

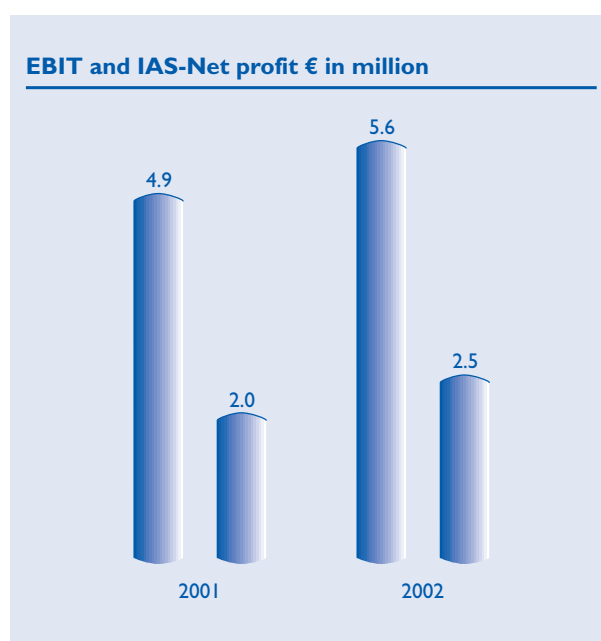
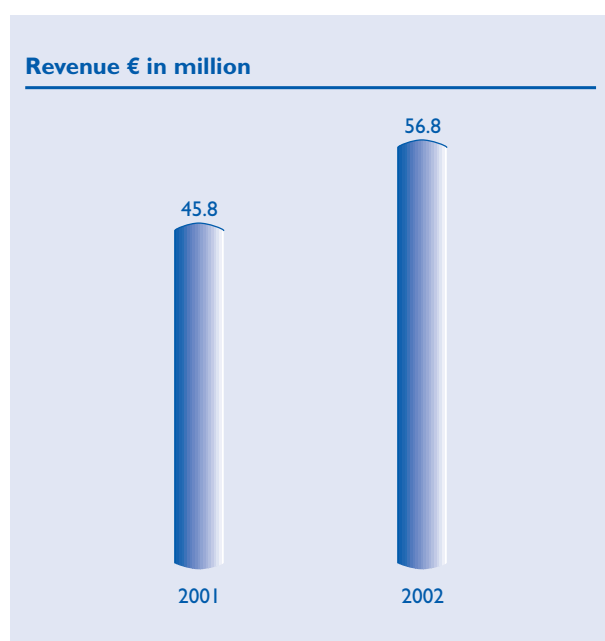


MASTERFLEX AT A GLANCE

	December 31, 2002	December 31, 2001	Change in %
Revenue (€ thou.)	56,823	45,785	24.1%
EBITDA (€ thou.)	8,013	7,043	13.8%
EBIT (€ thou.)	5,610	4,917	14.1%
EBT (€ thou.)	4,678	4,053	15.4%
IAS-Net profit (€ thou.)	2,518	2,013	25.1%
Equity (€ thou.)	25,749	26,802	-3.9%
Total assets (€ thou.)	58,803	57,105	3.0%
Equity ratio (%)	43.7%	46.9%	
Number of employees (dec., 31)	344	338	1.8%
EBIT margin	9.9%	10.7%	
Return on sales	4.4%	4.4%	
IAS-Earnings per share (€)	0.57	0.45	26.7%
Net dividend per share (€)	0.40*	0.40	0.0%
Net dividend yield (dec., 31) **	2.8%	2.4%	16.7%

* Proposal to the Annual General Meeting on July 24, 2002

** Share price on December 31, 2002: € 14.50



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Highlights of the year

2002

January

Formation of Angiokard B.V. in the Netherlands

March

Masterflex AG takes part in INVEST, an investor trade fair in Stuttgart

April

Hannover Messe trade fair

Financials press conference

DVFA analyst conference in Frankfurt

May

Quarterly report I/2002

July

Second Ordinary General Meeting on July 24

Dividend of € 0.40 – an increase of 60% compared to the previous year – distributed on July 25

August

Quarterly report II/2002

Record number of orders for the high-tech hose systems business unit in Gelsenkirchen

September

Road shows in London and Stockholm

Masterflex S.A.R.L. celebrates its 10th anniversary

October

Masterflex AG, Gelsenkirchen, celebrates its 15th anniversary

Deutsche Börse AG announces the re-segmentation of the stock exchange into the Prime Standard and the General Standard

November

Quarterly report III/2002 shows a positive outlook for the year as a whole

Masterflex AG's fuel cell technology business unit moves to the Zukunftszentrum in Herten

Masterflex AG applies for admission to the new Prime Standard

Novoplast Schlauchtechnik GmbH takes part in the COMPAMED medical trade fair

December

Investor conference in Frankfurt

Masterflex AG issues a declaration of conformity with the German Corporate Governance Code

2003

January

Masterflex AG admitted to the Prime Standard

On January 15, Masterflex AG commissions its first fuel cell in the presence of Dr. Axel Horstmann (North Rhine-Westphalia's Minister of Transport, Energy and State Planning)

March

Masterflex AG exhibits the first prototype of its hydrogen-based 50-watt fuel cell at the CeBIT trade fair in Hannover

April

Masterflex exhibits its food hoses at the Anuga Food Tec trade fair

Participation in the Hannover Messe trade fair (High-Tech hoses, fuel cell)

Dear shareholders,

we are more than happy with developments in fiscal year 2002. We have completed the major investments made over the past two years and, as announced, have been successful with our start-up efforts. We increased our consolidated revenue by around 24% to € 56.8 million. The rise in EBIT of 14% or so to € 5.6 million and in net profit of 25.1% to € 2.5 million is particularly encouraging.

Our core business unit, high-tech hose systems, made a significant contribution to this success. Masterflex has a comprehensive product offering and supplies customers in more than 20 sectors. This allowed us to more than compensate for economic slumps in individual sectors, which caused many companies a lot of trouble in 2002.

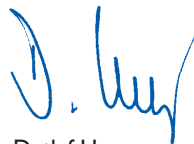
We also made substantial investments in our second business unit, medical technology. Our product offensive focused on our respiratory mask, which is patented worldwide. Already, experts are acknowledging the potential of this product to become the world market leader. As a result, we expect this business unit to contribute substantially to revenue and earnings in the years to come.

In our fuel cell technology business unit, we exhibited a near-series prototype of a hydrogen-based 50-watt fuel cell, which will provide energy for mobile applications, in spring 2003. This fuel cell is designed to start series production as of 2004. With the help of leading research institutes, we hope to be able to generate a decisive impetus for this innovative piece of technology in the coming years.

Our highly versatile material polyurethane, our technological expertise and our innovative business units provide the ideal basis for dynamic revenue and earnings growth. Due to the introduction of our product offensive, we are forecasting that revenue will increase by around 11%, and EBIT by around 30%, in 2003. The Board and Supervisory Board of Masterflex AG will propose a dividend payment of € 0.40 per share for fiscal year 2002 at the Company's Annual General Meeting.

We would like to thank our employees, whose excellent work has made a substantial contribution to our success. We would also like to express our gratitude towards our business partners for their successful collaboration, and our shareholders for putting their trust in our Company and its future.

The Board



Detlef Herzog



Hiltrud Mütterich



Interview with Board members Detlef Herzog and Hiltrud Mütterich

How would you summarize fiscal year 2002?

We achieved the goals we set ourselves. We put our investments in medical and fuel cell technology to good use and developed a range of products which will provide us with a broad foundation for dynamic growth over the next few years. Our revenue growth was in the double-digit range again in 2002, but the substantial improvement in our earnings situation was even more significant. Profit before tax rose by around 14% to € 5.6 million. Given this positive development, we will once again be proposing the payment of a dividend of € 0.40 per share to the Annual General Meeting this year.

How satisfied are you with developments in the high-tech hose systems business unit and in medical technology? Won't the current difficult economic environment impact business in these areas?

Our core high-tech hose systems business unit has a broad and solid customer base comprising more than 4,000 customers. In addition, we supply more than 20 sectors. The fact that we are continually replacing products made of traditional materials such as PVC, rubber and even steel with our innovative polyurethane systems means that we are always able to attract new customers. These developments allow us to more than compensate for any economic blips affecting existing customers.

In addition, the US market, which is significantly larger than the European market and is seen as a traditional PVC and rubber market, offers additional potential for the continued development of our Company.

Medical technology is also a highly interesting business unit. The market for medical products is continuing to grow, and the government is pushing ahead with the restructuring of the health-care sector, with the trend being towards cost optimization. We have identified significant potential for future growth in this area, too, thanks to our innovative products – and in particular our respiratory mask, which has been patented worldwide, and our surgery kits.

What is the current state of affairs in the fuel cell technology business unit?

We moved our fuel cell activities to the Zukunftszentrum ("Future Center") in Herten in fall 2002, because the laboratory, office and production capacities there provide us with an ideal infrastructure. On January 15, 2003, our first fuel cell was commissioned there in the presence of Dr. Axel Horstmann (North Rhine-Westphalia's Minister of Transport, Energy and State Planning). We then exhibited the prototype of our hydrogen-based 50-watt fuel cell, designed to supply notebooks with electricity independently of the power network in the spring at the CeBIT and Hannover Messe trade fairs. Later in the year,





we will commence preparations to prepare for the start of series production in 2004. We expect to be able to meet demand with what we can reasonably manage to produce with our existing staff in the Zukunftszentrum in Herten. We do, however, have the option of erecting larger production capacities on the site of the former Ewald coal mine.

When do you expect fuel cells to hit the mainstream?

Fuel cells are generally believed to have enormous potential for the future. This applies to mobile applications (motor vehicles), stationary use (electricity and heating), as well as to portable applications (to replace batteries). Fuel cell technology will not make a major breakthrough until the costs can compete with those of rival electricity producers.

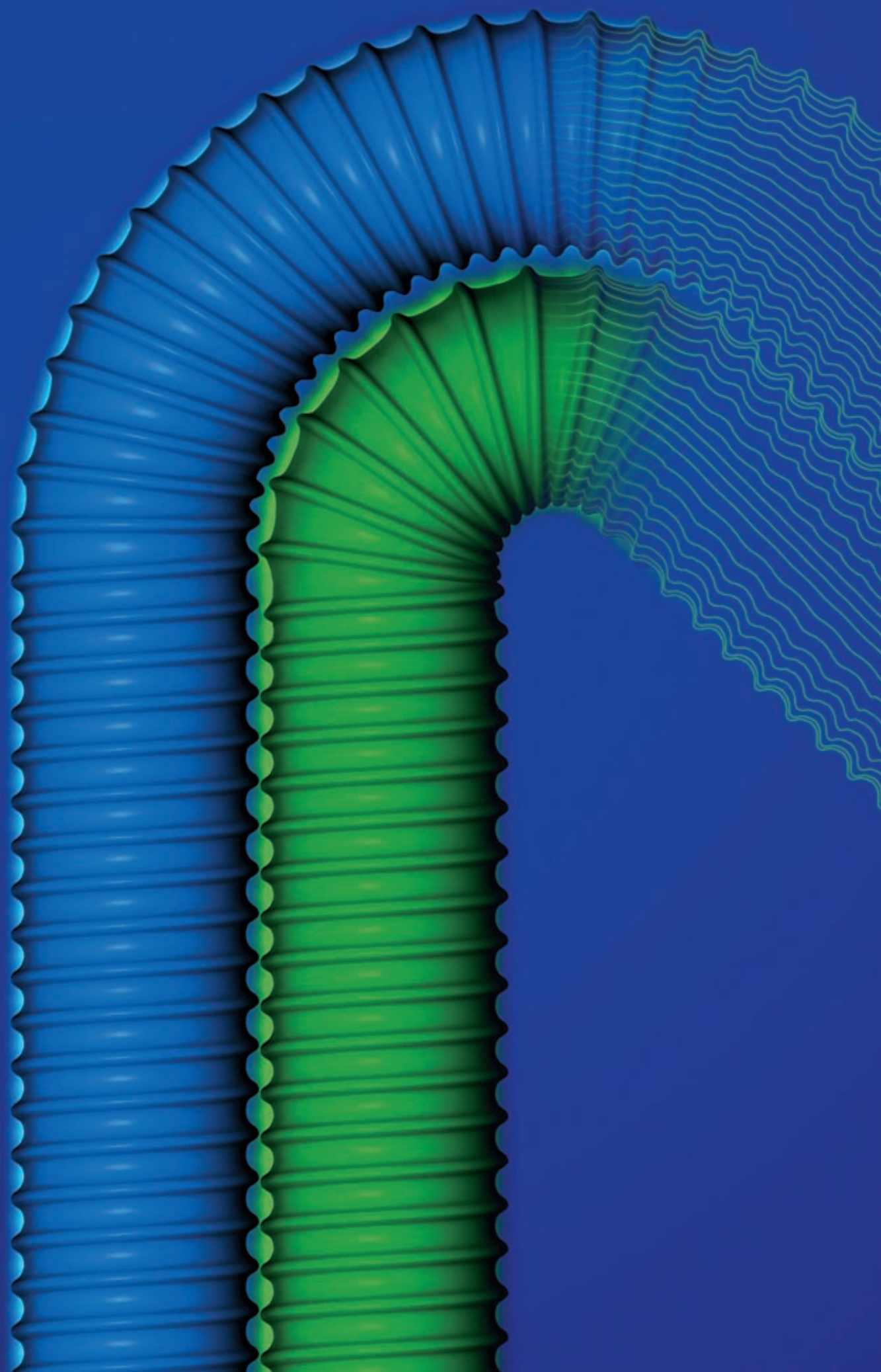
We believe that fuel cells will first achieve such a breakthrough in the portable applications that we are focusing on, because in this area, the high cost of the fuel cell is compensated by the evident product benefits and clear advantages over batteries. Our fuel cell system also allows substantially longer operating periods. In addition to supplying notebooks with electricity independently of the power network, it can be used to power medical equipment, and in locations where no electricity network is available. We want to produce a manageable number of fuel cells to allow us to target the appropriate niche markets in the future.

What do you think will be the main catalysts for growth in the years to come?

As a technology leader, we feel that we are extremely well positioned for the future in profitable niche markets. It goes without saying that our high-tech hose systems will provide the main stimulus for growth in the medium term. We have identified substantial potential for this area in Europe and particularly on the US market. However, medical technology is also set to become an exciting area. We have invested substantially in this area and will be launching a major product offensive in 2003. Experts believe that our respiratory mask, which is patented worldwide, has the potential to become the market leader, meaning that it offers interesting sales potential. Around 24 million laryngeal anaesthesias are carried out each year in the USA, Europe and Japan alone.

There is also substantial room for the imagination in the field of fuel cell technology, where we aim to become the leader for innovative and individual solutions in portable fuel cell systems. We are still unable to realistically estimate how much this business unit will contribute to revenue and earnings at present. But even without the potential that this area represents, we expect to be able to record positive revenue and earnings growth in the double-digit range in the years to come, thanks to our innovative products.

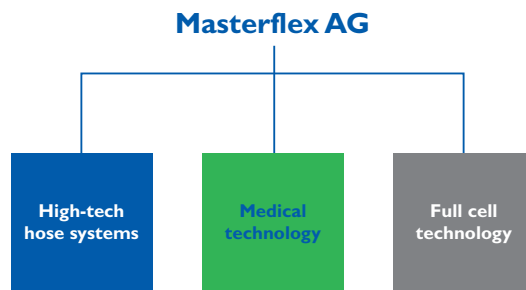




Expertise for the future.

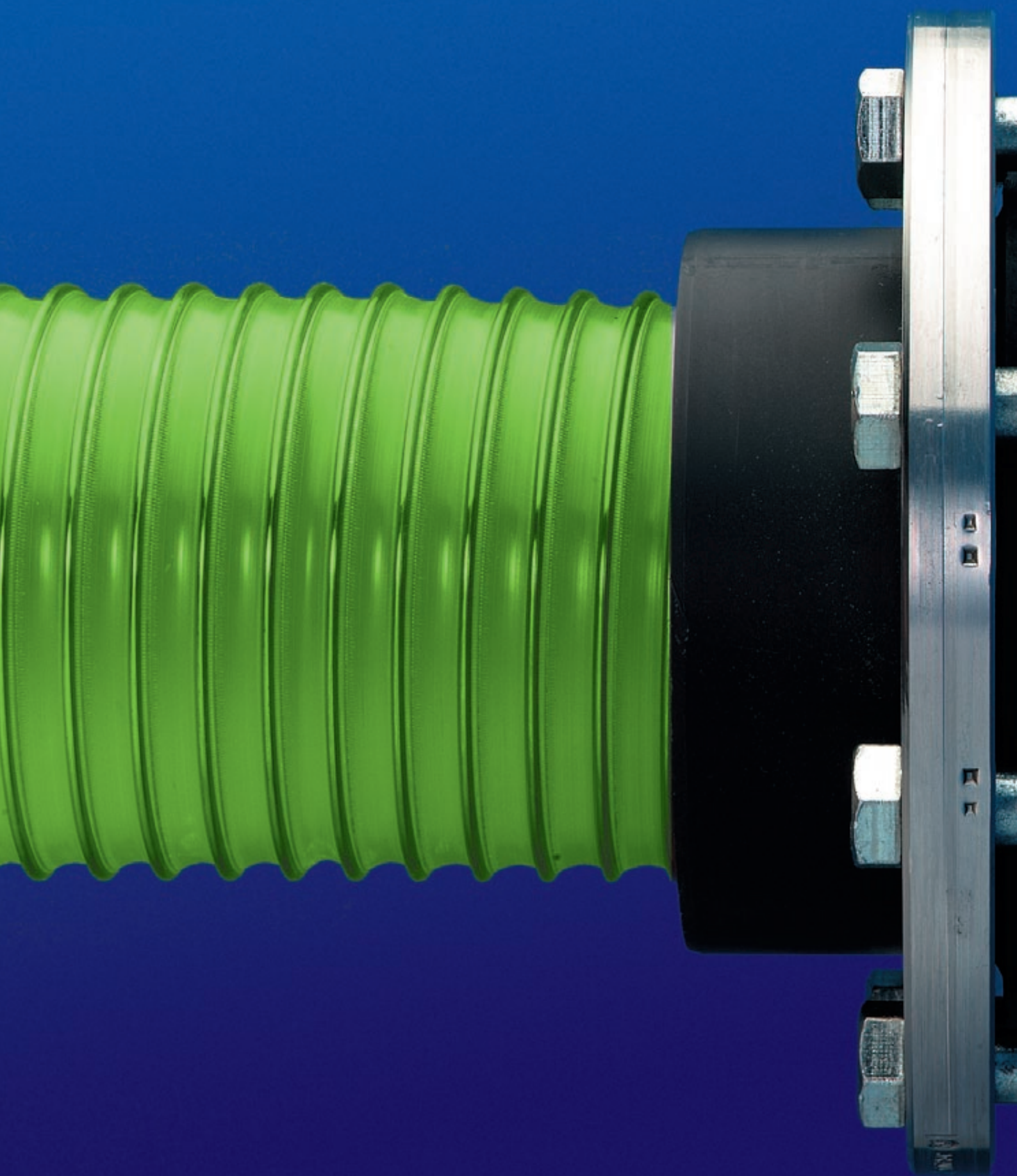
Ideas are the capital of the future. This is the philosophy which has been driving us to successfully develop new products from the very beginning. Founded in 1987 with a staff of three, Masterflex is now a dynamically growing international technology group with more than 8,000 customers worldwide.

We put our ideas into practice in innovative product and system solutions in three business units, each with substantial future potential: high-tech hose systems, medical technology and fuel cell technology. All of Masterflex's products, from our highly-specialized heavy duty hose system through the world's first respiratory mask designed to protect the patient's vocal chords, to our mini fuel cell, share the same secret of success: the technological expertise which we amassed over the years in the area of special polymers. Our future is based primarily on polyurethane (or PUR for short).



This material is elastic, highly abrasion-resistant, inflammable, infusible, chemical-resistant and ecologically friendly: its exceptional properties mean that polyurethane is being used increasingly in place of traditional materials such as PVC, rubber and steel. Whereas the development potential of these traditional materials is almost exhausted, a mere 15% of the possible applications of PU have been exploited to date, meaning that it still offers a wealth of possibilities. We have developed in-depth knowledge of this versatile material, and our numerous patents are proof of our expertise. We base new innovations and the continuous optimization of our products on proprietary formulations and product and process technologies.

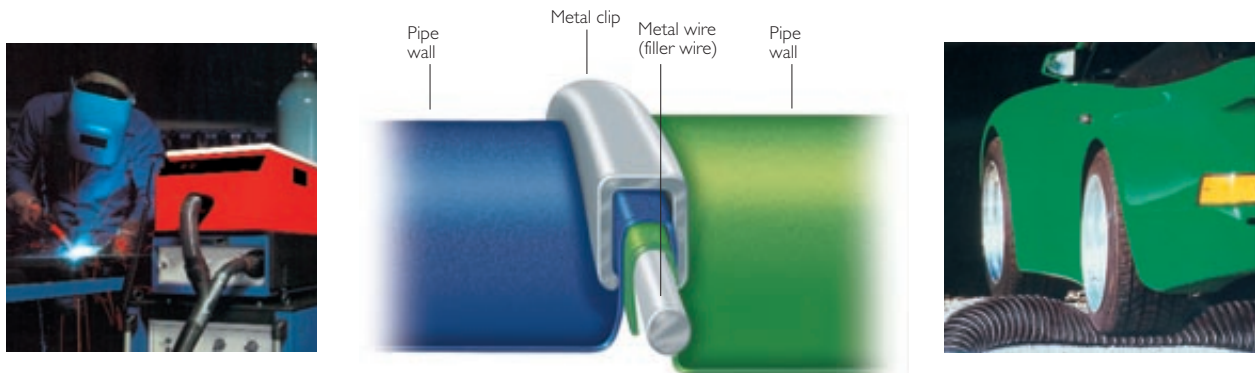
We laid the foundations for the continued successful development of our Company in the future with the investments we have made over the past two years in new markets, new products and new ideas. Because ideas are our capital, and the capital of our shareholders.



Powerful hoses for demanding applications.

Grain. Granules. Glass. Granite. Corrosive exhaust fumes, hot vapors and chemicals. All of these are in good hands at Masterflex. Our high-tech hose systems, which we have been successfully producing for more than 15 years, are as diverse as the properties of the materials they transport. We offer both standard and customized solutions covering hoses which are microbe-resistant, abrasion-resistant, infusible, chemical-resistant, electrically conductive or food-safe, hoses from polyurethane or special materials, individual hoses or complete systems comprising hoses and connecting systems: Masterflex offers made-to-measures solutions for the most varied applications in more than 20 sectors. A high-tech hose measuring one meter can cost as much as € 3,500.

The diversity of our products combined with our technological expertise has made us the recognized specialist in the market for high-tech hose systems. The key to our success: research and development. Around 5% of our employees are working on new products. Over the years, many of our innovations have set new standards. Last year alone, we introduced more than 20 new types of high-performance hoses.

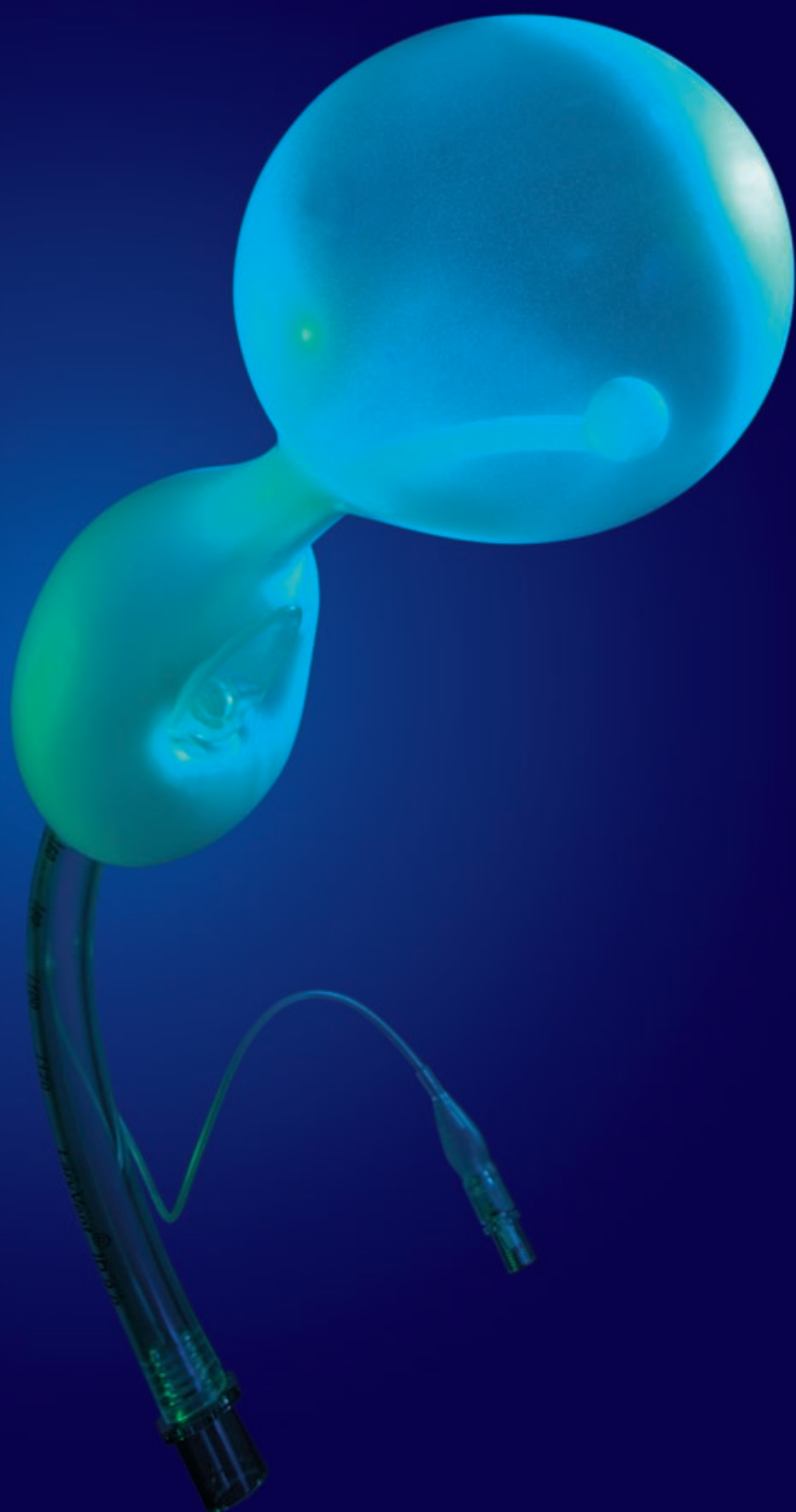


Example 1: Food hoses. Masterflex is the first manufacturer to offer profile-extruded hoses that not only fulfill the regulations of the European Food Safety Authority but also meet the even stricter requirements on the American market.

Example 2: Connecting systems. Masterflex offers an extremely diverse range of connecting systems covering more than 650 parts, including the modular Combiflex connection system made of polyurethane, the only one of its kind worldwide.

Example 3: "Master Protect" – the innovative abrasion resistance system, also made of polyurethane. The problem: sharp-edged loads are transported at high speeds through pipes. The constant friction leads to the abrasion of the tubes and bends. Our solution: a patented PUR lining for the inner walls of these tubes that minimizes downtime and significantly reduces maintenance costs.

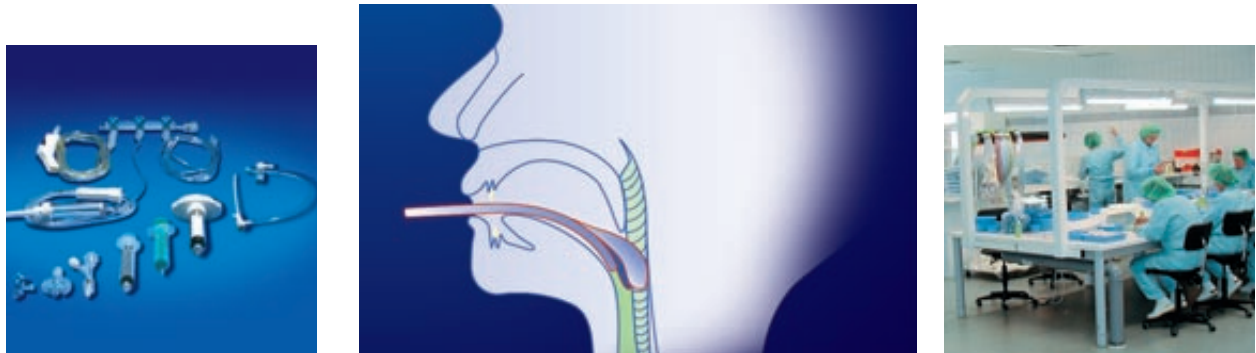
High-tech hose systems – we see our core business as providing both the basis and the driver for sustained dynamic growth.



Products for people and healthcare.

Healthcare. A sector which has to focus on cutting costs and improving quality at the same time. This means that it offers a host of opportunities and excellent potential for growth.

Medical technology is the second, rapidly expanding business unit of the Masterflex Group. There is high demand in the medical technology sector for a material which is antithrombogenic, non-ageing, and biodegradable. This makes polyurethane the ideal material for use in this sector; with the result that it is gradually replacing other substances, such as PVC. Masterflex is developing innovative solutions for the medical technology sector; too. This process is carried out in close cooperation with the physicians concerned in hospitals, clinics and universities. The result is innovations which not only help patients, but also assist medical staff in their practices and operating theaters. Is it possible to produce high-quality products which also cut costs in the healthcare sector? Masterflex is proving on a daily basis that this is possible.



Example 1: Our patented respiratory mask. This global first helps prevent vocal cord damage. Since the mask is disposable, the costly sterilization process is made redundant and the cost of the product can be calculated easily.

Example 2: Surgery kits. Examinations and operations require a vast range of instruments. We can offer a solution which saves both time and money: complete surgery kits. Sterilized, standardized, or tailor-made, our one-stop solutions are delivered just in time. This avoids the need for long preparation times, optimizes storage and reduces waste.

Example 3: Multi-lumen infusion tubing. Three tubes in one – a realistic idea. But one that sounds almost inconceivable when you consider that the outer diameter measures only 0.6 mm. Manufacturing such tubing demands a great deal of expertise and clean-room conditions, plus one of the most advanced micro precision extrusion plants in Europe.

Medical technology by Masterflex: products offering maximum benefit to all involved: patients, medical staff, the healthcare sector and our shareholders.

 Masterflex



Masterflex AG



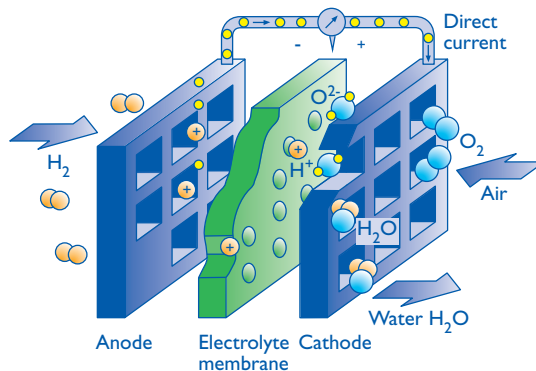
SONY



Portable energy for living and the environment.

The new independence. Mobile working – however, wherever and whenever you choose. Without having to rely on the electricity network. This vision will soon become part of everyday reality thanks to our third business unit: fuel cell technology. With the help of research institutes, we have implemented our long-standing expertise in the development of process and production technologies in this new and promising business unit.

Our 50-watt hydrogen-based mini fuel cell (a so-called PEM fuel cell = proton exchange membrane) is intended in the first instance for use in mobile offices to supply notebooks, printers, etc, with electricity independently of the power network. These “mini power stations” are a real alternative to conventional batteries thanks to their short recharge cycles, the fact that they do not self-discharge, improved efficiency and longer life.



However, the mobile office is only one of many possible applications for our fuel cell, because there are many areas in which there is a demand for the ability to live and work where and when people want.

The result: multiple other possible applications and market potential. In developing fuel cell technology, another central aspect of this “portable” energy source is extremely important to us: fuel cells are environmentally friendly and make an important contribution to the reduction of CO₂ emissions.

We are working hard to promote this form of energy. For living and for the environment.

How a fuel cell works

A fuel cell converts chemical energy directly into electrical energy. The principle can be traced back to a discovery made by Sir William Robert Grove in 1839: hydrogen is added to one end via a bipolar plate, and is oxidized on the anode, where it releases electrons. At the other end, known as the cathode, oxygen is added using a bipolar plate and is reduced (contains electrons). In the area between the two bipolar plates, an electrolyte membrane acts as a proton conductor; transferring protons from the hydrogen end to the oxygen end while at the same time preventing the electrons from getting through. The protons pass through the membrane to the cathode and combine to form water again. The electrodes flow externally to the cathode, generating electricity in the process. As the hydrogen and oxygen combine, heat is also produced.

Masterflex shares

Share information

ISIN	DE 000 549 293 8
SCN	549 293
Type of share	Ordinary bearer shares
Exchange symbol	MZX
Market segment	SMAX, (till Dec 31, 2002) Prime Standard (as of Jan 1, 2003)
Listed on the following indices	SDAX (until March 24, 2003) CDAX As of March 24, 2003: Prime All Share Index Classic All Share Index Prime Industrial Index
Designated sponsor	DZ Bank AG
Initial listing	June 16, 2000
No. of shares (thereof free float)	4.5 million (1.47 million)

2002 was another difficult year on the stock markets

The situation on the financial markets failed to improve in 2002. The number of IPOs fell, not only in Germany, but worldwide. The economic environment did not recover in Germany either, and significant reforms are still to be implemented. Sadly, the number of insolvencies reached a new high in 2002, with Germany taking the pole position in a European comparison. According to a study by Creditreform, German companies occupied the first four places in the league table for the ten largest insolvencies in Europe. The crisis in Iraq and the continuing strained economy as a whole are putting a damper on hopes for significant capital market recovery in 2003.

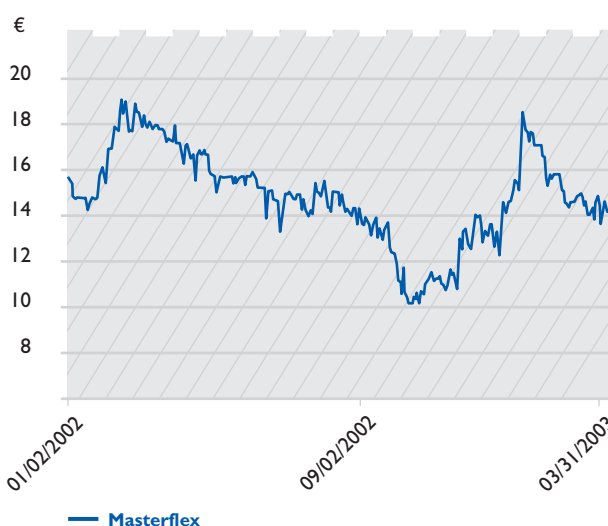
In this difficult environment, Masterflex's share price outperformed the comparable CDAX index up until May 2002. In February, it reached its 52-week high of € 19.45. Despite positive figures for H1, our share price fell in line with the general downward trend in the course of the year and reached a 52-week low of € 9.95 in October. However, it still clearly outper-

formed the CDAX from the summer onwards. This is proof that Masterflex's shares – a top quality security with a forward-looking business model – can compete even in a difficult market environment.

Following the publication of the figures for the first nine months and our increased guidance for 2002 as a whole, the share price started to shoot up. Analysts' opinions showed the share to be gaining ground. The commissioning of the first hydrogen-based Masterflex fuel cell and numerous press releases also drew investors' attention to the Company's shares at the beginning 2003. The share price climbed to as much as € 18.00 temporarily. However, the crisis in Iraq and the tarnished hopes of swift economic recovery depressed overall sentiment on the stock markets and, for no fundamental reason, pulled Masterflex's shares down to between € 13.50 and € 15.50 until March. Even at this level, the share price clearly outperformed the CDAX index.

Share performance

January 2002 to March 2003



Share performance and indices

January 2002 to March 2003

Share price (in %)



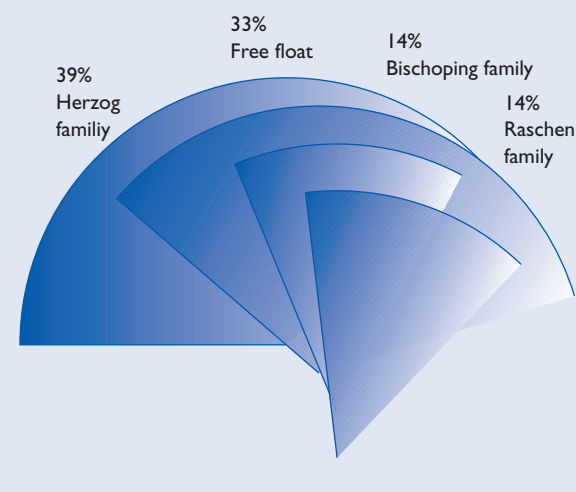
Share price and turnover statistics 2002

Highest variable rate	19.45
Lowest variable rate	9.95
Opening price 1st trading day Jan 2, 2002	15.95
Closing price Dec, 30, 2002	15.50
Performance	-9.1%

Shareholder structure

Masterflex's share capital as of December 31, 2002 amounted to € 4.5 million and is divided into 4.5 million no-par value shares. The Herzog, Bischooping and Raschen founding families are the largest shareholders. These shares are considered as not being in free float, given that they are in the hands of the families of the original shareholders. In addition, all shares belonging to shareholders who hold more than 5% of the total share capital are classified as non-free float. At present, 33% or 1.47 million shares are in free float.

Shareholder structure



Re-segmentation of the stock market

On November 19, 2002, the Exchange Council of the Frankfurt Stock Exchange decided on the re-segmentation of the stock market. This re-segmentation process, which came into force on January 1, 2003, led to the formation of the new Prime Standard segment with uniform post-admission duties for shares and certificates representing shares, in addition to the General Standard with the statutory minimum requirements laid down by the "Amtlicher Markt" (Official Market) or the "Geregelter Markt" (Regulated Market). The aim of the re-segmentation is to win back the trust of investors in the German stock market by establishing high standards and improved transparency.

The shares of Masterflex AG were admitted to the new Prime Standard on January 1, 2003. The Prime Standard segment addresses companies that wish to target international as well as domestic investors. These companies are also subject to increased transparency and disclosure requirements.

Masterflex AG already complied with these post-admission duties, which are as follows:

- the preparation of consolidated financial statements in accordance with IFRS or US GAAP
- the publication of quarterly reports containing certain minimum disclosures
- the publication of a financial calendar
- the implementation of an annual analyst conference and
- the publication of ad-hoc and ongoing disclosures in English also

On the whole, Masterflex expects that the re-segmentation process and the Company's admission to the Prime Standard will result in the capital market becoming more attractive and will improve Masterflex's position in relation to both German and foreign investors.

Essential components of the private-law regulations for the Neuer Markt and the SMAX segments are adopted by the FWB Rules and Regulations under public law through the Prime Standard. As a result, Deutsche Börse is planning to discontinue the SMAX segment by the end of 2003. Masterflex is represented on the Prime Classic and Prime All Share indices, but is not currently included on the revised SDAX.

Earnings development in 2002

Key performance indicators per share 2002

IAS earnings per share	€ 0.57
Net dividend per share in 2003*	€ 0.40
Net dividend yield (as of Dec. 31)	2.8%
Share price as of Dec. 31, 2002	€ 14.50
Market capitalization as of Dec. 31, 2002	€ 65.25 million
Market capitalization as of Dec. 31, 2002 (basis: free float as of 33%)	€ 21.32 million
Number of shares	4.5 million
Free float	1.47 million
Stated value	€ 1.00
Bookbuilding range	€ 21.00 to € 25.00
Issue price	€ 25.00
Initial share price as of June 16, 2000	€ 30.50
All-time high	€ 39.00
All-time low	€ 9.95

*Proposal to the Annual General Meeting on June 18, 2003

For the third year running, we aim to allow our shareholders to share in the positive development of our Company by distributing a dividend. The Board and the Supervisory Board will propose a dividend payment of € 0.40 per share to the Annual General Meeting on June 18, 2003. This will allow us once again to highlight our positioning on the stock market: Masterflex is both a growth and a value stock.

Corporate governance

The term “corporate governance” refers to responsible corporate management and supervision aimed at adding long-term enterprise value.

On December 23, 2002, Masterflex AG issued its first declaration of conformity in accordance with section 161 of the Aktiengesetz (AktG – German Public Companies Act). Further information can be found in the management report under the heading “Corporate governance”.

Active investor relations policy

An open and transparent information policy is one of Masterflex AG's core corporate principles. In 2002, we once again actively sought to communicate with shareholders, investors and analysts, in order to present our Company and disclose our strategies for long-term success.

Our homepage at www.masterflex.de is an important tool for making information available quickly. This homepage was given a facelift at the beginning of 2003 and will offer even easier access to information on our Company starting in the end of May. Interested investors can use it to subscribe to our e-mail newsletter, which distributes the latest information in a timely fashion.

On July 24, 2002, we held our second Ordinary General Meeting in Horst Castle, Gelsenkirchen. Attendance was good once again, with almost 300 shareholders present. In light of the positive development of the Company and the 60% increase in the dividend to € 0.40, representatives from the Schutzgemeinschaft der Kleinaktionäre (Small Shareholders' Association) and the Deutsche Schutzgemeinschaft für Wertpapierbesitz (German Shareholder Protection Association) were generous in their praise. This satisfaction was reflected in the results of the resolutions. The actions of the Board and the Supervisory Board were approved with a 100% majority and the other resolutions, including the dividend proposal, were also adopted by an extremely wide margin.

In March 2002, we again presented our Company at the INVEST investor trade fair in Stuttgart. In addition, we took part in an international roadshow in London and Stockholm for the first time, where we introduced Masterflex to interested institutional investors. In December 2002, we also participated in an investor conference in Frankfurt.

Our investor relations work in the current fiscal year will focus on expanding our German and international roadshows. As well as general Company presentations, we will also be presenting developments in medical technology and fuel cell technology.

Financial calendar 2003

Financials press conference	April 25
DVFA-Analysts' meeting	April 28
Interim report for Q I	End of May
Annual General Meeting	June 18
Dividend payment	June 20
Interim report for H I	End of August
Interim report for Q3	End of November

Latest news: www.masterflex.de

Group Management Report

Economic situation

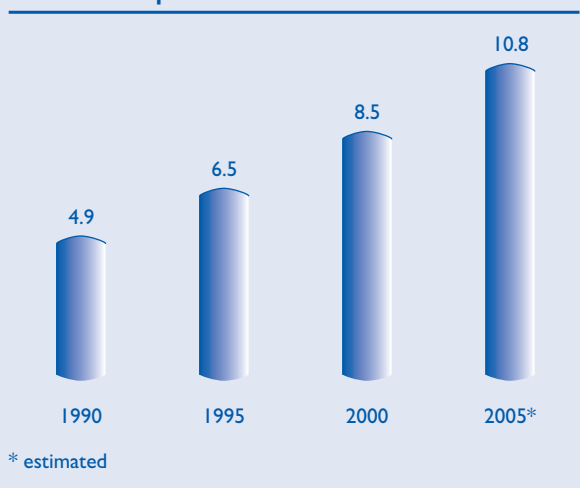
The global economy showed no signs of improvement in 2002. The slight upturn in the USA was not sufficient to stimulate any significant growth in Western Europe as well. The economic situation in Germany remained strained during 2002, and the country continued to trail behind the rest of Europe with GDP growth of 0.2%. This development is mirrored in the number of bankruptcies among partnerships and corporations, which increased by 16.4% to a record 37,700 in 2002 (source: Creditreform). The situation on the capital markets in 2002 was no brighter, with the DAX and other indices continuing to slide. The IPO market ground to a halt, forcing many banks to substantially downsize their investment banking and research departments.

Plastics sector remains at prior-year level

The plastics processing industry generated revenue of € 40.7 billion in 2002, unchanged on the previous year. This zero growth puts it below the overall economic average. The sector was shored up by international sales, which rose over 6% on

the previous year, although this increase came nowhere near the excellent double-digit growth rates of past years. Domestic revenue dropped by 2.9%. However, an upward trend became apparent in the second and third quarters of 2002, with overall production gains of 2.5% and 4.4% respectively.

PUR-consumption worldwide in metric tons



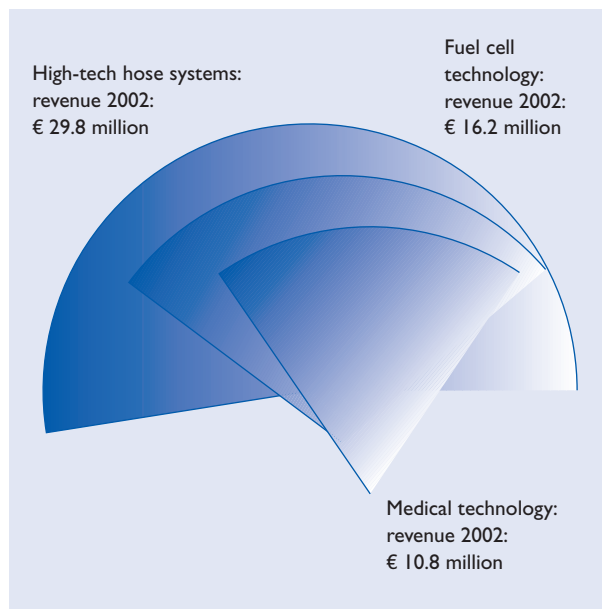
Polyurethan – key advantages				
Characteristics	PUR	PVC	Metal	Rubber
Flexibility/Elasticity	■■■	■■■	■	■
Abrasion resistance	■■■	■■	■■	■■
Inflammable	■■■	■	■■■	■
Infusibility	■■■	■	■■■	■■
Weight advantages	■■■	■■	■	■
Chemical resistance	■■■	■■	■■	■■
Ecological aspect	■■■	■	■■■	■

■■■ good
 ■■■ medium
 ■ poor

Revenue in the foils, plates, hoses and profiles segment increased by 0.7% to € 13.5 billion, outperforming the market as a whole. Exports in this segment also developed positively, jumping by 7.9% to € 5.8 billion, while revenue from domestic sales fell by 4.3% to € 7.7 billion. The weak cyclical situation and difficult global economic environment has led the Gesamtverband der kunststoffverarbeitenden Industrie (GKV – National Association of Plastics Processors) to forecast revenue development of between 0% and 2% for 2003.

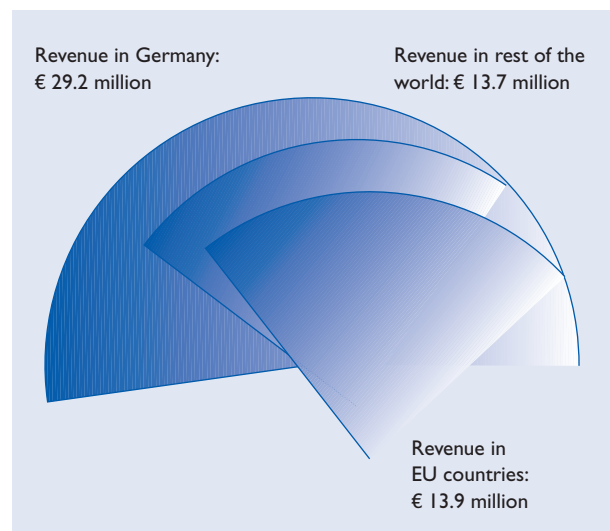
The future opening up of the Eastern European markets is seen as both an opportunity and a risk for plastics processors. The industry expects competition for low-tech and mass-produced goods to become keener. According to the GKV, a high-wage country like Germany will have to expand its technology lead more than ever in order to defend its market position. In this situation, Masterflex AG feels that it is well equipped for the future due to its specialty solutions.

What is more, experts believe that the material we use – polyurethane (PUR) – has excellent prospects because of the outstanding properties of the products made from it. It offers real value-added at all stages in the value chain and is superior to conventional materials in many ways. Annual consumption of polyurethane worldwide exceeded 8 million metric tons in 2002. Polyurethane can be modified in many different ways and designed to be inflammable, resistant to chemicals and abrasion or to conduct electricity, among other things.



Masterflex AG – successful investments

The extensive investments we made in 2000 and 2001 laid the groundwork for Masterflex AG's continued successful development. This was borne out in the second half of 2002 in both our



revenue and our EBIT figures. Future-oriented niche markets and innovative products are the guarantors of our success, and enabled us to increase our consolidated revenue by 24.1% to € 56.8 million (2001: € 45.8 million). The high-tech hose systems business unit made the largest contribution to revenue at 52.5% (€ 29.8 million). Medical technology accounted for € 10.8 million (19%) and the mobile office segment within the fuel cell technology business unit for € 16.2 million (28.5%) of the Company's successful growth.

Our most important sales market is still Germany, where revenue of € 29.2 million was generated in the past fiscal year. This corresponds to 51% of the Group's total revenue. After Germany come the EU countries with € 13.9 million (25%), followed by the rest of the world with € 13.7 million (24%). Given our successful penetration of the US market, we expect these proportions to change over the coming years.

High-tech hose systems – established core business

In our core business unit of high-tech hose systems, we again succeeded in escaping the difficult economic situation in Europe. In Germany, we generated record revenue levels in 2002, and 2003 also started promisingly. This shows that we have established ourselves as a leader in high-quality hose systems.



In 2002, we increased our revenue by a total of approximately 7%. In light of the weak economy in Germany and the global economic uncertainty, this clearly demonstrates that we are able to compensate for economic downturns in individual areas, since we supply over 20 sectors and are not dependent on individual customers. We acquired a number of new key accounts by developing new products for highly specialized applications. The Company was not dependent on any specific sectors or individual customers.

We are driving forward further development of our products and materials in the Technical Center that we opened in 2001. We expect growth in 2003 to be boosted by new products such as the food hoses we presented at the Hannover Messe trade fair in 2002.

Food-safe polyurethane hoses

Masterflex is the first manufacturer to offer profile-extruded hoses which are fully food-safe. The polyurethane and polyolefin used in the manufacture of these hoses comply with the relevant EU regulations and the recommendations of the Bundesinstitut für gesundheitlichen Verbraucherschutz und Veterinärmedizin (BgVV – Federal Institute for Consumer Health Protection and Veterinary Medicine) and have been approved by the FDA (Food and Drug Administration). They also meet the requirements of users from the pharmaceuticals and food industries.

The high-tech hose systems business unit also offers enormous future potential. Germany's stringent environmental standards are being adopted in the course of the harmonization necessitated by EU expansion, opening up further possibilities for application. As in 2002, we present our products at important national trade fairs such as the Hannover Messe, Powtec, and Anuga Food Tec, as well as at high-profile international industrial trade fairs.

Medical technology

The innovation potential offered by polyurethane, the material we use, can be seen very clearly in the field of medical technology. This material is being deployed more and more because of its antibacterial, antithrombogenic and biodegradable properties. Medical technology is one of the fastest-growing sectors of manufacturing industry. Annual growth of four to five percent is forecasted for Germany alone over the next few years, and this figure could be much higher in some segments because of the market's heterogeneity. One reason for this positive outlook is that the population is ageing, another is that customers are increasingly demanding higher-quality healthcare services. Global revenue in this sector amounted to around € 170 billion in 2001.

According to a study by IKB Deutsche Industriebank, middle-market medical technology companies still play a key role and are well positioned in this market. Masterflex has recognized the potential in this area and invested particularly heavily in medical technology during the last two years. Our clean room facility in Halberstadt produces medical components such as infusion hoses, catheters and – in particular – multi-lumen hoses, i.e. multi-chamber hoses with a diameter of between 0.5 and 20.0 mm, on state-of-the-art extrusion equipment.

Cost savings from products offering a reliable basis for calculation

The trend towards cutting costs in the healthcare sector continued unchanged in 2002. In this sector, we offer doctors and hospitals customized product and system solutions with cost-saving potential and a reliable basis for calculation.

On the one hand, the medical diagnostics and therapy sets offered by our subsidiary Angiokard Medizintechnik GmbH & Co. KG, Friedeburg, provide doctors and hospitals with cost benefits. The instruments required for surgery or a medical examination are bundled together in a complete kit according to the individual requirements of the doctors using the equipment. Simplifying logistics in this way saves time and therefore money, too.



We also offer an internationally patented respiratory mask (Lary Vent) that is designed to avoid inflammation of and damage to the vocal cords during surgery, thus preventing expensive follow-up treatment. Instead of the traditional method of inserting a balloon catheter into the windpipe to seal off the latter, our respiratory mask seals off the pharynx and the esophagus. What is more, unlike other products, Lary Vent does not have to be sterilized and its costs are therefore easily calculated.

Around 24 million people undergo laryngeal anesthesia every year in the USA, Europe and Japan alone. Since the respiratory mask does not have to be sterilized, it is ideal for use in first-aid and emergency services. Lary Vent has already been presented at various congresses and successfully tested in surgery. Experts have told us that our respiratory mask could potentially become the market leader due to its clear product advantages. The mask will be shipped starting in spring 2003, and demand is already high. Our goal is to ramp up production and sales volumes to an annual one million units by 2004. We expect this product to make a substantial contribution to revenue and profit in our medical technology business unit over the coming years.

Fuel cell technology

In the short to medium term, Masterflex's growth drivers will undoubtedly come from its two established business units, but our newest business unit also provides real potential for future growth. The fuel cell technology segment is yet another area in which we aim to strategically position ourselves in the international arena with our innovative technologies and products.

Member of the NRW fuel cell competence network

In 2002, we made good progress towards our goal of establishing ourselves as an expert partner for this innovative form of energy. Masterflex is now a member of the fuel cell competence network of the federal state of North Rhine-Westphalia. In spring 2002, the Economics Minister of North Rhine-Westphalia appointed Mr. Herzog to its "Fuel Cells" advisory committee, which unites the various fuel cell projects in North Rhine-Westphalia. The committee discusses prospects and bundles expertise in the area of fuel cell and hydrogen technology in order to promote this forward-looking industry.

We also expanded our fuel cells project team in 2002. In October, our project department moved from Gelsenkirchen to the Zukunftszentrum ("Future Center") in the neighboring town of Herten. In collaboration with research institutions, we are working flat out to prepare for series production for the Masterflex PEM mini fuel cell, which is expected to commence in 2004. On January 15, 2003, the first Masterflex fuel cell was commissioned at the new site in the presence of representatives from industry, politics and the media.

Fuel cells offer considerable future potential

We are confident that fuel cells will play an extremely important role in the energy systems of the future, as they have the potential to meet the ever-increasing demands made on the efficiency of energy converters. Fuel cells are highly efficient and can therefore make a significant contribution towards reducing CO₂ levels. Together with hydrogen, the energy source, they form the basis for the use of renewable energies in portable and mobile applications. In many fields, fuel cells can substantially expand the range of application of portable devices.

The feasibility of this technology has been impressively proven in a large number of demonstration projects. In recent years, key milestones were reached in the area of fundamental research. For example, MEAs (membrane electrode assemblies) – key components of the PEM (proton exchange membrane) fuel cell – are now commercially available. With the knowledge we have today, it will not be long before fuel cell technology is launched on the market.

Our goal: to develop marketable systems

Masterflex AG's fuel cells technology project group has been working on the development of fuel cell systems since early 2002. Experience to date has shown that the current state of development effectively prevents such systems being launched on the mass markets. The target costs of €50/KW or so which would allow their use in passenger cars cannot be achieved at the moment. We are convinced, however, that fuel cells already have promising market opportunities in niche markets, areas in which a portable power supply would be impossible or extremely difficult with conventional technology. However, this depends on further research. We are therefore focusing our efforts on developing

- production technology that is tailored to the market volume and that facilitates the production of smaller batches of around 10,000 units per year and upward
- components tailored to the production technology
- control concepts enabling secure, user-friendly operation.

Masterflex is therefore focusing on the needs-driven, customized development of PEM fuel cells with a range of different outputs, innovative control electronics and state-of-the-art metal hydride hydrogen storage.

Integration into mobile office systems

Masterflex AG's new developments will be used in a 50W fuel cell system providing power for a "mobile office unit". This hydrogen-based mini fuel cell was developed in cooperation with the Fraunhofer Institut für Solare Energiesysteme ISE, Freiburg.

The mini fuel cell will initially be integrated into our subsidiary DICOTA GmbH's professional carrying systems and distributed worldwide. This new type of power supply will make it possible to operate a notebook for up to 35 hours without network access. Also, the modular design of our fuel cells

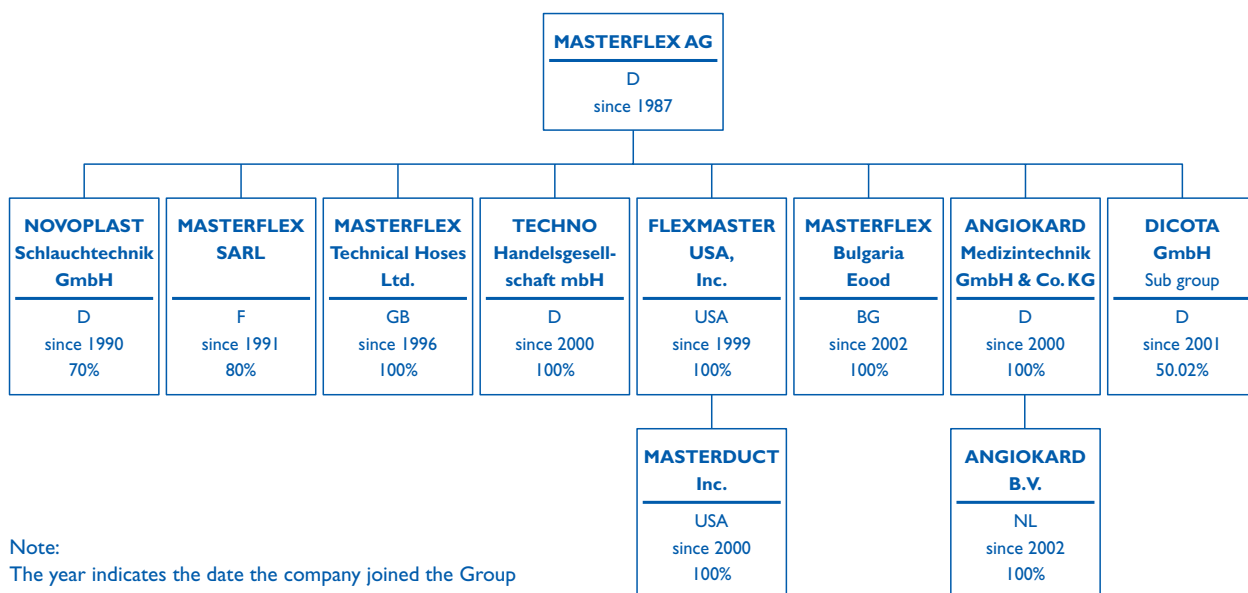
makes it easy to develop additional applications. The prototype of this hydrogen-based fuel cell was presented at the CEBIT fair in March 2003 and at the Hannover Messe in April 2003.

We are highly confident that we will be able to start marketing our fuel cells as early as 2004. With a power supply for mobile office systems that does not depend on other equipment, we



occupy a niche market that is worlds apart from the developments being driven by large companies all over the world. Intensive partnerships with leading research institutions and companies will also guarantee Masterflex AG's technological edge in the future.

Developments at our subsidiaries



In addition to its headquarters and main production site in Gelsenkirchen, Masterflex AG has a direct presence in eight further locations in Germany, France, the United Kingdom and the USA, and an indirect presence in Asia.

Name	Head- quarters	Interest held by Masterflex in %
Novoplast Schlauchtechnik GmbH	D-Halberstadt	70
Masterflex SARL	F-Béligneux	80
Masterflex Technical Hoses Ltd.	GB-Oldham	100
Flexmaster USA, Inc.	USA-Houston	100
Masterduct Inc.	USA-Houston	100*
Techno Handelsgesellschaft mbH	D-Bochum	100
Masterflex Bulgaria Eood	BG-Sofia	100
Angiokard Medizintechnik GmbH & Co. KG	D-Friedeburg	100
Angiokard B.V.	NL-Hillegom	100
DICOTA GmbH	D-Bietigheim-Bissingen	50.02

* Interest held by Flexmaster USA, Inc.

Novoplast Schlauchtechnik GmbH

Our oldest subsidiary, Novoplast Schlauchtechnik GmbH, has been producing high-tech industrial hose systems from high-quality plastics since 1991. The company has also been active in the medical field for a number of years, substantially expanding its activities in this area with the construction of a clean room facility. Novoplast Schlauchtechnik focuses on producing multi-lumen hoses, infusion hoses and catheter hoses on some of Europe's most modern micro-precision extrusion facilities. Novoplast also produces "LaryVent", our respiratory mask that has been patented worldwide.

Our subsidiary has also established itself as a specialist in superior medical technology products made of high-quality plastics within only a short period of time. For example, Novoplast Schlauchtechnik was represented at the first "Plastics in Medical Technology" conference held by the German Association of Engineers (VDI) in September 2002, at which it gave a talk on hose types in medical technology. This conference was held in Bad Neuenahr together with a seminar on plastics technology in clean rooms, and was attended by around 300 participants, principally from the healthcare and pharmaceuticals industries as well as the plastics industry.

The medical devices that Novoplast Schlauchtechnik produces are also part of the medical kits produced by our second subsidiary, Angiokard Medizintechnik GmbH & Co. KG, which is also active in the field of medical technology. What is more, Novoplast Schlauchtechnik's customer base includes renowned suppliers of medical components.

The year 2002 was a success for the company, both in the industrial and the medical fields, with revenue rising by a total of 10%.

The company also presented its industrial products at Masterflex AG's joint stand at the Hannover Messe in April 2002, as well as at other fairs. In November 2002, Novoplast Schlauchtechnik presented its medical products at the Compamed fair in Düsseldorf.

Angiokard Medizintechnik GmbH & Co. KG

Angiokard Medizintechnik GmbH & Co. KG, Friedeburg, is one of the leading specialist kit packers in the German market, offering hospitals, clinics and large medical practices customized surgery kits, particularly for the areas of cardiology, radiology and anesthesia. The service also includes just-in-time delivery, if required.

Since 2001, the company has steadily expanded its export business in Europe. Angiokard now also has a subsidiary in the Netherlands so that it can provide clinics, hospitals and doctors there with even better consulting services. The company has obtained international certification in accordance with EN ISO 9001 ff, EN 46001 and MDD 93/43, thus facilitating further expansion. Over the years, Angiokard has built up considerable expertise, especially in the area of angiography. The company intends to leverage further potential in this field.

Numerous product developments and innovative kits, such as the complete kit for conventional arthroscopy, have brought Angiokard closer to its goal of becoming Europe's No. 1 kit packer. The company plans to successfully continue its expansion in 2003. It has already found a sales channel for the respiratory mask, which means that shipping can begin as soon as the product has been released.

Masterflex S.A.R.L.

In September 2002, Masterflex S.A.R.L. celebrated ten successful years in business.

Masterflex S.A.R.L. is not just successful in France but also in southern Europe. Since the food industry in France is of crucial importance, we expect that this market will offer interesting sales potential for our new food hoses. Masterflex S.A.R.L. is building up its awareness levels and its market position with a large number of marketing initiatives, including participation in leading French trade fairs. The company has also been represented at various industry-specific fairs. France still has some catching up to do in terms of the harmonization of environmental and industrial standards, an area which we believe provides additional potential for future development.

Masterflex Technical Hoses Ltd.

Masterflex Technical Hoses Ltd. produces and distributes high-tech hose and connecting systems for industrial applications in the UK. We are satisfied with the company's development to date.

Flexmaster USA, Inc.

Following the slump in September 2001 and the only slight increase of 0.3% in GDP for the year as a whole, the US economy developed surprisingly well in 2002, with growth of 2.4%. This improvement is also mirrored in the positive revenue and earnings figures that our subsidiary Flexmaster U.S.A., which we acquired in 1999, generated in its cyclically-sensitive traditional business of hoses for air conditioning and ventilation. The company's product range is primarily marketed to the construction industry. Flexmaster has been active in this market segment for 25 years. The company is respected for its problem-solving expertise and has therefore remained successful despite a sluggish market environment.

Notwithstanding the difficult economic climate, we are more than satisfied with the development of our industrial segment, which is currently being set up. Our subsidiary Masterduct is already one of the three best-known hose manufacturers in the USA. Time has shown that setting up our own sales channels for high-tech hose systems in the USA was the right approach to take. We are convinced that revenue and earnings will develop just as dynamically as in our other companies in Germany, France and the UK.

For us, the US market is the market of the future. As the world's largest industrial market and a traditional PVC and rubber market, it offers enormous growth potential, and will increase in importance in the years to come.

Techno Handelsgesellschaft mbH

Techno Handelsgesellschaft mbH, a subsidiary of Masterflex AG since 2000, has specialized in particular in supplying tubing for tunnel and bridge construction. The company has driven forward its internationalization in the last two years, and now supplies products for important large-scale projects in Europe. Its development in Germany remained weak in 2002, focusing on a number of small tunnels. However, Techno has now successfully established itself as a specialty outfitter and systems supplier.

We believe that this market segment has excellent future prospects, especially outside Germany. Many existing tunnels are single-box designs and therefore pose a hazard. As a result, they will need to be expanded to double-bore constructions. In Germany, Techno aims to continue positioning itself as a specialist on the market; since many projects are in the preparatory stages. This leads us to expect that the revenue situation will improve again in Germany over the coming years, especially if the economy rallies.

Masterflex Bulgaria Eood

We established Masterflex Bulgaria Eood near Sofia in early 2002. Since the middle of the year, we have used new machinery to manufacture technical hoses which were previously produced by our French subsidiary. This is a manufacturing facility only, the distribution of the products is made by Masterflex AG.

DICOTA GmbH

DICOTA GmbH, Bietigheim-Bissingen, has been a member of the Masterflex Group since August 2001. Founded in 1992, DICOTA is the world No. 2 in the profitable notebook bag, case and accessories segment (known as mobile computing equipment).

The company has consistently recorded double-digit revenue growth since its formation. DICOTA has established itself as a premium brand with innovative products, a strategy which helped it escape the cool-down in 2001, the first year in which the PC market suffered a downturn. This market recovered in 2002, when a total of approx. 136 million PCs were sold worldwide. The European market grew by around 3% despite the weak economic climate in Western Europe. Market researchers are anticipating growth rates of between approx. 8 and 11% over the next two years.

DICOTA has an international customer base. The company is highly successful in Europe and Asia. During 2002, it also expanded its activities in the Middle East, after having made initial contacts there four years ago. Since then, business in this economic area has grown every year. Dubai is not only the economic center of the United Arab Emirates, but also the most important trade center for the whole of the Middle East. In particular, the IT and communications industries are centered there. For this reason, it makes sense for DICOTA to have a direct presence there, as a supplier for notebook manufacturers. The high growth rates in the Middle Eastern notebook market also mean that the demand for accessories is increasing at the same pace, creating considerable potential for future growth.

Since DICOTA GmbH has top-class global distribution structures, we aim to use its sales network to distribute our hydrogen-based 50-watt fuel cells. From 2004 onwards, these will power the equipment integrated into DICOTA GmbH's professional carrying systems such as notebooks, printers, etc. independently of network access.

Investments

After the record investments made in 2001, investments in 2002 were mainly made in property, plant and equipment of T€ 2.156 and in intangible assets of T€ 868. Investments in non-tangible financial assets were largely concluded in the year under review concluded.

In the future, we will continue to investigate the need for investments whenever we believe that these could successfully promote the development of our Company.

Financing measures

The partial purchase price for DICOTA GmbH was debt financed. The portion exceeding amortization and investments in the expansion of business activities were partially debt financed.



Almost zero employee fluctuation

Our success is due to our numerous innovations as well as to our efficient product and system solutions for a wide variety of applications. This technological lead is principally due to the work of our creative, motivated employees. Our sales team maintains regular contact with our customers so we can develop solutions tailored to their needs. Around 5% of our workforce is involved in research and development.

We further increased the number of employees in these important areas in 2002. In total, staff numbers rose by 1.8% to 344.

Our corporate culture is centered on our motivated, creative employees. Employee fluctuation is almost zero, and sickness figures are well below the German industry average. These are important indicators of our employees' satisfaction.

We reward our employees for their important role in our Company's success by giving them a share of the profit. We also offer regular opportunities for professional development.

Employee development: 1997–2002:

	1997	1998	1999	2000	2001	2002
Total	92	102	168	249	338	344

Environmental protection

There are no significant events needing to be reported in this area. Masterflex employs an external safety officer to monitor compliance with environmental protection requirements.

Risk management

Since 1998, the Act on Control and Transparency in Business (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – KonTraG) has obliged public companies to set up a risk management system to identify material risks at an early stage.

During its transformation into an Aktiengesellschaft (German public company) and its subsequent IPO in 2000, Masterflex AG installed a risk management system to safeguard the Company's continued existence.

Risk identification and analysis form an integral part of the control function at the Masterflex Group. By implementing management and control systems, Masterflex can identify and monitor risks and take any necessary steps to manage them.

The risk identification system comprises a large number of individual modules, including reporting, institutionalized discussion groups, guidelines and workflow instructions.

Certain aspects of the risk identification system are monitored by the existing quality management system. Ongoing optimization and constant further development of the existing risk management system will also play a key role in the general optimization of business processes in the future.

Research and development (R&D) – a headstart through innovation

Our successful corporate development has its roots in our high level of innovation. Powerful product and system solutions are based on a continuous exchange of ideas with customers and the work of our own research and development department. While other companies are constantly cutting their R&D budgets, according to a study by the Stifterverband für die Deutsche Wissenschaft (the Association for the Promotion of Science and Humanities in Germany), we have continued to invest in this area. Key projects in the last two years include the LaryVent respiratory mask and research into fuel cells. The fact that around 5% of our employees are involved in R&D shows how important this is for the Company.



Leveraging our expertise all the time to develop new applications

We are constantly using our extensive expertise with polyurethane to develop new areas of application. Our specialized knowledge extends over the entire value chain, beginning with the further development of PUR, through all aspects of process and production technology, and ending with our own sales and distribution structures. This know-how is documented in a large number of innovations and patents and underlines our technology lead in the market.

In the Technical Center at our Gelsenkirchen headquarters, which we set up in 2001, we expanded our laboratory capacity during the past year to enable further research on the properties of polyurethane and to optimize processes. We also built new laboratories when we switched our fuel cell activities to the Future Center in Herten.

In anticipation of our upcoming product offensive, we invested in the expansion of our machinery fleet, which we developed and built ourselves. These investments were made in both Germany and abroad in the areas of medical technology and high-tech hose systems. Field tests at customers' locations also make up an integral part of our R&D activities.

Fuel cells – a key focus of research

One of the key focal points of research over the coming years will be the development of a hydrogen-based 50-Watt fuel cell for mobile electricity supply.

Our goal is to develop marketable systems. We believe that areas in which conventional technology cannot provide a portable power supply, or can do so only at considerable expense, present market opportunities. However, this requires additional development work, which is why we are concentrating our efforts on the development of:

- production technology that is tailored to the market volume and that facilitates the production of smaller batches of around 10,000 units per year and upward at acceptable prices
- components tailored to the production technology
- control concepts enabling secure, user-friendly operation.

Our collaboration with research institutions, with which we have concluded cooperation agreements, as well as the material and moral support of the state of North Rhine-Westphalia and the town of Herten make an important contribution towards the success of our work.

Nanotechnology

We are also conducting extensive research in the forward-looking sector of nanotechnology, where we are collaborating with nanotechnology competence centers, for example. Nanotechnology makes it possible to optimize the surface structure of our polyurethane, thus further improving, for instance, the – already excellent – non-stick properties and abrasion resistance of the material. Current projects include surfaces with greater abrasion resistance, anti-microbial and scratch-resistant hoses, as well as electromagnetic compatibility (EMC).

Other key transactions

No important contracts were signed in fiscal year 2002, and no legal disputes requiring reporting arose.

Net assets and results of operations

Selected balance sheet items

	Dec. 31, 02	Dec. 31, 01	+/-
Noncurrent assets	33,622	34,256	-1.9%
Intangible assets (€ thousand)	17,939	18,067	-0.7%
Plant and machinery (€ thousand)	4,939	3,417	44.5%
Noncurrent financial assets (€ thousand)	895	1,273	-29.7%
Current assets (€ thousand)	24,676	22,239	11.0%
Inventories (€ thousand)	10,020	9,500	5.5%
Trade receivables (€ thousand)	10,275	6,705	53.3%
Cash and bank balances (€ thousand)	2,671	4,404	-39.4%
Equity (€ thousand)	25,749	26,802	-3.9%
Total assets (€ thousand)	58,803	57,105	3.0%
Equity ratio (%)	43.7%	46.9%	
Provisions	2,469	1,911	29.1%
Liabilities (€ thousand)	26,350	24,322	8.3%
Bank loans and overdrafts (€ thousand)	14,532	12,755	13.9%
Trade payables (€ thousand)	4,432	3,506	26.4%
Other current liabilities	6,786	8,061	-15.8%

The changes in the individual balance sheet items as against the previous year are mainly attributable to the successful expansion of our business activities.

The individual variations are as follows:

The Group's total assets increased from € 57,105 thousand to € 58,803 thousand. This is mainly due to a rise in current assets of € 2,437 thousand. Trade receivables (+ € 3,570 thousand) and inventories (+ € 520 thousand) in particular increased due to the consolidation of DICOTA. As a result of the investments made in noncurrent assets, loan redemptions and the payment of a further part of the remaining acquisition price for the interest in DICOTA GmbH, cash and bank balances fell to € 2,671 thousand in fiscal year 2002 (2001: € 4,404 thousand). Noncurrent assets fell from € 34,256 thousand to € 33,622 thousand in 2002, despite investments of € 3,024 thousand due to the depreciation of property, plant and equipment (€ 1,452 thousand), goodwill amortization (€ 952 thousand) as well as disposals (€ 851 thousand) and the amortization of noncurrent financial assets (€ 506 thousand).

A look at the equity and liabilities side of the balance sheet shows that Masterflex AG has a very good equity ratio of almost 44%. The slight decrease as against the previous year is mainly the result of the €1,159 thousand reduction in the share premium, which is largely attributable to the fact that this share premium was offset against the acquisition cost of treasury shares.

Provisions rose to € 2,469 thousand in 2002 (previous year: € 1,911 thousand) in 2002. This increase is due in particular to the creation of provisions for taxes totaling € 1,344 thousand (2001: € 834 thousand).

Liabilities rose to € 26,350 thousand in 2002 (previous year: € 24,322 thousand). This increase is due on the one hand to a € 1,777 thousand rise in bank loans and overdrafts, and on the other hand to an increase in trade and shareholder payables wider. Other current liabilities fell by € 1,275 thousand due to the payment of a part of the remaining acquisition price for our interest in DICOTA GmbH.

Selected income statement items

	Dec. 31, 02	Dec. 31, 01	+/-
Revenue (€ thousand)	56,823	45,785	24.1%
Cost of materials (€ thousand)	27,042	21,688	24.7%
Staff costs (€ thousand)	13,236	11,328	16.8%
Depreciation and amortization expense (€ thousand)	2,404	2,126	13.1%
Other operating expenses (€ thousand)	10,968	7,877	39.3%
EBIT (€ thousand)	5,610	4,917	14.1%
Net profit for the period (€ thousand)	2,518	2,013	25.1%

The changes in the individual income statement items as against the previous year are mainly attributable to the fact that DICOTA GmbH was consolidated for a full twelve months (previous year: five months).

As in the previous year, revenue recorded double-digit growth, increasing 24.1% to € 56.8 million (previous year: € 45.8 million).

The cost of materials and staff costs rose by 24.7% and 16.8%. This meant that the ratios of cost of materials to revenue and staff costs to revenue stabilized further at 47.5% (previous year: 47.4%) and 23.3% (previous year: 24.7%).

In 2002, depreciation and amortization rose year-on-year by € 278 thousand to € 2,404 thousand. Depreciation of property, plant and equipment rose by € 144 thousand due to the investments made in this area. Goodwill amortization rose year-on-year by € 134 thousand to € 952 thousand. This is due to the full consolidation of DICOTA GmbH.

Other operating expenses also rose by 39.3% as a result of the consolidation to total € 10,968 thousand.

An above-average increase in revenue and an only slight rise in expenses led to a significant increase in EBIT of around 14.1% to € 5.6 million. Net profit for the period was also up year-on-year, rising by 25.1% to € 2,518 thousand.

In fiscal year 2003, we expect a significant increase in revenue to lead to a further improvement in earnings before taxes and a sustained positive development in net profit.

Transactions of particular importance after the close of the fiscal year

No transactions of importance require reporting here.

Information on material risks to future development

Business activities always involve both opportunities and risks. Risk is defined as the possibility of unfavorable future developments that can be expected with a significant degree of probability, even though they are not necessarily inevitable.

We believe that our core business of high-tech hose systems has a very sound base and that its fundamental existence is not at risk. There are three areas in which no guarantee can be given that development will not take a different course to that planned. This would deprive Masterflex of significant development opportunities for the future but would not affect the Group's core business.

The US polyurethane market has not yet become established. Traditionally, PVC hoses and rubber products are used there. By substituting these products, European manufacturers have gained a technology lead of around ten years. High-tech products of Masterflex quality are not offered in the USA. Since 2000, Masterflex has been producing high-tech hose systems in the USA; these systems are currently being launched on the market, where they are recording high growth rates. Although current developments leave us optimistic that we will be able to continue our successful foreign expansion in the USA, too, our future success depends on how the market there receives our novel products.

We will continue to drive forward expansion of our medical technology business unit, which comprises our subsidiaries Novoplast Schlauchtechnik GmbH and Angiokard Medizintechnik GmbH & Co. KG, based on our existing core competency – the development and processing of polyurethane, the material of the future.

In addition to further expanding existing distribution structures, new medical PUR products will be launched on the market or clinically tested in 2003. How fast we will be able to launch these products will depend to a large extent on the receptiveness and acceptance of the markets.

Approximately 0.4 million euros will be invested in the mini fuel cell product over the coming year. In this area, we are working very closely with a well-known research institution. Our ambitious goal is to be the first producer to begin series production of mini fuel cells in 2004. At the same time, it cannot be ruled out that the manufacture of a marketable product might be delayed or that the project may be abandoned due to the market situation.

Furthermore, it cannot be stated with any certainty at present whether this innovative product will successfully achieve its annual target of 30,000 units. While we are optimistic about being the first producer to launch an efficient product on the market, no assurance can be given that other companies will not develop the market earlier with similar products, or offer better products.

If the above-mentioned risks occur and the provisions prove ineffective, Masterflex would be deprived of considerable development potential in the future. However, this would not affect the Company's core business.

Outlook

Fiscal 2002 showed that the strategic decisions and investments we made in the past two years were the right ones. We have thus laid extremely strong foundations for substantial increases in revenue and earnings in the future. Our goal is to continue and reinforce the encouraging revenue and earnings growth of the past year in 2003. The preconditions for this is excellent:

1. Experts say that our versatile material polyurethane will continue to offer significant growth potential over the coming years.

Polyurethane is currently superseding conventional materials such as PVC, rubber and steel in more and more areas of life. The extremely positive development of our high-tech hose systems in the USA, traditionally a PVC and rubber market, exemplifies this general trend. We have also managed to grow dynamically in Germany's difficult economic environment thanks to our innovative, efficient products made of polyurethane and other specialty plastics.

2. Research and development is a key pillar for our successful corporate development.

While many companies in Germany have been trimming their R&D budgets for years, we have systematically invested in this area. Almost 5% of our workforce work on product innovations and the continuous further development of materials, products and process technologies. This guarantees our technology leadership. With our knowledge of process flows and production technologies, we are able to open up new markets. Our entry into the fuel cell technology market is one example of this. We aim to keep abreast of new scientific and technological developments at all times, which is why we work closely with renowned cooperation partners such as research institutions and universities.

3. We are active in forward-looking niche markets. Our core business area of high-tech hose systems has made significant contributions to our sales revenue and earnings for many years.

Our existing markets are showing few signs of saturation, and there is considerable potential for replacing traditional materials all over the world. On the other hand, we are constantly opening up new markets with new order levels. In Germany in particular, we were more than satisfied with our order books. While many companies are feeling the pinch in this difficult economic environment, developments in 2002 showed once again that our business is on a solid footing. Supplying more than 20 sectors and a broad customer base make us highly resistant to cyclical downturns.

Developments and trends in our second area of business, medical technology, make us confident that this business unit will greatly boost sales and earnings over the next few years. Our kit concept is in line with the cost-cutting trend in the health-care sector and will, in our opinion, increasingly catch on. Leading medical research institutions have also told us that our polyurethane respiratory hose, which is patented worldwide, will make us market leaders, allowing us to establish ourselves with leading companies in the medical field as an expert, attractive partner. Renowned companies already put their trust in us. We are convinced that fuel cell technology offers no end of opportunities. With our material and production technology expertise we are a sought-after cooperation partner that can provide a substantial impetus for this innovative technology. The presentation of our prototype of a hydrogen-based 50-Watt fuel cell at CEBIT and the Hannover Messe, allowed us to talk to a large number of potential customers. In 2004, we plan to start series production of this cost-effective alternative to batteries. The network-independent supply of electricity for notebooks, printers, etc. represents only a small subsection of possible applications.

This positive starting point leads us to expect dynamic development for our Company in 2003 with revenue growth of 10 to 12% and 20 to 30% increase in pre-tax profits (EBIT).

Corporate Governance

The term “corporate governance” refers to responsible corporate management and supervision aimed at adding long-term enterprise value. Fundamental aspects of good corporate governance are:

- **efficient cooperation between the Board and Supervisory Board**
- **consideration of shareholder interests and**
- **open and transparent corporate communication.**

Corporate governance has traditionally been a high priority at Masterflex AG. From the outset, the Board and Supervisory Board have collaborated closely in the best interests of the Company and have maintained intensive and continuous dialog on corporate development. Many of the principles and recommendations of the German Corporate Governance Code have already been implemented in the Company. A compliance officer is responsible for ensuring that the regulations are adhered within the Group and reports regularly to the Board and Supervisory Board.

Masterflex AG is committed to observing the German Corporate Governance Code, which sets out guidelines for responsible corporate governance. This was presented by the Government Commission on the German Corporate Governance Code on February 26, 2002, and published by the Federal Ministry of Justice on November 26, 2002 in the official section of the electronic Federal Gazette.

The Code presents key statutory regulations for the management and supervision of German listed companies and contains internationally and nationally recognized standards for good and responsible governance (in the form of recommendations and suggestions). The Code is designed to make the German corporate governance system transparent and com-

prehensible. The Company is obliged, without exception, to observe and comply with the statutory regulations presented in the Code, although it can deviate from the recommendations contained in it. Such deviations are acknowledged explicitly in the foreword to the Code and are intended to contribute to “more flexibility and more self-regulation in the German corporate constitution”.

Declaration of conformity

On December 23, 2002, the Board and Supervisory Board of Masterflex AG submitted their first declaration of conformity in accordance with section 161 of the Aktiengesetz (AktG – German Public Companies Act). We comply to a large extent with the recommendations of the Code; the only exceptions are as follows:

- **5.3.1., 5.3.2. Supervisory Board:** With its three members, the Supervisory Board of Masterflex AG has deliberately been kept small. This lean structure – as in the Group as a whole – enables it to pass resolutions efficiently, quickly and flexibly. The appointment of recognized specialists to the Supervisory Board is a key way in which Masterflex AG can lay the foundations for successful corporate development via a process of ongoing dialog.
- **7.1.4. Disclosure of the results of subsidiaries:** The Code provides that the individual results of the subsidiaries from the previous year should be disclosed in the financial statements. We do not comply with this and do not disclose these results. Our subsidiaries are medium-sized companies whose competitive position, in our opinion, could be compromised by the publication of the results.
- **7.1.2. Publication deadline:** The Code recommends a publication deadline of 45 days for quarterly reports and 90 days for the annual report. Here we comply with the Stock Exchange Rules and Regulations of the Frankfurt stock exchange, which require publication within 2 and 4 months respectively.

The declaration of conformity must be submitted annually from now on. The declaration and the Corporate Governance Code are permanently accessible to interested parties on our home page, www.masterflex.de, under the section entitled “Investor Relations”.

The key elements of corporate governance are explained in greater detail as follows:

Efficient cooperation between the Board and Supervisory Board

We are convinced that intensive, continuous dialog between the Board and Supervisory Board forms the basis for successful corporate development. The Board of Masterflex AG informs the Supervisory Board regularly, without delay and comprehensively of all issues regarding company planning and strategic corporate development, the course of business, the position of the Group including its risk position and risk management. Variances between actual business development and previously formulated plans and targets are detailed individually and the Company’s strategic approach is agreed jointly. Regulations for the prevention of conflicts of interests are documented in the by-laws. The Company has taken out a directors’ and officers’ liability insurance (D&O insurance) policy with a deductible for Masterflex AG’s Board and Supervisory Board members.

Shareholders’ rights

The shareholders of Masterflex AG exercise their rights, including their right to vote, at the Annual General Meeting. The shareholders have an opportunity to exercise their right to vote at the Annual General Meeting themselves, or to have an authorized representative of their choice or a proxy from the Company cast who votes for them.

Openness and transparency in corporate communication

Providing all groups of shareholders with timely, regular and equal access to information is a high priority for us, and we therefore place particular value on the disclosure of information on our website at www.masterflex.de. The website enables private shareholders and other capital market participants to obtain information about our Company on a regular basis and contains a financial calendar which details important dates and publications (e.g. the Annual Report, quarterly reports and the Annual General Meeting).

We offer all shareholders and interested parties the opportunity of subscribing to an electronic newsletter, which provides continuous information about current developments in the Group, important results, recent publications, ad hoc disclosures and press releases. The business and trade press are regularly kept informed via press releases, press conferences and interviews. Press releases can also be downloaded from our home page. The Corporate Governance Code and the declaration of conformity of Masterflex AG can be accessed on our homepage, in accordance with the regulations of the fourth Finanzmarktförderungsgesetz dated July 1, 2002. In accordance with section 15a of the Wertpapierhandelsgesetz (German Securities Trading Act), ad hoc disclosures detailing the acquisition and disposal of shares by the Board, the Supervisory Board, or similar persons as defined by the Wertpapierhandelsgesetz, are also published on our homepage under the section “Directors Dealings”. The corresponding disclosures are given in the notes to the consolidated financial statements of this Annual Report.

The auditor informs the Supervisory Board and/or notes in the audit report if, during the performance of his audit of the financial statements, facts are discovered which indicate that the declaration of conformity submitted by the Board and Supervisory Board in accordance with section 161 of the Aktiengesetz is inaccurate.

CONSOLIDATED BALANCE SHEET IN ACCORDANCE WITH IAS

Assets	December 31, 2002 € thou.	December 31, 2001 € thou.
A. Noncurrent assets		
I. Intangible assets		
1. Concessions, industrial and similar rights and assets, licenses	404	233
2. Development costs	712	197
3. Goodwill	16,685	17,637
4. Advance payments	137	0
II. Property, plant and equipment		
1. Land, land rights and buildings including buildings on third-party land	7,967	8,324
2. Plant and machinery	4,939	3,417
3. Other equipment, operating and office equipment	1,064	1,074
4. Advance payments and assets under development	819	2,101
III. Long-term investments		
1. Investment securities	734	1,238
2. Other loans	161	35
B. Current assets		
I. Inventories		
1. Raw materials and consumables used	3,576	3,153
2. Finished goods and goods purchased and held for resale	6,272	6,193
3. Advance payments	172	154
II. Trade accounts and notes receivable		
1. Trade receivables	10,275	6,705
2. Receivables from shareholders	0	0
3. Other assets	1,710	1,630
III. Marketable securities		
1. Other securities	0	0
IV. Cash and bank balances	2,671	4,404
C. Deferred tax assets	376	438
D. Prepaid expenses	129	172
	58,803	57,105

CONSOLIDATED BALANCE SHEET IN ACCORDANCE WITH IAS

Equity and liabilities	December 31, 2002 € thou.	December 31, 2001 € thou.
A. Shareholders' equity		
I. Share capital	4,353	4,446
II. Share premium	18,570	19,729
III. Retained earnings		
I. Retained profits brought forward	3,809	2,996
IV. Revaluation reserve of financial instruments	-650	-146
V. Exchange differences	-333	-223
	25,749	26,802
B. Minority interest	1,699	1,694
C. Provisions		
1. Provisions for taxes	1,344	834
2. Other provisions	1,125	1,077
D. Current liabilities		
1. Bank loans and overdrafts	14,532	12,755
2. Advances received from customers	2	0
3. Trade payables	4,432	3,506
4. Shareholder payables	598	0
5. Other current liabilities	6,786	8,061
E. Deferred tax liabilities	438	389
F. Deferred income	2,098	1,987
	58,803	57,105

CONSOLIDATED INCOME STATEMENT IN ACCORDANCE WITH IAS

Financial statements as of	December 31, 2002 € thou.	December 31, 2001 € thou.
1. Revenue	56,823	45,785
2. Changes in inventories of finished goods and work in progress	-24	397
3. Work performed by the enterprise and capitalized	1,040	663
4. Other operating income	1,420	1,091
Gross revenue	59,259	47,936
5. Cost of materials		
a) Cost of raw materials and consumables used and of goods purchased and held for resale	-26,817	-21,413
b) Cost of purchased services	-225	-275
	-27,042	-21,688
6. Staff costs		
a) Wages and salaries	-11,056	-9,433
b) Social security contributions, retirement and other benefit costs	-2,180	-1,895
	-13,236	-11,328
7. Depreciation and amortization expense	-2,404	-2,126
8. Other operating expenses	-10,968	-7,876
9. Non-operating expenses	0	-221
10. Income from investments	105	7
11. Other interest and similar income	32	409
12. Write-downs of noncurrent financial instruments	0	0
13. Interest and similar expenses	-1,068	-1,059
14. Net profit from ordinary activities	4,678	4,053
15. Extraordinary gains	0	0
16. Extraordinary losses	0	0
17. Income tax expense	-1,814	-1,669
18. Deferred taxes	-14	-61
19. Other taxes	-237	-254
20. Income attributable to minority interest	-95	-56
21. Net profit for the period	2,518	2,013

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IN ACCORDANCE WITH IAS

Consolidated statement of changes in equity	Issued capital	Share premium	Retained earnings (retained profits brought forward)	Revaluation reserve of financial instruments	Exchange differences	Total
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Equity at Dec. 31, 2000	4,487	20,151	2,117	0	-170	26,585
First-time application of IAS 39*	0	0	-5	0	0	-5
Net profit	0	0	2,013	0	0	2,013
Changes in fair values of financial instruments*	0	0	0	-146	0	-146
Currency translation gains/losses from translation of foreign financial statements	0	0	0	0	-20	-20
Sale of treasury shares*	13	358	0	0	0	371
Purchase of own shares	-54	-780	0	0	0	-834
Dividend distributions	0	0	-1,125	0	0	-1,125
Translation differences from net investments in foreign entities*	0	0	0	0	-33	-33
Other changes	0	0	-4	0	0	-4
Equity at Dec. 31, 2001	4,446	19,729	2,996	-146	-223	26,802
Net profit	0	0	2,518	0	0	2,518
Changes in fair values of financial instruments*	0	0	0	-504	0	-504
Currency translation gains/losses from translation of foreign financial statements	0	0	0	0	-136	-136
Sale of treasury shares*	120	1,880	0	0	0	2,000
Purchase of own shares	-213	-3,039	0	0	0	-3,252
Dividend distributions	0	0	-1,741	0	0	-1,741
Translation differences from net investments in foreign entities*	0	0	0	0	26	26
Other changes	0	0	36	0	0	36
Equity at Dec. 31, 2002	4,353	18,570	3,809	-650	-333	25,749

*) net of income tax effects

CONSOLIDATED CASH FLOW STATEMENT IN ACCORDANCE WITH IAS

Financial statements as of	December 31, 2002 € thou.	December 31, 2001 € thou.
Net profit for the period	2,518	2,013
Depreciation and amortization expense	2,404	2,126
Change in provisions	742	-2,044
Other non-cash expenses/income and gain/loss on disposal of noncurrent assets	-979	-607
Changes in inventories, trade receivables and other assets	-4,065	-377
Changes in trade payables and other equity and liabilities	941	-1,245
Cash flows from extraordinary items	0	0
Net cash from/used in operating activities	1,561	-134
Proceeds from asset disposals	53	138
Payments to acquire noncurrent assets	-1,454	-4,873
Changes in cash and cash equivalents due to the acquisition of consolidated subsidiaries	0	-8,643
Net cash from/used in investing activities	-1,401	-13,378
Proceeds from additions to equity (capital increases, sales of treasury shares)	2,000	413
Dividends paid to owners and minority interests (dividends, acquisition of treasury shares)	-5,083	-2,015
Proceeds from financing	3,454	5,488
Repayment of borrowings	-1,781	-4,024
Net cash from/used in financing activities	-1,410	-138
Net change in cash and cash equivalents	-1,250	-13,650
Changes in cash and cash equivalents due to exchange rates and other factors	-483	90
Cash and cash equivalents at beginning of period	4,404	17,964
Cash and cash equivalents at end of period	2,671	4,404

Notes to the Consolidated Financial Statements (IAS) of Masterflex AG as of December 31, 2002

1. Basis of presentation

The consolidated financial statements of Masterflex AG were prepared in accordance with the standards published by the International Accounting Standards Board (IASB), London. According to section 292a HGB (German Commercial Code), the preparation of consolidated financial statements in accordance with the IFRS (International Financial Reporting Standards) exempts the Company from its duty to prepare consolidated financial statements in accordance with the provisions of the German Commercial Code.

The single-entity financial statements for the companies included in consolidation (see Note 4), which were prepared in accordance with national accounting standards, were adjusted to comply with the IFRSs. The necessary changes in the fiscal year mainly relate to the measurement of noncurrent assets, including an assessment of whether leased assets should be recognized, the capitalization of internally generated intangible assets, fair value measurement of derivatives, the capitalization of deferred tax assets from tax loss carryforwards, the recognition of deferred tax assets and liabilities from temporary differences, the recognition and measurement of provisions, the recognition of treasury shares, currency translation including the treatment of currency translation differences, the amortization to the income statement of investment grants and subsidies received, the recognition directly in equity of changes in the fair value of available-for-sale noncurrent financial instruments, and the recognition directly in equity of specific current and deferred income tax assets and liabilities.

The single-entity financial statements of the companies included in the consolidated financial statements are prepared as of the reporting date for the consolidated financial statements.

2. Basis of consolidation

In comparison to the previous year, the two companies Masterflex Bulgaria Eood and Angiokard B. V. have been included in consolidation. The companies are 100% subsidiaries of Masterflex AG and Angiokard Medizintechnik GmbH & Co. KG respectively (see Note 4).

Three subsidiaries of DICOTA GmbH (DICOTA S.A.R.L., DICOTA USA LLC and DICOTA Canada Ltd.) forming part of the DICOTA Group were deconsolidated as they were sold in the course of the fiscal year. The deconsolidation effect for these three companies amounted to € 89 thousand. The income was recognized in the 'Income from investments' item (see Note 15).

The consolidated financial statements remain comparable overall with those for the previous year, since the companies that were hived off and newly formed did not make a material contribution to the consolidated result in either fiscal year 2001 or fiscal year 2002.

3. Consolidation methods

■ Capital consolidation

Capital consolidation was performed in accordance with the purchase method described in IAS 22. In this process, the cost of the equity interest acquired is eliminated against the revalued parent's interest in the subsidiary's equity at the acquisition date. Any excess of the cost of acquisition over the net assets acquired arising from this elimination is recognized as goodwill and amortized over its expected useful life of 20 years.

The proportionate equity interests and the equity of the subsidiaries at the actual date of acquisition in each case were used as the basis for determining the amount of goodwill arising from capital consolidation.

Minority interests in the equity of the subsidiaries are recognized at the closing dates and presented as a separate 'Minority interest' caption below equity. This also reflects the fact that, in accordance with the IASs, losses can only be attributed to shareholders to the extent that this does not result in a negative equity interest on the part of the other shareholders in the subsidiaries concerned. Minority interests in consolidated net profit were reported separately before consolidated net profit in the income statement, in accordance with the IASs.

■ Consolidation of intercompany balances

In the course of the consolidation of intercompany balances, receivables and liabilities between companies included in consolidation were eliminated.

■ Interim profits

Interim profits were not eliminated for reasons of materiality in the fiscal year.

■ Consolidation of income and expense

In the course of the consolidation of income and expense, intragroup revenue and other intragroup income were eliminated or offset against the relevant expenses.

All companies included in the consolidated income statements were included for a period of 12 months.

■ Translation of foreign consolidated financial statements

The balance sheet items in the consolidated financial statements are translated at the closing rate, while the income statement items of foreign consolidated subsidiaries are translated at the average exchange rate for the fiscal year. The equity of the subsidiaries was translated at historical rates (modified closing rate method). Currency translation differences were taken directly to equity.

4. Consolidated Group

In addition to Masterflex AG, the parent company, the consolidated Group comprises the domestic and foreign companies listed below.

The consolidated Group changed as follows in comparison to the previous year:

On January 1, 2002, Angiokard Medizintechnik GmbH & Co. KG formed Angiokard B.V., whose registered office is in Hillegom (The Netherlands). This company acts solely as a sales company for Angiokard Medizintechnik GmbH & Co. KG.

Masterflex Bulgaria Eood, which is headquartered in Sofia (Bulgaria), was formed on February 4, 2002. The company is a wholly owned subsidiary of Masterflex AG and produces and distributes special high-tech hose systems for industrial applications.

DICOTA GmbH sold its entire equity interests in DICOTA S.A.R.L. (France), DICOTA USA LLC. (USA) and DICOTA Canada Ltd. (Canada); the total price amounted to € 60,6 thousand. According to the contractual agreement dated November 18, 2002, DICOTA GmbH is entitled to require return of the equity interests sold before March 31, 2005. For this reason, the selling price has been deferred until this date.

The expansion/reduction of the consolidated Group did not have any material effect on the net assets, financial position and results of operations of the Group.

The consolidated financial statements remain comparable overall with those for the previous year, since the companies that were hived off and newly formed did not make a material contribution to the consolidated result in either fiscal year 2001 or fiscal year 2002.

Angiokard Medizintechnik GmbH & Co. KG produces and distributes medical products, and in particular treatment sets for use in the areas of cardiology, radiology and anesthesia.

Novoplast Schlauchtechnik GmbH produces and markets high-tech hose and connecting systems made of a variety of advanced plastics for industrial and medical applications.

Masterflex SARL and Masterflex Technical Hoses Ltd. produce and distribute high-tech hose and connecting systems for industrial applications in Southern Europe and Great Britain.

Flexmaster USA, Inc. is active on the North American market as a manufacturer of air conditioning and ventilation hoses.

Masterduct Inc. is a wholly owned subsidiary of Flexmaster USA, Inc. and is based in Houston (USA). The company produces and distributes special high-tech hose systems for industrial applications.

Techno Handelsgesellschaft mbH distributes special high-tech hose systems for tunnel building and bridge construction.

DICOTA GmbH is a leading supplier of mobile office systems in Europe and Asia. It is the parent of a subgroup totaling five second-tier subsidiaries in the above-mentioned regions.

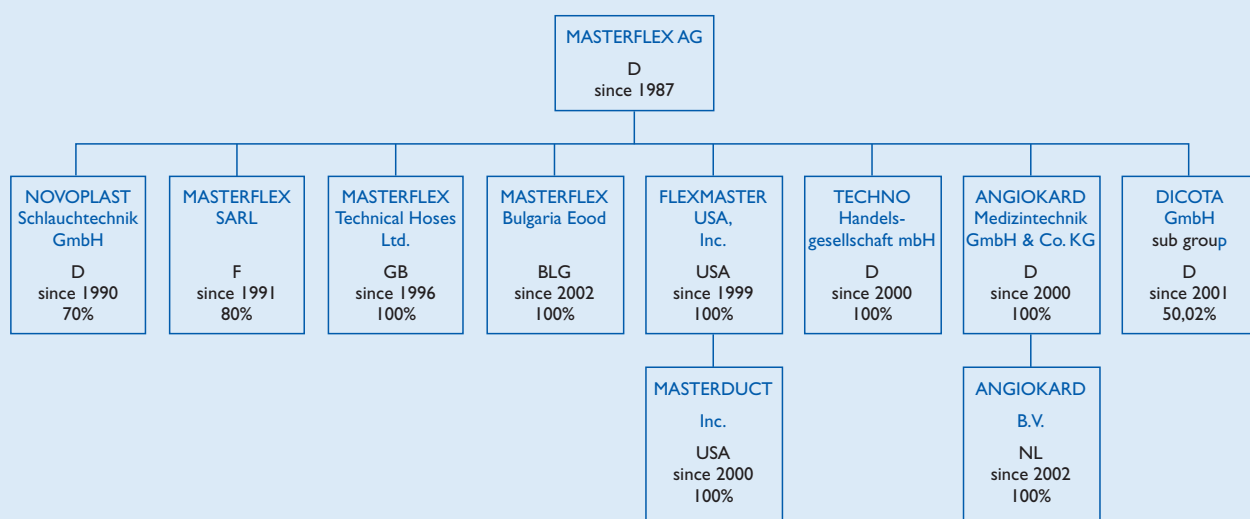
Name	Headquarters	Interest held by Masterflex (in%)
Novoplast Schlauchtechnik GmbH	D Halberstadt	70
Masterflex SARL	F Beligneux	80
Masterflex Technical Hoses Ltd.	GB Oldham	100
Flexmaster USA, Inc.	USA Houston	100
Masterduct Inc.	USA Houston	100*
Masterflex Bulgaria Eood	BG Sofia	100
Techno Handelsgesellschaft mbH	D Bochum	100
Angiokard Medizintechnik GmbH & Co. KG	D Friedeburg	100
Angiokard B.V:	NL Hillegom	100**
DICOTA GmbH	D Bietigheim-Bissingen	50,02
DICOTA GmbH's subsidiaries are:		
DICOTA Asia Ltd.	SGP Singapore	100
DICOTA Far East Ltd.	VRC Hong Kong	100
DICOTA Eastern Europe s.r.o.	CZ Prague	75
DICOTA UK Ltd.	GB London	100
Subra International Ltd.	VRC Hong Kong	100

*) = Interest held by Flexmaster USA, Inc.

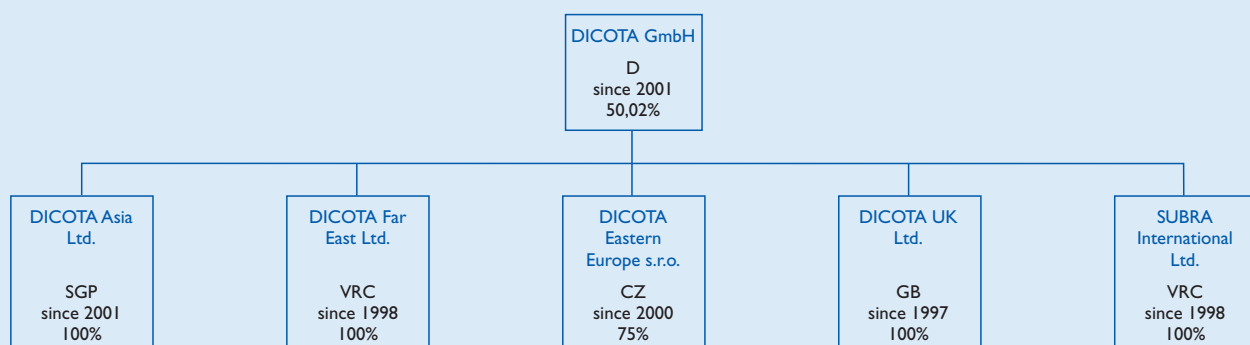
***) = Interest held by Angiokard Medizintechnik GmbH & Co. KG

The companies all prepared their financial statements as of December 31.

The Group structure is as follows:



The structure of the DICOTA GmbH subgroup is as follows:



5. Accounting policies

The balance sheet classification requirements laid down in section 266 HGB were applied to the balance sheet prepared in accordance with the IFRSs. These HGB requirements were supplemented by the corresponding IFRSs standards relating to the presentation of deferred tax assets and liabilities and Group-specific items of equity. In the case of equity, this relates in particular to unrealized gains and losses resulting from changes in the fair value of noncurrent financial assets, which have to be recognized in a separate equity account according to IAS 39. Internal development costs are reported separately as part of noncurrent assets.

The income statement in accordance with the IFRSs was prepared in accordance with the nature of expense method and classified in accordance with section 275 Abs. 2 HGB. In addition, deferred tax assets and liabilities and minority interests were reported separately.

a) Currency translation

■ Translation of individual transactions

Transactions denominated in foreign currencies were translated into the relevant local currency at the rate prevailing at the transaction date and adjusted, where necessary, to the exchange rate prevailing at the closing date. Receivables, loans and liabilities denominated in foreign currency are translated in all cases at the closing rate as of December 31.

■ Translation of financial statements prepared in foreign currencies

The balance sheets and income statements of consolidated foreign subsidiaries are translated into euros (€) on the basis of the functional currency concept under IAS 21. The subsidiaries are foreign entities as defined by IAS 21.

With the exception of equity, all balance sheet items are translated at the closing rate at the balance sheet date:

	Dec, 31, 2002 in €
I pound sterling (£)	1,5378
I US dollar (\$)	0,9601
I Bulgarian lev (LEV)	0,51129

Equity is translated at historical rates. Income and expense items in the income statement, including the net profit for the period, are translated at the average rate for the year:

	Dec, 31, 2002 in €
I pound sterling (£)	1,5926
I US dollar (\$)	1,0579
I Bulgarian lev (LEV)	0,51129

Currency translation differences are taken directly to currency translation adjustments in equity.

■ Foreign currency hedges

Loans were taken out in the local currency to finance a foreign equity investment. In accordance with IAS 21, the resulting exchange differences are taken directly to equity. Related taxes were also taken directly to equity in accordance with IAS 12. For further details, please refer to Notes 17 and 27.

b) Effect of tax legislation

In accordance with the IFRSs, purely tax motivated carrying amounts are not recognized in the consolidated financial statements.

c) Intangible assets

Intangible assets consist of goodwill from a single company and from capital consolidation, purchased software and licenses, and internally generated intangible assets to be accounted for in accordance with IAS 38. Goodwill from capital consolidation is amortized over 20 years. Software is recognized at cost and

amortized over a useful life of 4 years using the straight-line method. Licenses are also capitalized at cost and amortized over their individual useful lives.

The costs recognized for internally generated intangible assets are the costs to complete incurred after the technological feasibility and probable economic benefit of the asset concerned have been established. The assets are amortized from the date of completion over their expected useful life using the straight-line method.

Research and development costs that do not meet the criteria for capitalization under IAS 38 are expensed when incurred.

d) Property, plant and equipment

Property, plant and equipment are carried at cost and depreciated over their expected useful lives using the straight-line method. The cost of internally generated assets contains all specific costs directly attributable to the asset concerned. Borrowing costs are not capitalized. No write-downs were charged. Gains or losses from the disposal of noncurrent assets are included in other operating income or expenses.

If property, plant and equipment are the subject of a finance lease as defined by IAS 17, they are capitalized at the present value of the minimum lease payments. The corresponding payment obligations from future lease payments are recognized as liabilities.

e) Useful lives

Amortization and depreciation of intangible assets and property, plant and equipment are based on the following useful lives:

	Useful life	Depreciation/ amortization method
Goodwill	20 years	straight-line
Software	4 years	straight-line
Licenses and similar rights	over contractual period (individual)	straight-line
Buildings	10- 50 years	straight-line
Plant and machinery	2-18 years	straight-line
Other equipment, office and operating equipment	2-10 years	straight-line

f) Noncurrent financial assets

Noncurrent financial instruments are classified as 'available for sale' in accordance with IAS 39. The securities are measured at the quoted market price at the balance sheet date. Unrealized gains and losses are taken directly to a separate 'Revaluation reserve' account in equity net of any income tax effects.

g) Inventories

Inventories comprise raw materials and production supplies, finished goods, and goods purchased and held for resale. These are carried at cost. The production cost includes both direct costs and appropriate indirect material and production costs. Borrowing costs are not recognized as a component of cost. Appropriate write-downs were charged for inventory risks resulting from excessive storage periods or impaired marketability.

h) Trade receivables

Trade receivables are carried at their principal amount and measured after adjustment for all identifiable risks. Specific allowances for doubtful accounts were charged on individual trade receivables.

i) Other current assets

Other current assets are generally recognized at their principal amount. Matching claims for recovery against third parties relating to negative fair values of derivative financial instruments are measured at their fair value.

j) Cash and cash equivalents

Cash and cash equivalents chiefly consist of bank balances, cash and checks not yet credited, and are recognized at their nominal amount. Cash denominated in foreign currencies is translated at the closing rate.

k) Leases

Masterflex AG leases production and warehousing facilities as well as its administrative buildings under a property lease. The contract, dated March 30, 1993, entered into with the lessor Modica Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Masterflex KG, Gelsenkirchen, was drafted in such a way that substantially all the risks and rewards incident to ownership of the leased assets were passed to Masterflex AG. Masterflex AG is entitled to exercise a notarized right of purchase for the first time on July 31, 2014. The lease is treated as a finance lease as defined by IAS 17. The lessor retains legal title.

The properties subject to the lease are capitalized in the amount of the fair value or the lower present value of the minimum lease payments and – to the extent that buildings are involved – are amortized over the course of their ordinary useful lives using the straight-line method.

l) Prepaid expenses

Prepaid expenses were recognized for expenditures representing expenses for subsequent periods.

m) Provisions for taxes

In the case of German companies, provisions for taxes comprise outstanding obligations in relation to trade tax, corporation tax and the solidarity surcharge. In the case of the foreign companies included in consolidation, they contain the comparable foreign taxes. Measurement reflects the expected tax liability.

n) Other provisions

In accordance with IAS 37, other provisions are recognized for legal or constructive obligations from past events, the settlement of which is expected to result in an outflow from the Group of resources embodying economic benefits, and where a reliable estimate can be made of the amount of the obligation. In accordance with IAS 37, other provisions contain all identifiable obligations to third parties. Offsetting claims for reimbursement are taken into account by recognizing a corresponding asset. The amount recognized as provisions is the best estimate of the expenditure required to settle the obligation. No discounts were applied for reasons of materiality.

o) Bank loans and overdrafts

Bank loans and overdrafts are recognized at their settlement or redemption amount.

p) Trade payables

Trade payables are measured at their redemption amount.

q) Other liabilities

Other liabilities are carried at their redemption amount. Liabilities from finance leases are recognized at the present value of the minimum lease payments.

Derivatives are measured at market values, as evidenced by valuations by the institutions that are parties to the contracts.

r) Revenue recognition

Income is recognized in the financial statements for a fiscal year – irrespective of the payment date – when it has been realized. Income from the sale of goods, merchandise and services is treated as having been realized when the service owed has been provided and the risk has passed to the buyer. Revenue is recognized net of returns, discounts and rebates.

s) Borrowing costs

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

t) Financial instruments

The financial instruments recorded on the balance sheet of Masterflex AG consist in particular of cash and cash equivalents, available-for-sale securities, trade receivables, trade payables, bank loans and overdrafts, interest rate and currency swaps and certain other liabilities.

Financial instruments held for trading, and in particular derivatives, are carried at their fair values, with any changes in fair value being recognized in income. The derivative financial instruments as of December 31, 2002 are contained in the 'Other liabilities' item. Related claims for recovery are recognized in the 'Other assets' item.

Available-for-sale securities are carried at their fair values, with unrealized gains and losses recognized in the 'Revaluation reserve' item separately in equity. The Board classifies the financial instruments at the time of their acquisition and reviews this classification at every balance sheet date. All securities held by the Group are reported under noncurrent financial assets.

There are no material deviations between the carrying amounts and the fair values for any of the other recognized financial instruments. The Group holds cash and cash equivalents and available-for-sale securities at a number of credit institutions and focuses its risk strategy on minimizing its dependence on any single credit institution. Financial risk relating to customers is monitored via ongoing credit checks on customers.

There are no material default risks in excess of the carrying amount of the financial assets.

u) Deferred tax assets and liabilities

In accordance with IAS 12, deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts in the IFRS financial statements and the tax base under national law of the companies included in consolidation using the liability method. Deferred taxes are recognized on the amount of tax payable or recoverable in future fiscal years. Where German companies are concerned, measurement covers trade tax, corporation tax and the solidarity surcharge. Deferred tax assets relating to existing loss carryforwards at individual Group companies are recognized to the extent that projections indicate that it is probable that sufficient future taxable profit will be available in the companies concerned. Measurement uses the tax rate of the Group company concerned. Deferred tax assets and liabilities are offset where they relate to the same taxation authority.

v) Deferred income

In accordance with IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance), government investment grants are recognized as deferred income and amortized to income over the life of the asset, IAS 20 does not allow such grants to be recognized immediately in income.

w) Stock option program

The stock option program introduced by the Company (see also Note 24, Equity) is not recognized in the balance sheet or the income statement in the fiscal year. Since the options are serviced using new shares issued from contingent capital, there is no cash outflow for the Company. At the time the option is exercised, the cash inflow in the amount of the exercise price results in an increase in the issued capital and the share premium.

x) Estimates and assumptions

Preparation of the consolidated financial statements in accordance with the IFRSs requires assumptions and estimates affecting the carrying amounts in the balance sheet and the income statement to be made in relation to a number of items. Actual figures may differ from those estimates and assumptions.

6. Cash flow statement

The consolidated cash flow statement has been prepared in accordance with IAS 7 (Cash Flow Statements). It is classified into cash flows from operating, investing and financing activities. The cash and cash equivalents disclosed in the cash flow statement correspond to the balance sheet item 'Cash and bank balances'; interest and income tax payments are contained in the 'net cash from operating activities' in the following amounts:

	2002 € thou.	2001 € thou.
Interest received	32	409
Interest paid	1,069	1,059
Income taxes paid	1,814	1,669

The formation and sale of companies in the fiscal year did not lead to any material cash inflows or outflows. Cash declined by € 1,733 thousand.

7. Segment reporting

Segment reporting is performed in accordance with IAS 14, with the primary segment reporting format being product-related business units. Masterflex AG, Gelsenkirchen, specializes in the development and processing of high-tech plastics, and especially polyurethane (PUR), a material with a promising future. As of the date the financial statements were prepared, the Company produces and markets high-tech products in three business areas: high-tech hose systems, medical technology and fuel cell technology.

The Company's longest-established business unit manufactures high-tech hose systems from high-quality specialty materials (e.g. polyurethane). These hose systems are used in a wide range of industrial applications (e.g. the chemical industry, the automotive industry, environmental protection, etc.)

In 1996, the Company used polyurethane for the first time in the field of medical technology. At the start of 2000, it strategically expanded its medical technology business unit by acquiring an equity interest in Angiokard Medizintechnik GmbH & Co. KG. This business unit manufactures and markets both individual medical components and entire operation sets for the fields of radiology, cardiology and anesthesia.

Masterflex's newest business unit is its fuel cell technology unit. In this area, Masterflex AG is developing a hydrogen-based mini fuel cell together with well-known research institutes as a replacement for batteries. Potential application areas include mobile office systems or laptops. The figures given as part of segment reporting are generated by the DICOTA Group, which will be responsible in future for marketing the mini fuel cell.

Segment information by business unit:

2002	High-tech hose systems € thou.	Medical technology € thou.	Fuel cell technology € thou.	Segment amounts € thou.	Recon- ciliation € thou.	Eli- mination € thou.	Group € thou.
Revenue	29,751	10,866	16,206	56,823	0	0	56,823
Result (EBIT)	5,495	- 998	1,684	6,181	- 571	0	5,610
Investments in property, plant and equipment and intangible assets	2,476	408	141	3,024	0	0	3,024
Assets	24,267	16,182	13,382	53,831	4,972	0	58,803
Amortization and depreciation	1,260	823	321	2,404	0	0	2,404
Liabilities	5,106	1,744	3,252	10,101	21,254	0	31,555

2001	High-tech hose systems € thou.	Medical technology € thou.	Fuel cell technology € thou.	Segment amounts € thou.	Recon- ciliation € thou.	Eli- mination € thou.	Group € thou.
Revenue	27,917	11,338	6,530	45,785	0	0	45,785
Result (EBIT)	5,045	- 53	317	5,309	- 392	0	4,917
Investments in property, plant and equipment and intangible assets	2,983	6,237	4,815	14,035	0	0	14,035
Assets	22,923	17,211	10,065	50,199	6,906	0	57,105
Amortization and depreciation	1,187	799	140	2,126	0	0	2,126
Liabilities	2,881	2,305	3,215	8,402	27,248	-7,041	28,609

The segment result is presented using EBIT (earnings before interest and taxes), adjusted for the segment expenses and segment income excluded under IAS 14. There were no material non-cash expenses.

Segment assets primarily comprise all operating assets, such as intangible assets, property, plant and equipment, inventories, receivables, other current assets and prepaid expenses. In accordance with IAS 14, noncurrent financial assets, recoverable taxes and deferred tax assets are not included in the calculation. Depreciation and amortization contains both amortization of intangible assets and depreciation of property, plant and equipment.

Segment liabilities mainly represent operating liabilities resulting from the operating activities of the segment concerned. As in the case of segment assets, tax liabilities, financial liabilities and lease obligations were not included.

The 'Reconciliation' column contains amounts resulting from different definitions of the contents of the segment items compared with the relevant Group items.

The 'Elimination' column contains effects from consolidation adjustments.

The reconciliation of EBIT to the net profit from ordinary activities is as follows:

	€ thou.
Result (EBIT)	5,610
Interest and similar income	32
Income from investments	105
Interest and similar expenses	-1,069
Net profit from ordinary activities	4,678

Income from investments includes income in the amount of € 89 thousand from the deconsolidation of subsidiaries belonging to the DICOTA GmbH subgroup.

Total equity and liabilities can be broken down as follows:

	€ thou.
Liabilities	31,355
Book equity	25,749
Minority interest	1,699
Total equity and liabilities	58,803

Segment information by region:

2002	Germany	EU	Rest of world	Segment figures	Reconciliation	Eli-mination	Group
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Revenue	30,653	14,585	13,843	59,081	0	-2,258	56,823
Segment assets	40,552	4,797	13,530	58,878	5,030	-5,105	58,803
Investments	2,460	438	127	3,024	0	0	3,024

2001	Germany	EU	Rest of world	Segment figures	Reconciliation	Eli-mination	Group
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Revenue	25,464	9,623	12,387	47,475	0	-1,690	45,785
Segment assets	38,965	4,086	10,616	53,667	6,906	-3,468	57,105
Investments	10,225	1,868	1,941	14,034	0	0	14,034

In contrast to the previous year, revenue was generated in the following geographic segments, after adjustment for intragroup eliminations:

	2002 € thou.	2001 € thou.
Germany	29,239	24,619
EU	13,910	8,875
Rest of world	13,674	12,291
Total	56,823	45,785

In the case of both primary and secondary segment reporting, the figures are assigned to the individual segments on the basis of legally independent Group companies.

8. Revenue

	2002 € thou.	2001 € thou.
Aggregated (external and intragroup) revenue	59,081	47,475
Elimination of intragroup revenue	2,258	1,690
Total revenue	56,823	45,785

9. Other operating income

Other operating income for the Group was as follows:

	2002 € thou.	2001 € thou.
	1,420	1,091

Other operating income is broken down as follows:

	2002 € thou.	2001 € thou.
Gains on the disposal of assets	52	14
Income from the reversal of provisions	113	24
Income from the reduction of specific write-downs	6	16
Insurance compensation	22	34
Income from the reversal of deferred Income	174	147
Gains from currency translation	947	291
Income from the sale of securities	6	252
Other	100	313
Total	1,420	1,091

Income from the sale of securities relates to available-for-sale securities.

10. Cost of materials

The cost of materials is broken down as follows:

	2002 € thou.	2001 € thou.
Cost of raw materials and consumables used	26,817	21,413
Cost of purchased services	225	275
Total	27,042	21,688

11. Amortization of intangible assets and depreciation of property, plant and equipment

Depreciation and amortization is broken down as follows:

	2002 € thou.	2001 € thou.
Goodwill from capital consolidation	952	818
Other intangible assets and property, plant and equipment	1,452	1,308
Total	2,404	2,126

No write-downs were charged.

12. Goodwill amortization

Goodwill Jan, 1, 2002 € thou.	Additions € thou.	Disposals € thou.	Amortization € thou.	Goodwill Dec, 31, 2002 € thou.
17,637	0	0	952	16,685

No further equity interests in companies were acquired in the fiscal year, with the result that goodwill declined by the annual amortization amount of € 952 thousand to a total of € 16,685 thousand.

Amortization of goodwill rose in comparison to the previous year from € 818 thousand to € 952 thousand, because the amortization charge on the goodwill of DICOTA GmbH was determined as from the date of first-time consolidation (August 1, 2001).

13. Other operating expenses

Other operating expenses for the Group were as follows:

	2002 € thou.	2001 € thou.
	10,968	7,877

Other operating expenses are broken down as follows:

	2002 € thou.	2001 € thou.
Premises expenses	1,220	946
Insurances	262	213
Selling expenses	4,961	3,246
Administrative expenses	1,830	1,741
Operating costs	1,048	611
Exchange rate losses	869	183
Write-offs of receivables	169	91
Warranty expenses	9	5
Other	600	841
Total	10,968	7,877

14. Research and development costs

Capitalizable development costs are recognized in intangible assets. Research costs and non-capitalizable development costs are expensed when incurred. In fiscal year 2002, research and development costs in the amount of € 474 thousand were incurred.

15. Net finance costs

The net finance costs comprise the following items:

	2002 € thou.	2001 € thou.
Income from investments	105	7
Other interest and similar income	32	409
Write-downs of current financial instruments	0	0
Interest and similar expenses	-1,068	-1,059
Total	-913	-643

€ 89 thousand of income from investments relates to the effect of the deconsolidation of the subsidiaries no longer forming part of the Group.

Interest income primarily results from short-term loans. Interest expenses also contain interest on leases that must be recognized as a finance lease in accordance with IAS 17.

16. Non-operating expenses

This position contains expenses that were incurred in the course of acquisition negotiations. These solely comprise legal and consulting costs for due diligence investigations.

In the interests of clarity, these expenses were eliminated from the 'Other operating expenses' in the previous year and presented in a separate item of the income statement. No non-operating expenses were incurred in fiscal year 2002.

	2002 € thou.	2001 € thou.
Non-operating expenses	0	221

17. Income tax expense

The income tax expense recognized consists of the income taxes paid or owed in the individual countries, plus deferred tax liabilities and assets. Income taxes comprise corporation tax, trade income tax, the solidarity surcharge and the corresponding foreign income taxes. The tax expense was determined after adjustment for the proposal for the appropriation of the net profit at the parent company.

The income tax expense is broken down as follows:

	2002 € thou.	2001 € thou.
Income tax expense	1,814	1,669
Deferred tax liabilities/assets	14	61
Total income tax expense	1,828	1,730

The following income tax expenses (-) and income (+) result from items that were offset directly against equity in accordance with IAS 21.17 and IAS 21.19:

	€ thou.	Eliminated against
From exchange differences	17	Exchange differences
From changes in the fair value of available-for-sale financial instruments	0	Revaluation reserve
From disposal of treasury shares	0	Share premium

The expected tax expense is reconciled at the average income tax rate to the total income tax expense as follows:

	2002 € thou.	2001 € thou.
Net profit before taxes	4,347	3,743
Expected income tax expense 40%	1,739	1,497
Non-tax-deductible goodwill amortization	75	101
Other	14	132
Total income tax expense	1,828	1,730

The starting point (net profit before taxes) corresponds to the consolidated net profit plus income tax and the deferred tax assets and liabilities recognized in the income statement. The 'Other' item comprises the effects of tax-free income, non-tax-deductible expenses and different foreign tax rates.

Deferred tax assets and liabilities changed as follows:

	Balance at Jan, 2, 2002 € thou.	Additions from first-time consolidation € thou.	Tax income/ expense € thou.	Balance at Dec, 31, 2001 € thou.	Tax income/ expense € thou.	Adjustments directly in equity € thou.	Balance at Dec, 31, 2002 € thou.
Deferred tax assets from loss carryforwards	253	227	-42	438	-62		376
Deferred tax liabilities from temporary differences	-316		-19	-389	48	-97	-438
Total					-14		
Reported in income statement			-61		-14		

Deferred tax assets were recognized for loss carryforwards to the extent that the Company's projections indicate that it is probable that sufficient future taxable profit will be available in the Group companies concerned, € 376 thousand of the deferred tax assets relate to Group companies that recorded a loss in the fiscal year.

18. Earnings per share

Earnings per share are calculated in accordance with IAS 33 by dividing the consolidated net profit for year by the weighted average number of shares outstanding during the fiscal year.

	2002	2001
Earnings per share in €	0,57	0,45
Consolidated net profit (€ thousand)	2,518	2,013
Weighted average number of shares	4,388,585	4,489,887

Due to the relatively small number of options issued, the stock option program (see Note 24) does not currently have any material dilutive effect on earnings.

19. Dividend

The Board of Masterflex AG is proposing a dividend of € 0.40 per share. The appropriation of the unappropriated surplus of the parent company for fiscal year 2002 will be resolved at the General Meeting on June 18, 2003.

20. Noncurrent assets

Changes in noncurrent assets are disclosed separately in the consolidated statement of changes in noncurrent assets (see Annex). Land charges in the amount of € 4,632 thousand and liens on production equipment in the amount of € 218 thousand serve as collateral for bank loans and overdrafts.

■ Assets held by foreign companies

The assets held by foreign companies are translated into euros (€) as of December 31 using the closing rates at that date; all changes during the year are translated at annual average rates. The currency translation differences resulting from the different translation methods are disclosed separately in the consolidated statement of changes in noncurrent assets.

a) Intangible assets

All intangible assets were purchased, with the exception of specific intellectual property rights and developments generated by Masterflex AG. The intellectual property rights relate to internally generated patents. The developments comprise capitalizable expenses incurred in the development of marketable products.

The carrying amounts are broken down as follows:

	2002 € thou.	2001 € thou.
Internally generated intangible assets	807	310
Purchased intangible assets	447	120
Goodwill	16,685	17,637

The costs, additions and disposals are as follows:

Additions	Balance at Jan, 1, 2001 € thou.	€ thou.	Balance at Dec, 31, 2001 € thou.	Additions € thou.	Balance at Dec, 31, 2002 € thou.
Internally generated intangible assets	234	197	431	516	947
Purchased Intangible assets	347	68	414	386	800
Goodwill	8,966	10,051	19,017	0	19,017

The relevant amortization charges and cumulative amounts are as follows:

	Balance at Jan, 1, 2001 € thou.	Annual amortization € thou.	Balance at Dec, 31, 2001 € thou.	Annual amortization € thou.	Balance at Dec, 31, 2002 € thou.
Internally generated intangible assets	101	20	121	19	140
Purchased intangible assets	287	8	295	58	353
Goodwill	562	818	1,380	952	2,332

b) Property, plant and equipment

Property, plant and equipment include the plots of land that are the subject of a finance lease. The following table provides a breakdown of the historical cost, useful lives and changes in carrying amounts:

	Historical cost	Useful life	Carrying amount 2002	Carrying amount 2001
	€ thou.		€ thou.	€ thou.
Buildings	4,480	30 years	3,409	2,985
Land	587	–	587	587
Total	5,067		3,996	3,572

Payment obligations from lease installments during the term of the contract are broken down into an interest portion and a redemption portion. The interest expense is as follows:

	2002 € thou.	2001 € thou.
	272	279

c) Noncurrent financial assets

Noncurrent financial assets are broken down as follows:

	2002 € thou.	2001 € thou.
Noncurrent financial instruments	734	1,238
Other loans	161	35
Total noncurrent financial assets	895	1,273

The noncurrent financial instruments are available-for-sale financial instruments as defined by IAS 39. They are composed of the following:

	€ thou.
Equity instruments	727
Debt instruments	7
Total	734

The historical cost, unrealized gains, unrealized losses and the fair value of the available-for-sale securities as of December 31, 2002 are as follows:

Historical cost	Unrealized gains/losses	Fair value
€ thou.	€ thou.	€ thou.
1,481	747	734

Income from the portfolio amounted to €15 thousand.

21. Inventories

Inventories are broken down as follows:

	2002 € thou.	2001 € thou.
Raw materials and production supplies	3,576	3,153
Finished goods	6,272	6,193
Work in progress	0	0
Advance payments	172	154
Total inventories	10,020	9,500

22. Trade receivables

Trade receivables have the following remaining maturities:

	2002 € thou.	2001 € thou.
Receivables with a remaining maturity of less than 1 year	10,275	6,705
Receivables with a remaining maturity of more than 1 year	0	0
Total trade receivables	10,275	6,705

23. Other current assets

Other current assets are broken down as follows:

	2002 € thou.	2001 € thou.
Receivables from minority shareholders	85	152
Claims under reinsurance policies	43	37
Recoverable taxes	420	281
Receivables from employees	25	115
Bonus claims	23	12
Receivables from investment grants, subsidies	170	410
Claims for recovery relating to derivative financial Instruments	611	381
Other	333	242
Total other assets	1,710	1,630

There were no items with a remaining maturity of more than one year at the balance sheet date.

24. Equity

For further details of changes in equity, please also see the statement of changes in equity.

■ Issued capital

The issued capital in the fiscal year amounted to € 4,353 thousand (previous year: € 4,446 thousand). In the course of fiscal year 2002, 120,000 own shares were sold and 213,030 newly acquired and deducted in accordance with SIC 16. At the balance sheet date, 146,581 own shares are in Masterflex AG's Treasury.

There is a total of 4,500,000 no-par ordinary bearer shares with a notional value of € 1,00 per share each. The share capital is fully paid up.

■ Contingent capital

The Extraordinary General Meeting of the Company on May 6, 2000 resolved to contingently increase the share capital by € 360,000,00 by issuing up to 360,000 ordinary bearer shares with a notional value of € 1,00 per share each. The contingent capital in the amount of € 360,000,00 was authorized by the Extraordinary General Meeting in the context of the grant of stock options under a stock option program for members of the Board and employees of the Company and affiliated companies.

The new shares carry full dividend rights from the beginning of the fiscal year in which they are created through the exercise of the option rights.

In fiscal year 2000, the Board, with the approval of the Supervisory Board, issued a total of 43,000 options to subscribe for no-par value bearer shares of the Company, 24,000 of these options were granted to members of the management of the Company and affiliated companies, and 19,000 to other employees.

Each option grants the holder the right to purchase one no-par ordinary bearer share of the Company at an exercise price of € 25,00 during the exercise period.

The option rights may only be exercised within a period of five years or less, 50% of the options granted to individual beneficiaries may be exercised at the earliest two years after the grant (issue) of the options takes effect. A further 25% of the option rights granted can be exercised after three years, and the remaining 25% of the option rights granted can be exercised after four years.

Following the expiration of the above-mentioned lock-up periods, option rights from the stock options can be exercised within fifteen market trading days of the publication of the interim reports for the first and third quarters and of the Ordinary General Meeting of the Company. Option rights that are not exercised automatically increase the number of potential option rights in the following year by the number of rights not exercised.

Beneficiaries may only exercise their option rights if the previously defined performance targets are met. Board members are entitled to exercise their option rights if the share price on the exercise date exceeds the exercise price by at least 10% per full year that has passed since the subscription rights were issued. The Supervisory Board is responsible for laying down further details. Managing directors of subsidiaries are entitled

to exercise their options if they exceed the figures laid down in the revenue and earnings plans agreed with the Board by at least 2% in each case. The Board is responsible for determining the performance targets to be met by other employees wishing to exercise their subscription rights.

■ Authorized capital

By way of a resolution by the Extraordinary General Meeting on May 6, 2000, Board was authorized, with the approval of the Supervisory Board, to increase the share capital of the Company once or on several occasions in the period until May 3, 2005 by a total of up to €1,800,000,00 by issuing new ordinary or preference bearer shares against cash or non-cash contributions. The Board will lay down the conditions at which the shares are issued with the approval of the Supervisory Board. Furthermore, the Board was authorized, with the approval of the Supervisory Board, to disapply shareholders' preemptive rights in the following cases:

- a) to settle fractions;
- b) to issue no-par value shares as employee shares to employees of the Company;
- c) in exchange for non-cash contributions, especially in the form of companies or parts of companies;
- d) if the capital increase against cash contributions does not exceed 10% of the share capital and the gains from the issue of the no-par value shares are not materially less than the stock market price;
- e) in the case that non-voting shares are issued, subject to the proviso that the ordinary shareholders are only entitled to subscribe for new ordinary no-par value shares and the preference shareholders are only entitled to subscribe for new non-voting preference shares (gekreuzter Bezugsrechtsausschluss – i.e. the disapplication of pre-emption rights to other classes of shares).

25. Share premium

The share premium at the balance sheet date amounted to € 18,570 thousand (previous year: € 19,729 thousand).

This mainly consists of the proceeds of the issue of the IPO, after the deduction of IPO costs. In addition, in accordance with SIC 16, the purchase and disposal of own shares is offset after adjustment for related income tax effects.

26. Revaluation reserve of financial instruments

In accordance with IAS 39, noncurrent financial instruments have been classified as 'available for sale'. These securities were measured at their fair value at the balance sheet date. Any resulting unrealized losses were taken directly to the Revaluation reserve in equity after adjustment for income tax effects.

27. Exchange differences

The exchange differences recorded in equity can be broken down as follows:

	Exchange differences from the translation of foreign financial statements € thou.	Exchange differences in accordance with IAS 21.17 € thou.	Exchange differences in accordance with IAS 21.19 € thou.	Total € thou.
Balance at Dec, 31, 2000	52	34	- 256	- 170
Change in 2001	- 20	46	- 79	- 53
Balance at Dec, 31, 2001	32	80	- 335	- 223
Change in 2002	- 136	- 208	234	- 110
Balance at Dec, 31, 2002	- 104	- 128	- 101	- 333

In accordance with IAS 12.61, taxes relating to items taken directly to equity are also charged or credited directly to equity and included in the changes in exchange differences disclosed above. Please also refer to Note 17.

Loans were taken out in the local currency to finance a foreign equity investment. The exchange differences as defined by IAS 21.19 relate to changes in the market value of this foreign currency obligation, the fair value of which at the balance sheet date amounted to € 2,230 thousand.

28. Minority interest

Since the parent company does not hold a 100% stake in all subsidiaries, the minority interest in the capital of the companies included in consolidation was presented as a separate 'Minority interest' caption below equity.

This item contains the following amounts:

	2002 € thous.	2001 € thou.
	1,699	1,694

29. Provisions

Provisions are broken down as follows:

	Balance at Jan, 1, 2002 € thou.	Utilization € thou.	Reversals € thou.	Additions € thou.	Balance at Dec, 31, 2002 € thou.
Provisions for taxes	834	419	0	929	1,344
Other provisions					
Pensions	95	2	0	79	172
Year-end closing costs	226	222	2	191	193
Compensated absences	141	141	0	137	137
Bonuses	244	146	98	413	413
Warranties	69	25	9	44	79
Occupational health and safety Agency	78	74	4	93	93
Onerous contracts	0	0	0	0	0
Miscellaneous	224	224	0	38	38
Total	1,077	834	113	995	1,125

a) Provisions for taxes

Provisions for taxes mainly comprise the provisions for income taxes for the companies included in the consolidated financial statements. The entire amount is expected to become due in less than one year.

b) Other provisions

The provisions for pensions recognized consist of the uncertain obligations arising from a pension commitment to a managing shareholder of a Group company.

The provisions for year-end closing costs comprise the external costs for the preparation and auditing of the annual financial statements.

Provisions for vacation are determined on the basis of the days' vacation outstanding and the individual salaries of the employees concerned.

The provisions for bonuses are based on the contractual agreements and the annual revenue in each case.

Warranty provisions relate to guarantee costs and ex gratia payments as a proportion of the revenue generated in the year under review.

Provisions for contributions to the Occupational Health and Safety Agency are calculated on the basis of the corresponding payroll records, and using the contribution rates for the previous year.

With the exception of the provisions for pensions, the amounts set aside are expected to be utilized and a cash outflow recorded in calendar year 2003.

30. Bank loans and overdrafts

Bank loans and overdrafts are broken down by their original maturity as follows:

	2002 € thou.	2001 € thou.
Long-term loans	10,812	11,437
Short-term loans	3,720	1,318
Total bank loans and overdrafts	14,532	12,755

Long-term items are classified as those with an original maturity of more than one year.

The loans have the following remaining maturities:

	2002 € thou.	2001 € thou.
Loans with a remaining maturity of up to 1 year	6,138	6,136
Loans with a remaining maturity of between 1 and 5 years	6,486	3,319
Loans with a remaining maturity of more than 5 years	1,908	3,300
Total bank loans and overdrafts	14,532	12,755

The following table provides an overview of the conditions of the main bank loans and overdrafts.

Interest rate	Fixed-interest period until,,, *)	Carrying amount as at Dec., 31, 2002 in € thou.
1,20 %	2003	1,164
3,65 %	2003	2,230
4,25 %	2009	483
4,50 %	2007	161
4,75 %	2003	511
4,75 %	2007	284
4,85 %	2007	576
4,90 %	2007	975
4,95 %	2005	18
5,10 %	2005	28
5,25 %	2006	26
5,25 %	2010	711
5,50 %	2003	650
5,50 %	2005	900
6,00 %	2008	48
6,10 %	2006	2,480
6,25 %	2007	407
6,30 %	2005	64
6,50 %	2005	148
6,71 %	2008	115
6,75 %	2010	44
6,86 %	2005	71
7,30 %	2006	476
7,98 %	2005	56

*) = The terms of the contract substantially exceed the fixed-interest periods disclosed in some cases.

31. Trade payables

These have the following remaining maturities:

	2002 € thou.	2001 € thou.
Trade payables with a remaining maturity of up to 1 year	4,432	3,460
Trade payables with a remaining maturity of between 1 and 5 years	0	46
Trade payables with a remaining maturity of more than 5 years	0	0
Total trade payables	4,432	3,506

32. Other liabilities

	2002 € thou.	2001 € thou.
Tax liabilities	376	200
Lease liabilities	3,958	3,574
Social security payments	344	313
Liabilities to minority interests in subsidiaries	0	818
Liabilities from acquisition activities	767	1,925
Derivative financial instruments	610	481
Miscellaneous	731	750
Total	6,786	8,061

The lease liabilities disclosed relate to a plot of land in Gelsenkirchen that is the subject of a finance lease.

	Less than 1 year € thous.	2–5 years € thous.	More than 5 years € thous.
Future financial obligations (including interest)	509	2,609	3,718
Present value of future financial obligations (loan redemption portion)	211	1,063	2,864

€ 767 thousand of the liabilities from acquisition activities relate to minority shareholders in subsidiaries who have not yet left the companies completely.

In fiscal years 1999 and 2000, three interest rate and currency swap transactions were concluded. The transactions are denominated in € and CHF. The future payment flows are as follows:

Company's liability	Company's claim	Date
CHF 5,881 thousand	€ 3,651 thousand	June, 30, 2003
CHF 780 thousand	€ 511 thousand	Sept, 25, 2007
CHF 1,641 thousand	€ 1,023 thousand	Apr, 14, 2004

The negative fair values are offset by claims for recovery in the amount of € 610 thousand, which are recognized in Other assets.

33. Deferred income

Deferred income consists almost entirely of government grants and assistance designed to promote investment.

The following amounts were recognized as at December 31:

	2002 € thou.	2001 € thou.
Subsidies	1,340	1,359
Grants	753	628
Other	5	0
Total	2,098	1,987

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

	2002 € thou.	2001 € thou.
Reversal of subsidies	99	98
Reversal of grants	75	49
Total	174	147

The subsidies received mainly relate to subsidies for the expansion of operating facilities in the years 1995 to 2002. These subsidies were used to purchase machinery and office and operating equipment. The necessary evidence that the funds were employed as intended has been provided in full.

34. Related party disclosures

Masterflex AG and the companies included in the consolidated financial statements primarily concluded transactions with the following related parties as defined by IAS 24:

■ **Modica Grundstücks-Vermietungsges. mbH & Co., Objekt Masterflex KG, Gelsenkirchen**

Masterflex AG, Gelsenkirchen has been using the production, warehousing and administrative buildings of the above-mentioned company since January 1, 1994. Please refer to the disclosures under 'Leases' and 'Other liabilities' for further details. The lease expires on July 31, 2014. The monthly lease installments amounted to € 33 thousand or so in fiscal year 2002.

The shareholders of Modica Grundstücksvermietungsges. mbH also hold shares in Masterflex AG, Gelsenkirchen.

■ **Board members**

A loan in the amount of € 250 thousand was granted during the year to a Board member at an interest rate of 5.5%. A receivable amounting to € 77 thousand existed at the balance sheet date.

In the course of the fiscal year, related parties of the Group (existing shareholders) purchased a total of 80,000 own shares at the share price valid on the respective acquisition date.

35. Remuneration of executive bodies

In calendar year 2002, total remuneration of the Board amounted to € 419 thousand. The Supervisory Board received remuneration totaling € 18 thousand.

36. Other financial obligations and contingent liabilities

a) Lease liabilities

For further details of the financial obligations resulting from the lease, please see the disclosures relating to Note 32.

b) Other obligations

The office and operating facilities of Angiokard Medizintechnik GmbH & Co. KG have been rented from the former owner until December 31, 2009. No extraordinary rights of termination and no purchase options exist. When the rental contract expires, Angiokard has an option to renew the tenancy. The total rental obligation amounts to € 1,529 thousand. Of this amount, € 257 thousand is due within one year, € 866 thousand is due in the period between the next one and five years, and € 406 thousand is due in more than five years.

In addition, contingent obligations exist in relation to the potential acquisition of further shares in DICOTA GmbH. In accordance with the purchase agreement dated August 14, 2001, the seller has a put option for the remaining shares in DICOTA GmbH as of January 1, 2005, provided that certain contractually agreed performance targets are achieved. This contingent liability will only arise if Masterflex AG does not exercise its contractually agreed call option as at January 1, 2004. On the basis of the contractually agreed conditions, the Board estimates the purchase price for the remaining shares at approximately € 5,150 thousand.

Please refer to Note 32 for information on financial obligations relating to derivative financial instruments.

The Company has concluded an agreement with Ideamed N.V. (the licensor) on the use of international patents for the manufacture of a respiratory mask. The agreement is expected to terminate in November 2017. The license agreement provides for non-performance related payments as from the start of marketing of the respiratory mask; these payments are linked to margin-based remuneration. The total obligations in relation to these non-performance related payments over the term of the contract amount to € 647 thousand.

The Company has a contract on the use of machinery for the manufacture of flexible technical hoses that expires in the year 2004.

The Board estimates that additional contingent liabilities for tax risks amount to approximately € 100 thousand. The conditions precedent for these risks – on which the effectiveness of the obligation depends – have not yet occurred. The Company does not seriously expect these to occur. The risks have been measured at the Company's best estimate.

All other contingent liabilities at single-entity level have been recognized as liabilities in the consolidated balance sheet.

37. Other disclosures

	Dec, 31, 2002	Dec, 31, 2001
Group employees	344	338

38. Events after the balance sheet date

No material economic events occurred after the balance sheet date.

39. Publication of the consolidated financial statements

The financial statements will be published on April 25, 2003 at the Financials Press Conference in Düsseldorf.

40. Information on the German Corporate Governance Code

On December 23, 2002, the Board and Supervisory Board of Masterflex AG declared that they recognize and observe the Code resolved by the Government Commission on the German Corporate Governance Code, which was published in the electronic version of the Bundesanzeiger (Federal Gazette) on November 26, 2002. Use has been made of the option allowed in the Preamble to the Code to deviate from the full application of the recommendations in relation to the following recommendations contained in the Corporate Governance Code:

■ Section 5.31/5.32:

No formation of Supervisory Board committees

■ Section 7.1.4:

No publication of the single-entity results of the subsidiaries included in the consolidated financial statements

■ Section 7.12:

The quarterly results and the consolidated financial statements are published within the periods laid down by the Frankfurt Stock Exchange, in contrast to the recommendations of the Corporate Governance Code.

Masterflex AG
Willy-Brandt-Allee 300
45891 Gelsenkirchen
Germany

Gelsenkirchen, April 17, 2003



Detlef Herzog
(Chairman of the Board)



Hiltrud Mütterich
(Member of the Board)

Financial Calender 2003

March

CEBIT-fair, Hannover; Presentation of Masterflex¹ mini fuel cell

April

Hannover-Fair (Exhibitor)

April, 25: Press Conference, Presentation of the Annual Report 2002, Düsseldorf

April, 28: DVFA-Analyst-Meeting, Frankfurt

May

Quarterly report I/2003

June

June, 18: General Annual Meeting, Gelsenkirchen

August

Quarterly report II/2003

November

Quarterly report III/2003

STATEMENT OF CHANGES IN NONCURRENT ASSETS

Consolidated statement of changes in noncurrent assets as of December 31, 2002	Historical cost	Additions	Disposals	Reclassifi- cations	Currency translation differences	Historical cost
	1/1/2002					12/31/2002
	€	€	€	€	€	€
Intangible assets						
Concessions, industrial and similar rights and assets, licenses	648	249	-1	0	0	896
Development costs	197	481	0	34	0	712
Goodwill	19,017	0	0	0	0	19,017
Advance payments	0	137	0	0	0	137
	19,862	867	-1	34	0	20,762
Property, plant and equipment						
Land, land rights and buildings including buildings on third-party land	10,426	96	0	40	-213	10,349
Plant and machinery	7,182	719	-10	1,456	-183	9,164
Other equipment, operating and office equipment	3,347	630	-374	0	-62	3,541
Advance payments and assets under development	2,101	712	-464	-1,530	0	819
	23,056	2,157	-848	-34	-458	23,873
Noncurrent financial assets						
Noncurrent financial instruments	1,481	82	0	0	0	1,563
Other loans	35	128	-2	0	0	161
	1,516	210	-2	0	0	1,644
	44,434	3,234	-851	0	-458	46,279

STATEMENT OF CHANGES IN NONCURRENT ASSETS

Cumulative depreciation and amortization 1/1/2002 €	Depreciation and amortization for fiscal year €	Disposals €	Fair value changes recognized directly in equity €	Currency translation differences €	Cumulative depreciation and amortization 12/31/2002 €	Balance at 12/31/2002 €	Balance at 12/21/2001 €
415	84	-7	0	0	492	404	233
0	0	0	0	0	0	712	197
1,380	952	0	0	0	2,332	16,685	17,637
0	0	0	0	0	0	137	0
1,795	1,036	-7	0	0	2,824	17,938	18,067
2,102	350	0	0	-70	2,382	7,967	8,324
3,765	581	-13	0	-108	4,225	4,939	3,417
2,273	435	-193	0	-38	2,477	1,064	2,101
0	0	0	0	0	0	819	
8,140	1,366	-206	0	-216	9,084	14,789	14,916
243	2	0	584	0	829	734	1,238
0	0	0	0	0	0	161	35
243	2	0	584	0	829	895	1,273
10,178	2,404	-213	584	-216	12,737	33,622	34,256

Auditors' Report

"We have audited the consolidated financial statements comprising the balance sheet, the income statement and the statements of changes in equity and cash flows as well as the notes to the financial statements prepared by Masterflex AG for the fiscal year from January 1 to December 31, 2002. The preparation and content of the consolidated financial statements are the responsibility of the Company's Board. Our responsibility is to express an opinion as to whether the consolidated financial statements comply with the International Financial Reporting Standards (IFRSs), based on our audit.

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

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

Our audit, which also extends to the group management report prepared by the Company's Board for the fiscal year from January 1 to December 31, 2002, has not led to any reservations. In our opinion, on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the fiscal year from January 1 to December 31, 2002 satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and the group management report in accordance with German law."

MBT Wirtschaftstreuhand GmbH
Wirtschaftsprüfungsgesellschaft

Taphorn
Wirtschaftsprüfer

Meyer
Wirtschaftsprüfer

Lohne, April 18, 2003

Report of the Supervisory Board

Dear Shareholders,

In fiscal year 2002, the Supervisory Board of Masterflex AG held four meetings in which it discussed the economic situation and further strategic development of Masterflex AG in detail. At all of these meetings, the Board provided the Supervisory Board with regular and comprehensive information on the Company's business and financial situation, the staff situation, business and capital expenditure developments, and the current status of corporate planning. The meetings also focused on the implementation of the German Corporate Governance Code at Masterflex AG. Since Masterflex AG has traditionally attached a great deal of importance to responsible corporate management and supervision aimed at adding long-term enterprise value, the Board and the Supervisory Board of the Company have worked in close cooperation from the very beginning, maintaining an intensive and regular dialog on the development of the Company. As such, many of the principles and recommendations contained in the German Corporate Governance Code already form an essential part of our corporate culture. The Company appointed a compliance officer to monitor compliance with these rules throughout the Group, who provides the Board and the Supervisory Board with information on the implementation of corporate governance in the Group on a regular basis.

All members attended the meetings of the Supervisory Board, in which the Supervisory Board discussed the reports of the Board in detail and conferred with the Board on the opportunities for development open to the Company and the individual business units. Where individual transactions or measures by the Board were subject to the consent of Supervisory Board, as a result of legal provisions or in accordance with the articles of association of Masterflex AG, the appropriate resolutions were passed at the meetings of the Supervisory Board.

The Chairman of the Supervisory Board also kept himself informed of important Board decisions and key business transactions on an ongoing basis via individual discussions. In addition, the members of the Supervisory Board were provided with information by the Board in discussions held outside the official meetings, and advised the Board as required.

The Supervisory Board is composed of people close to the Company who are able to provide a decisive impetus due to their specialist knowledge of the Company's business activities. In addition, the expertise of the Supervisory Board means that it is particularly qualified to perform its duty to carefully monitor the management activities of the Board.

The auditing firm MBT Wirtschaftstreuhand GmbH Wirtschaftsprüfungsgesellschaft, Lohne, which was appointed as the Company's auditor by Annual General Meeting on July 24, 2002, audited the annual financial statements and management report of Masterflex AG submitted by the Board, as well as the consolidated financial statements and Group management report for 2002, including the accounting, and gave each an unqualified audit opinion. The documents to be audited and the auditor's reports were distributed to each member of the Supervisory Board at the meeting convened to approve the annual financial statements on April 11, 2003. The auditor attended this meeting and reported on the main findings of the audit. The auditor also provided detailed comments on the audit reports on the day prior to the meeting convened to approve the annual financial statements.

The Supervisory Board concurred with the auditor's reports. The results of its own examination correspond in full with the results of the audit of the financial statements. The Supervisory Board has no reason to raise any objections. The Supervisory Board has therefore approved and hence adopted the annual financial statements for the year ending December 31, 2002, as submitted by the Board. The Supervisory Board concurs with the Board's proposal for the appropriation of the unappropriated surplus.

The Supervisory Board would like to thank the members of the Board and all Masterflex employees for their commitment and hard work in fiscal year 2002.

Gelsenkirchen, April 2003

The Supervisory Board

Friedrich-Wilhelm Bischoping
Chairman

The current members of the Supervisory Board are:

Mr. Friedrich-Wilhelm Bischoping (Chairman)

After graduating from university, Mr. Bischoping founded an industrial plant engineering company with a partner in 1974, which he expanded in the 1990s by means of acquisitions. In 1987, he became one of the co-founders of Masterflex Kunststofftechnik GmbH. Mr. Bischoping resigned from the senior management of his engineering companies in 1998. When Masterflex Kunststofftechnik GmbH became an Aktiengesellschaft (a German public company limited by shares), Mr. Bischoping resigned from the senior management team and became Chairman of the Supervisory Board.

Prof. Harald Fuchs (Vice-chairman)

After completing a degree in physics in 1977, Prof. Fuchs spent several years as a research assistant at various institutes. In 1982, he was awarded his doctorate for a dissertation on nanocrystalline systems. He was then employed at the IBM research institute in Zurich and at BASF AG. In 1993, he was appointed professor of experimental physics at the Wilhelm University of Munster in Westphalia. He was a member of several administrative bodies at this University, as dean and as a member of the Senate, and was a guest professor at various foreign universities. He has published around 200 scientific articles to date. Prof. Fuchs is a member of a number of scientific organizations and a co-founder of the Centrum für Nanotechnologie (CeNTech – Center for Nanotechnology) in Munster.

Mr. Peter Dittes (Dipl.-Chemiker)

After graduating from university, Mr. Dittes spent several years working for various companies in the plastics industry before becoming Head of Medical Technology at a Swiss company. In 1994, Mr. Dittes founded the Polymer Experts Pool, an engineering pool for polymer and medical technology, in which he still plays an active role. In addition, he has been involved in various scientific projects, e.g. the development of hydrophilic polyurethane foam.

Glossary

Anode	Electrode with a positive electrical charge.
Arthroscopy	The internal visual examination of knee, shoulder, elbow and ankle joints.
Bluetooth	System allowing radio data interchange as an alternative to cables and infrared.
Break even	The point at which revenues equal expenses.
Cash flow	The cash generated in a particular period, adjusted for non-cash expenses and any major income; shows a company's ability to finance itself, i.e. its earnings power.
Cathode	A negatively-charged electrode.
Corporate Governance	Corporate Governance refers to responsible corporate management and supervision aimed at creating long-term enterprise value.
Disposable	Medical product which is only used once, and therefore does not need sterilization.
EBITDA	Earnings before interest, taxes, depreciation and amortization
EBIT	Earnings before interest and taxes
EBT	Earnings before taxes
Electron	Negatively charged particles which generates electricity on movement, e.g. in a semiconductor.
Electrolysis	Process in which a chemical compound is broken down using electricity, e.g. in order to split water into hydrogen and oxygen.
Extrusion	A process used in plastics manufacture. The raw materials (in granulated form) are broken down and heated in an extruder until they are plasticized, i.e. moldable and can be processed further.
Free Float	Refers to the percentage of share capital which is freely available for trading on the stock market. The opposite of this is the non-free float, in which the accumulated shares held by one shareholder account for five percent or more of the share capital.
Fuel cell	Converts chemical energy directly into electrical energy. This principle can be traced back to a discovery made by Sir William Robert Grove in 1839.
Fully radiopaque tube	The characteristics of this tube, which is inserted into the patient, make it radiopaque.
Gross domestic product	The total value of all goods and services produced by an economy for the market within a reporting period.
IASs	International Accounting Standards
Kit packing	Medical instruments are assembled into a package, or kit, to suit the physicians concerned.
Lary Vent Tube	A medical respiratory device which is specially designed to prevent the risk of vocal cord damage, which is common in operations, and asphyxiation from vomiting.
MEA	Membrane electrode assembly; a key component of PEM fuel cells.
Mobile computing equipment	Carrying system designed for the mobile use of communications technology (printers, notebooks, etc.).
Mobile office systems	see Mobile computing equipment
Multi-lumen tubing	Medical hoses with multiple chambers.
Net dividend yield	Dividend per share divided by the share price.
PEM	Proton exchange membrane
Pneumatic conveyor	Equipment which is powered and controlled by air pressure, used in the dry bulk industry in particular.
Polyurethane (PU)	Highly versatile special polymer
VDI	Verein Deutscher Ingenieure (German Association of Engineers)

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