest rate hedging agreement.

On 16 June, the Executive Board informed the Supervisory Board about the judgement published by Dusseldorf Higher Regional Court in the legal dispute with Clean Air Mobility GmbH against Masterflex Entwicklungs GmbH and its negative impact on the profitability of the company. Under the ruling, Masterflex SE was sentenced to repay the purchase price and part of the transaction costs plus interest. On the same day, this information was also made available to the capital market in the form of an ad-hoc press release. Before the court judgement, the Executive Board had informed the Supervisory Board in principle about the status of this legal dispute in previous meetings.

In the meeting on 13 September 2016, the Executive Board reported on the current business development, the status of changes at Novoplast Schlauchtechnik and about the successes of the activities initiated in the USA. In addition, the contents and requirements of the Group-wide valid Compliance Management System were introduced and widely debated.

In the last Supervisory Board meeting of the year on 12 December 2016, the Executive Board reported on the current market and business position. Afterwards, the business planning for 2017 was discussed and agreed. Additionally, the Supervisory Board endorsed the updating of the Declaration of Compliance for the Corporate Governance Code. Moreover, the medium and long-term strategic orientation of the Masterflex Group was discussed. The planned purchase of the company Advanced Polymer Tubing GmbH (APT), Neuss, was another topic presented and discussed in detail. The Supervisory Board subsequently endorsed the purchase of APT in December via circular procedure on the basis of the contract documentation.

The Supervisory Board received regular information on the Company's sales and earnings development and changes in key balance sheet items. Developments in the personnel area also played an important role in 2016. The Executive Board provided the Supervisory Board with extensive information on the current developments of the individual subsidiaries. The Executive Board reported in writing and verbally in meetings, periodic discussions and telephone conferences during the year, including on the preparation and content of the six-month and quarterly reports, discussing these extensively with the Supervisory Board.

Trusting cooperation with the Executive Board

The Supervisory Board continued its open and trusting cooperation with the Executive Board over the past financial year; this also applied after the personnel changes in the Supervisory Board from mid-June 2016. The Chair of the Supervisory Board also remained in contact with the Executive Board between meetings and was kept informed about significant developments and forthcoming decisions which were of particular significance for the Company. The Chair of the Executive Board informed the Chair 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 Chair of the Supervisory Board in good time for the following meeting.

Changes in the Supervisory and Executive Board

The Annual General Meeting on 14 June 2016 elected the candidates proposed by the management team, Dr. Gerson Link and Jan van der Zouw, to members of the Supervisory Board by a large majority Previously, both former members of the Supervisory Board, Friedrich-Wilhelm Bischoping and Axel Klomp declared their readiness to resign from their posts with effect from the Annual General Meeting. Thus, since that date, the Supervisory Board has consisted of Messrs Georg van Hall, Dr. Gerson Link and Jan van der Zouw. Mr van Hall was selected as Chair in the inaugural meeting of the Supervisory Board and Dr. Link as his deputy.

At the start of the financial year, and against the backdrop of the future outlook, the Supervisory Board considered that the sustainable development of the company can be safeguarded by an early renewal of Executive Board contracts thus binding the existing Board members. The Executive Board members, Dr. Andreas Bastin and Mark Becks, had already expressed their willingness to the Supervisory Board to continue their work over a longer period than contractually agreed at the time. This was based on the mutual agreement that the Company would like to bind both Board members who hold a relevant interest in the share capital in the company and thus have each contributed their own part for the existing equity base, and would like to commit for a longer period than the current term of appointment stipulated at that time to guarantee continuity of the Management and continuation of the successful business development since the turnaround. As a result, both Executive Board members were re-appointed until 2022.

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 2016, the Supervisory Board and Executive Board discussed in depth the recommendations and suggestions of the Code along with the amendments that were made in 2015. 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 2016, the Executive Board and Supervisory Board resolved and submitted a Declaration of Conformity in accordance with § 161 AktG of the German Corporate Governance Code version dated 5 May 2015. 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. Small editorial changes to our Corporate Governance Code are based on the personnel amendments to the Supervisory Board. 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 reported on corporate governance in the Company 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 and management report of Masterflex SE and the consolidated financial statements and management report for the Group and Masterflex SE for the 2016 financial year as submitted by the Executive Board, together with the bookkeeping system, were audited by Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft which was appointed as the group's auditor by the Annual General Meeting on 14 June 2016, and issued with an unreserved audit certificate. This auditing company, formerly under the name of Rölfs WP Partner AG Wirtschaftsprüfungsgesellschaft, 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. On a revolving basis, 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 14 March 2017 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 the Masterflex Group. All of the risk areas identified by the Executive Board and the Supervisory Board were discussed. Risk management was subject to an intensive examination by the auditor, who confirmed that the Executive Board of the Company had implemented the measures required in accordance with § 91 para 2 of the German Stock Corporation Act, in particular the establishment of a monitoring system, and that this monitoring system was suitable for the early recognition of developments that could endanger the continued existence of the Company and for identifying undesirable developments.

There were no conflicts of interest affecting Supervisory Board members in the period under review.

Dr. Link was a member in the following legally mandated Supervisory Boards during his term as Supervisory Board member of Masterflex SE: at Rodenberg Türsysteme AG, Porta Westfalica (member of the Supervisory Board) and at Waag & Zübert Value AG, Nuremberg.

Mr van den Zouw had the following notifiable mandates during his tenure as a Supervisory Board Member of Masterflex SE in accordance with § 125 (1), sentence 5 AktG [Stock Corporation Act].

Herr van der Zouw hatte im Zeitraum seiner Aufsichtsrats-Mitgliedschaft bei der Masterflex SE folgende mitteilungspflichtigen Mandate gemäß § 125 Absatz 1 Satz 5 AktG inne:
- Chair of the Advisory Board of Europart Holding GmbH, Hagen-Haspe,
- Chair of the Supervisory Board of Den Helder Airport CV, Den Helder/Netherlands (NL)
- Supervisory Board member of Aalberts Industrie NV, Amsterdam/NL
- Chair of the Supervisory Board of Van Wijnen Holding NV, ORT/NL
- Supervisory Board member of HGG Group BV, NL
- Chair of the Advisory Committee of HGG Group BV, NL
- Supervisory Board Chair of Lievense CSO, NL.

The remaining Supervisory Board members did not perform any notifiable mandates during their term in office.

By resolution of the Annual General Meeting of 14 June 2016, Dr. Gerson Link and Jan van der Zouw were newly appointed to the Supervisory Board after Mr Friedrich-Wilhelm Bischoping and Mr Axel Klomp had resigned their posts. Mr Bishoping was then elected as honorary Chair of the Supervisory Board by the Annual General Meeting in appreciation of his outstanding contributions to the company. Both outgoing Supervisory Board members were shown considerable gratitude for their commitment.

There have not been any changes to the Executive Board during the financial year.
The Supervisory Board would like to take this opportunity to thank the Executive Board and all of employees of the Masterflex Group for their commitment as well as their constructive, trusting and successful work over the past year.

Gelsenkirchen, 14 March 2017

For the Supervisory Board

Georg van Hall
Chair of the Supervisory Board

MEMBERS OF THE SUPERVISORY BOARD

Dipl.-Kfm. Georg van Hall (Chair of the Board since June 2016)
After studying business administration at the Technical University of Berlin and the University of Illinois, USA, and taking the professional examinations, Georg van Hall held a number of management positions in his capacity as auditor and tax advisor. Since 2005, he has run his own business and, since May 2009, has been a partner at the accounting firm AccountingPartners in Dusseldorf. Following his election onto the Supervisory Board in 2009, he has been the Vice Chair of the Supervisory Board since 2010. On 14 June 2016, he was selected as Chair of the Supervisory Board.

Dr. Gerson Link (member and Vice Chair of the Supervisory Board since June 2016)
Following his Degree in Business Administration, Dr. Link initially worked for capital investment company Kapitalbeteiligungsgesellschaft der Deutschen Versicherungswirtschaft AG. Since 2002, he has been the sole director of InnoTec TSS AG in Dusseldorf. Dr. Link has gained wide-ranging experience in restructuring and the expansion of companies in niche markets and has also successfully conducted company acquisitions. On 14 June 2016, he was selected as a member and Vice Chair of the Supervisory Board.

Jan van der Zouw (Member of the Supervisory Board since 14 June 2016)
Following completion of a Mechanical Engineering degree, Mr van de Zouw gained more than 30 years' experience in running medium and large industrial companies. During his tenure as CEO of the Eriks Group from 2001 to 2011, he contributed significantly to transforming the Group from a traditional technical supplier into a modern supplier to industry. Since 2011, he has worked in Supervisory Board and Advisory Board roles for various international companies. On 14 June 2016, he was selected as a member of the Supervisory Board.

The Executive and the Supervisory Board of the Masterflex SE (from left to right): Mark Becks and Dr. Andreas Bastin (Executive Board); Georg van Hall, Jan van der Zouw und Dr. Gerson Link (Supervisory Board)

Glossary

ABS	Acrylonitrile-butadiene-styrene copolymer. A thermoplastic polymer which is often used in the automotive industry or the medical technology.
Gross Domestic Product (GDP)	The total value of all goods and services produced by an economy for the market within a reporting period.
Cashflow	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.
Clip process	Production process for hoses, in which fabric stripes are connected with a metal band.
EBITDA	Earnings before interest and taxes
EBIT	Earnings before interest and taxes - Gewinn vor Zinsen und Steuern.
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 plasticized, , i.e. moldable and can be processed further.
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
Joint Venture	Cooperation of corporations to install a new legal entity
PA, PC, PE, PUR, PVC	Polyamide, Polycarbonate, Polyethlene, Polyurethane, Polyvinyl chloride: Several plastics with various technical characteristics
PFA, PTFE	Perfluoralkoxy (PFA) und Polytetrafluorethylen (PTFE): zwei fluorierte Kunststoffe mit sehr großer chemischer Beständigkeit
REACH	Registration, Evaluation, Authorisation and Restriction of chemicals. Competent authority is the European Chemicals Agency sited in Helsinki/Finland.
Injection mould process	Method to manufacture moulded parts. With an injection moulding machine, the melted plastics is injected into an injection moulding part. The cavity of the tool determines the form and and the surface structure of the finished part.
Stage-gate-prozess	Scientific model for the process optimization 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

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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.

MASTERFLEX GROUP
Connecting Values

MASTERFLEX MATZEN & TIMM NOVOPLAST SCHLAUCHTECHNIK FLEIMA-PLASTIC Connecting Values MASTERDUCT APT