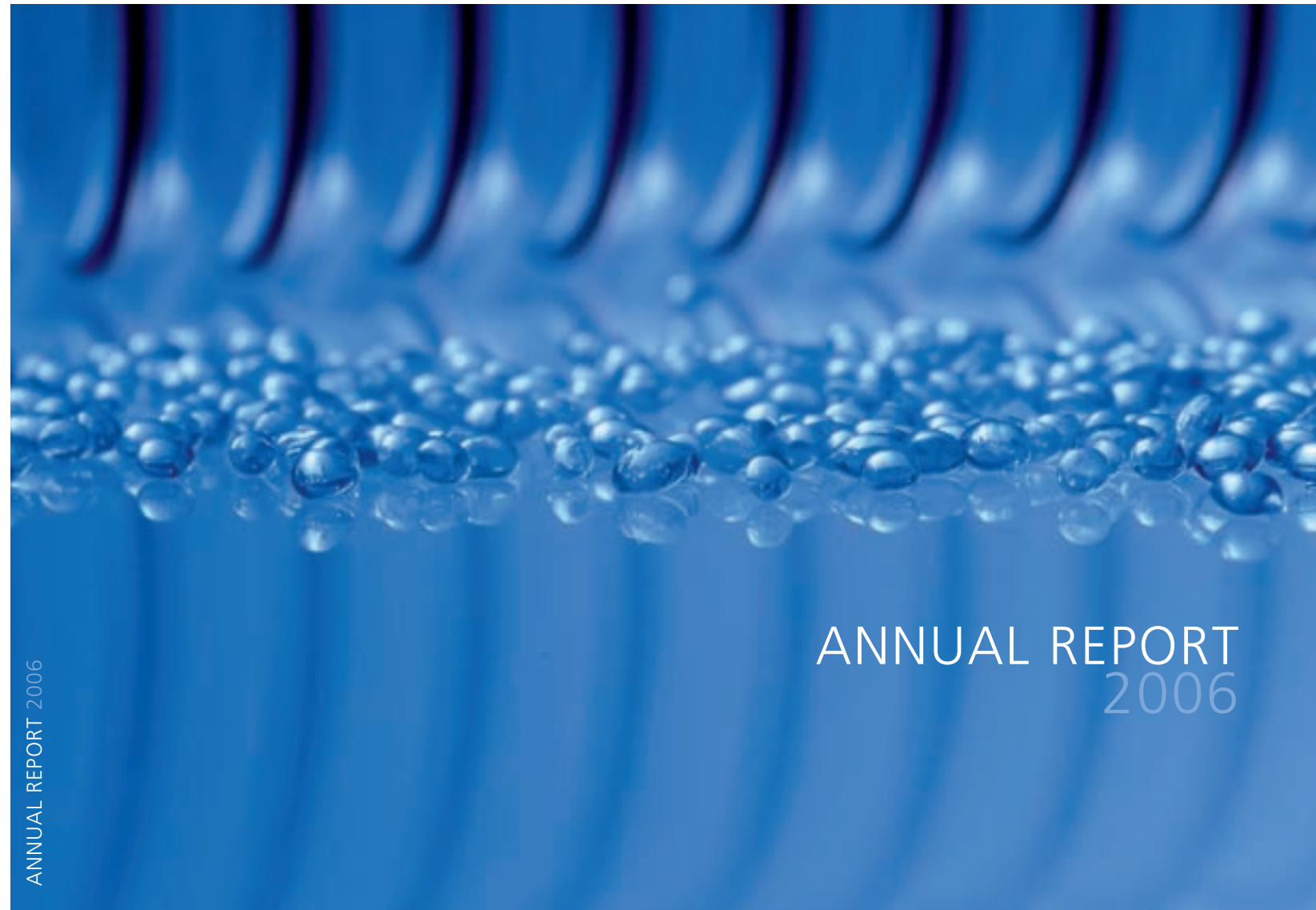


WE ARE THERE FOR YOU WHenever AND WHEREVER YOU NEED US!

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

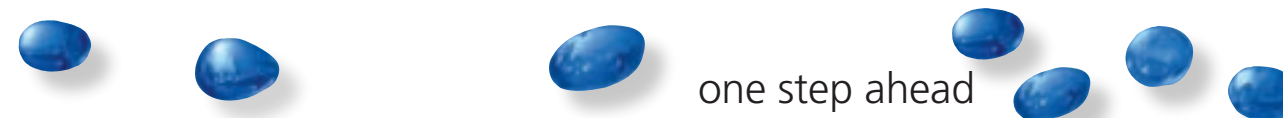


Masterflex AG

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MASTERFLEX AG



High-Tech Hose Systems

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



Medical Technology

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



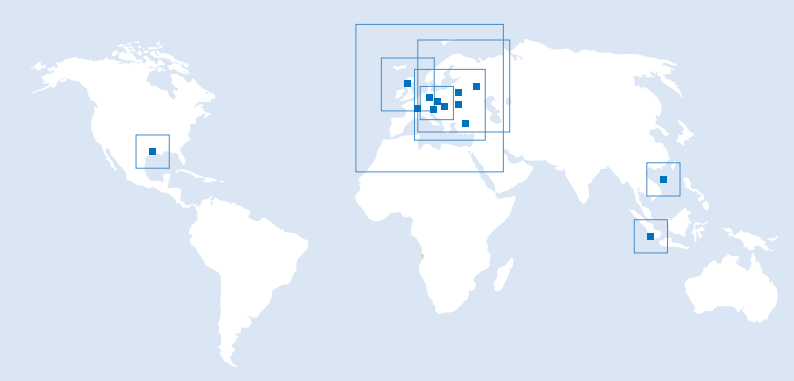
Advanced Material Design

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



Mobile Office Systems

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

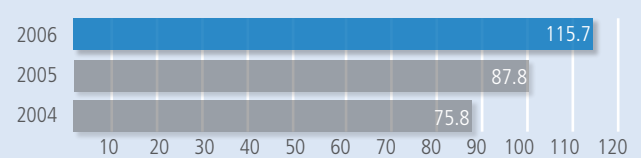


Masterflex AG is headquartered and has its main production site in Gelsenkirchen (Germany). Eleven other production sites exist in Europe and the USA, as do indirect representations in Asia. The Group had 778 employees on the payroll in 2006.

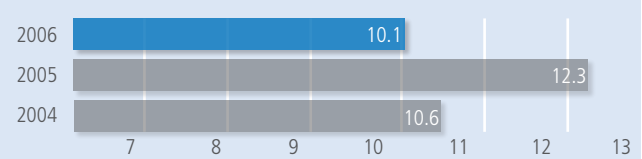
OUR CREDO

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

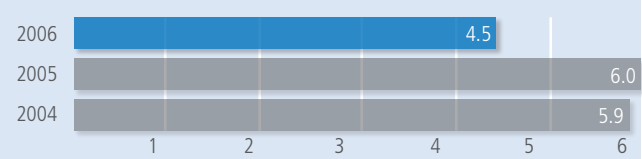
Consolidated revenue in EUR millions



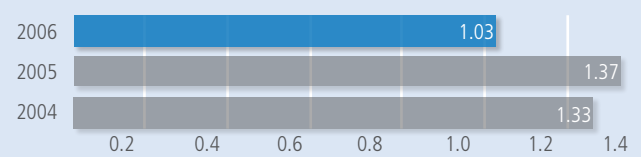
Consolidated EBIT in EUR millions



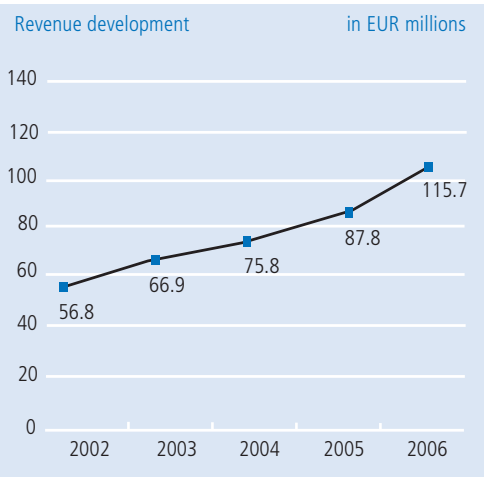
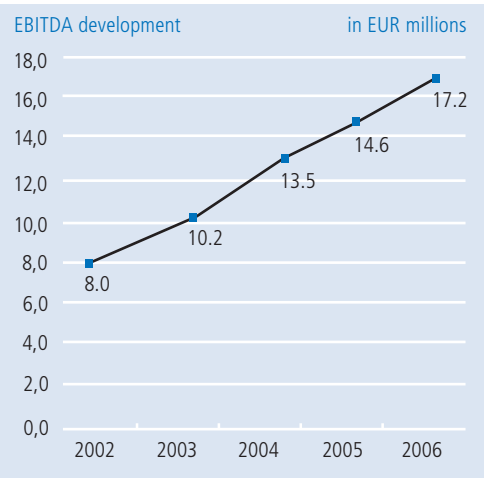
Consolidated net profit in EUR millions



Consolidated earnings per share in EUR millions



MASTERFLEX AT A GLANCE



	December 31, 2006	December 31, 2005	Change
Revenue (EUR thousand)	115,706	87,773	31.8 %
EBITDA (EUR thousand)	17,239	14,584	18.2 %
EBIT (EUR thousand) (before impairment)	14,198	12,263	15.8 %
EBIT (EUR thousand) (after impairment)	10,143	12,263	-17.3 %
EBT (EUR thousand)	7,183	9,719	-26.1 %
Net profit (EUR thousand)	4,478	5,965	-24.9 %
Equity (EUR thousand)	31,520	31,040	1.5 %
Total assets (EUR thousand)	112,719	97,832	15.2 %
Equity ratio %	28.0 %	31.7 %	
Staff (December 31, 2006)	778	656	18.6 %
EBIT-Margin	8.8 %	14.0 %	
Return on sales	3.9 %	6.8 %	
Earnings per share (EUR)	1,03	1,37	-24.8 %
Net dividend per share	0,80*	0,80	0.0 %
Net dividend yield (December 31, 2006)	3.5 %**	2.9 %	
* Proposal to the Annual General Meeting on June 5, 2007			
** Share price on December 31, 2006: 23.00 EUR			

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Highlights of 2006

January

Participation in the SRI Conference held by HSBC Trinkaus & Burkhardt, Frankfurt

The 'Cargobike' cargo taxi, powered by a fuel cell, will form part of the HYCHAIN MINITRANS EU project, designed to demonstrate alternatives to the oil-dependent transport sector

March

Participation in the Commerzbank Investors' Conference in Frankfurt

Successful trade fair appearance by DICOTA GMBH at CeBit

April

Presentation of the 2005 consolidated financial statements; international road show.

Masterflex AG presents the upgraded modular 'Cargobike' cargo taxi – powered by a fuel cell – at the Hanover Fair

English subsidiary, Masterflex Technical Hoses Ltd., celebrates its tenth anniversary

May

The world's first bicycle fleet powered by fuel cells is delivered to the North Rhine-Westphalian city of Herten

June

AGM attracts attendance of over 300

Dividend payment for the sixth consecutive year

The world's first Cargobikes are used by T-Com during the World Cup in Germany

August

The subsidiary Matzen & Timm GmbH expands its production capacity and relocates its headquarters from Hamburg to Norderstedt

North Rhine-Westphalian Minister President, Dr. Jürgen Rüttgers, visits Masterflex AG during his tour of the Ruhr region.

September

Masterflex Brennstoffzellentechnik GmbH acquires a 67 percent holding in PERM Motor GmbH, Breisach. PERM supplies a key product for the technical actuation of the Cargobike.

The subsidiary Novoplast Schlauchtechnik GmbH launches a new standard programme for microbe-resistant and hydrolysis-resistant PUR pneumatic hoses and thermo-fixed hoses. The latter are used, for example, in textile machines.

October

Masterflex AG announces that its subsidiary DICOTA GmbH will remain within the Masterflex group for the time being.

Masterflex presents the Hercules of hoses in the form of its Master PUR Inline Hose: thanks to its reinforced inner layer, this has better abrasion behaviour and higher levels of pressure resistance than any other elastomer hose.

November

Masterflex AG again participates in the Equity Capital Forum held by the German Stock Exchange in Frankfurt

International Road Show

December

Masterflex AG is the first and only manufacturer to offer a certified all-in hose system for conveying liquid foodstuffs

Dear Shareholders,



From left to right: Dr. Andreas Bastin (CTO), Detlef Herzog (CEO), Ulrich Wantia (CFO)

having been in business for two decades, we can look back at a successful 2006 fiscal year. Once again, we emphasized our innovative strength, developing and launching a range of unique new products. The story of our success is based primarily on our high level of material expertise, the creativity of our workforce and an unerring sense of our customers' needs.

The main technological milestones of 2006 were a new hose type with inner coating and superb exposure times, as well as our certified hose system programme designed for the food and pharmaceutical sectors. We were also the world's first manufacturer to introduce stable-running electric bicycles powered by fuel cells to the market. Our Cargobike light mobile vehicle, for example, was used for the first time during the World Cup in Germany. Innovations in the Medical Technology line of business included the development of a light-protected PUR infusion tube which filters UV rays in such a manner that light-sensitive medication is not affected.

During the 2006 fiscal year, we extended our international market leadership, enhancing our presence in markets such as Eastern Europe and Asia. As a result of this dynamic and successful development, we revised our group sales forecast upwards in November 2006, predicting a turnover increase of over 30 percent. As a whole, the 2006 fiscal year saw group turnover increase by 31.8 percent to € 115.7 million. Developments in Germany, our most important market, continue to be very gratifying. While many companies have been affected by the weak domestic economy during recent years, Masterflex AG recorded extremely dynamic growth of 34.5 percent during the past year. Sales in non-EU countries grew by an impressive 40.8 percent, followed by EU member states where sales rose by 19.7 percent. This underlines the fact that we are operating in growing markets which offer a lot of potential.

Prospects remain excellent in all lines of business. That is why we want to make optimal use of the opportunities available, further expanding our strengths and thus ensuring lasting growth. The focus is on our innovative strength and our successful core line of business, High-Tech Hose Systems. The Executive Board of Masterflex AG was expanded at the end of 2006. Dr. Andreas Bastin now heads the new Technical Division, which will be concentrating primarily on research, development and innovation. With his expertise and international experience, Dr. Bastin will be in a position to strategically expand our technological leadership, taking into account the increasing importance of international customer groups and their requirements. Our aim of optimizing our growing number of technical and innovation projects by utilizing internal group synergies – including cross-sectoral synergies – should also be viewed in this context, placing as it does organic emphasis on our ambitions for future growth.

For many years now, our sales developments have far exceeded the general economic trend in Germany and the plastics industry. We are particularly pleased that all lines of business have been involved in our sales growth. Our High-Tech Hose Systems have been the focus of particularly dynamic growth, with sales increasing by 15 percent, while our Mobile Office Systems division has seen an increase of 31.4 percent.

Our High-Tech Hose Systems division has seen sales grow both at home and abroad. Germany continues to be our most important market, as well as our primary production location and development center. We are also satisfied with our expansion abroad. The US and Eastern European markets are developing in a gratifying manner, with the result that we will be further expanding these markets in the next few years. Fuel cell technology has also developed positively. These activities are now included in our core line of business, High-Tech Hose Systems, since this sector still does not warrant its own line of business. 2006 saw the first sales in the Fuel Cell Technology sector, with the sale of ten electric bikes powered by fuel cells to the city of Herten, and the delivery of three Cargobikes to T-Com. The positive developments in the High-Tech Hose Systems line of business illustrate Masterflex AG's high level of technological expertise, and the fact that the company is superbly positioned with future-proof products.

The Mobile Office Systems line of business, operated by our subsidiary DICOTA GmbH, is also experiencing very dynamic growth. At the beginning of last year, we announced that we no longer viewed mobile office systems as part of our core activities. For that reason, we considered selling the division. However, in the autumn of 2006, we decided to continue overseeing the successful development of our subsidiary DICOTA GmbH for the time being. Developments in the Mobile Office Systems line of business have been very positive: during the past year, this sector saw sales increases of over 30 percent, and EBIT growth of over 20 percent. There was a strong growth in demand in Eastern Europe and Asia, as well as positive demand developments in Western Europe. As one of the market leaders, DICOTA is superbly positioned, and continuously develops new high-quality products.

We are also very satisfied with developments in our Advanced Material Design line of business, which has been part of Masterflex AG since the summer of 2005. We are the market leaders in terms of surface technology for functional and decorative consumables. During the next few years, we will be penetrating new customer sectors, and expanding interdisciplinary project collaboration with the High-Tech Hose Systems line of business.

As a whole, we are satisfied with turnover development in the Medical Technology line of business. This applies particularly to the area of medical components (so-called medical devices). Overall, we believe that medical technology offers potential for the future, since we supply innovative products made of medically safe materials.

Two aspects should be considered when assessing the profit situation during the 2006 fiscal year. In operational terms, we are very pleased with the results achieved. Thus, earnings before interest, taxes and depreciation (EBITDA) saw double-digit growth, rising by 18.2 percent to € 17.2 million. Earnings before interest and taxes (EBIT) increased without any impact from goodwill depreciation, growing by almost 15.8 percent to € 14.2 million (previous year: € 12.3 million). We are thus in the upper range of our forecast corridor, which we set at between 10 and 20 percent for the past fiscal year.

In accordance with IFRS rules, we are obliged to subject the value of our goodwill to an annual review. As a result of the goodwill review for Angiokard Medizintechnik GmbH & Co. KG, a goodwill amortization was carried out as of the reporting date (December 31, 2006). This is because we have new insights into the company's prospects for success, which are partly determined by the uncertain impact of the German health reforms on the business involving angiography and operation sets. This resulted in depreciation of € 4.1 million. While this is liquidity-neutral, it did impact negatively on the results. Thus, EBIT fell by 17.3 percent to € 10.1 million, in turn resulting in the group net profit decreasing by 24.9 percent to € 4.5 million (previous year: € 6.0 million). This corresponds to earnings per share of € 1.03 (previous year: € 1.37). Due to the positive development of operating profits, we will propose that the AGM due to be held on June 5, 2007 agree a dividend of € 0.80, the same as that paid during the previous year.

We feel that we are very well positioned for the 2007 fiscal year. In 2006 we put in place the necessary conditions to improve, in particular, our qualitative growth. This will also be underpinned by the strategic expansion of our innovative strength, and the implementation of an interdisciplinary, cross-sectoral project planning system. Our growth plans are focused on our core line of business, High-Tech Hose Systems. 2007 will see the launch of new products and a redoubled focus on continuing internationalisation. We believe that our US business offers the best prospects for dynamic growth. Fuel cell technology will continue to be advanced by the EU HYCHAIN project. We also anticipate continued growth in the other lines of business. In corporate finance terms, we will focus on the sustainable generation of profits, improving our cashflow situation and increasing potential synergies.

In view of this promising outlook, the Executive Board of Masterflex AG expects that the 2007 fiscal year will see a sustainable continuation of our positive business development, with group turnover growing by between 10 and 20 percent, and earnings before interest and taxes (EBIT) growing by between 50 and 60 percent. Based on the operating group EBIT, this corresponds to an increase of between 6 and 12 percent.

We would like to take this opportunity, on our own behalf and on behalf of the Supervisory Board, to thank all employees for their successful input, to thank our business partners for their collaboration, and to thank our shareholders for their confidence in our company.

Detlef Herzog
Chairman of the Board

Ulrich Wantia
Chief Financial Officer

Dr. Andreas Bastin
Chief Technical Officer



TRUE FREEDOM *cannot be attained without secure connections.*

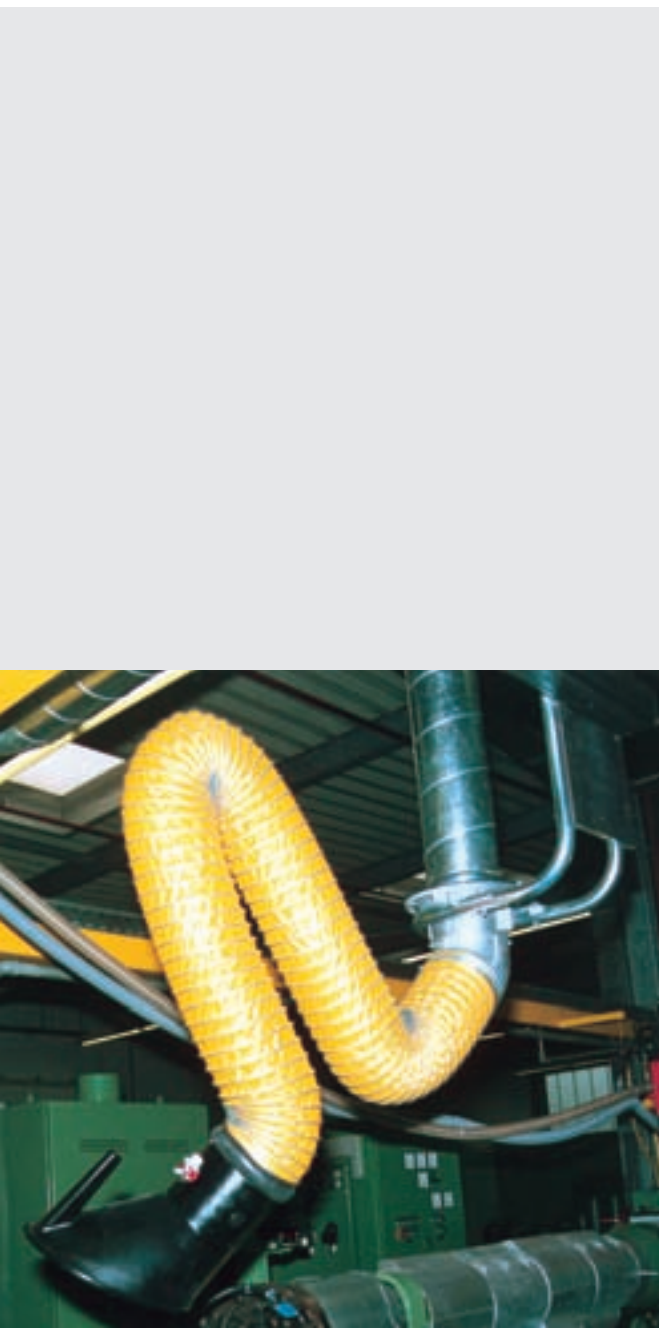


The fiscal year 2006 was again successful for the Masterflex AG.

GROUP MANAGEMENT REPORT

Masterflex AG continued its positive development during the 2006 fiscal year. An increase in group turnover was recorded for the nineteenth consecutive year. When compared with the previous year, turnover increased by 31.8 percent to €115.7 million. We also increased our operating earnings before interest, taxes and depreciation (EBITDA), which grew by 18.2 percent to € 17.2 million. Operative earnings before taxes and interest (EBIT) rose by 15.8 percent to € 14.2 million (previous year: € 12.3 million), not accounting for any effects from goodwill amortization. We are thus clearly within our forecast range, which we set at a range of between 10 and 20 percent for the past fiscal year.

In accordance with IFRS rules, we are obliged to subject the value of our goodwill to an annual review. The results of the goodwill review for Angiokard Medizintechnik GmbH & Co. KG resulted in a goodwill amortization as of the reporting date (December 31, 2006). One of the reasons for this is that we have new insights in the company's prospects for success, which are partly determined by the uncertain impact of the German health reforms on the business involving angiography and operation sets. This resulted in depreciation of € 4.1 million. While this is liquidity-neutral, it did impact negatively on the results. Thus, EBIT fell by 17.3 percent to € 10.1 million, in turn resulting in the group's net profit decreasing by 24.9 percent to € 4.5 million (previous year: € 6.0 million). This corresponds to earnings per share of € 1.03 (previous year: € 1.37).

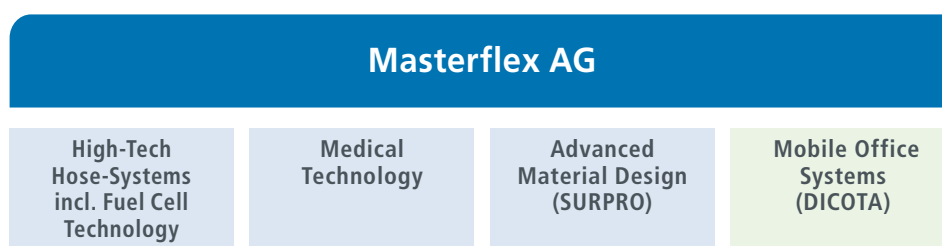


I. Business and business conditions

Group structure and business activities

Based in Gelsenkirchen (Germany), Masterflex AG specializes in developing and processing high-tech plastics, in particular polyurethane (abbreviated as PUR). Since Masterflex Kunststofftechnik GmbH was established in 1987, the core line of business has been the production of High-Tech Hose Systems for complex industrial applications. Thanks to its high levels of materials expertise and numerous innovations, Masterflex AG is today a global market leader – and also leads the world in terms of technology.

Masterflex AG has further expanded its business activities over the years. In addition to developing its own production facilities at home and abroad, Masterflex today has majority holdings in companies working in the medical technology, Fuel Cell Technology and surface finishing sectors, as well as in the Mobile Office Systems trading sector. Today, the Masterflex Group is involved in the following business unit: High-Tech Hose Systems, Medical Technology, Advanced Material Design and Mobile Office Systems.



The High-Tech Hose System business unit – which also includes Masterflex AG – produces high-end hose systems which have largely been developed in-house. This business unit also includes activities relating to the development and marketing of Fuel Cell Technology.

In the area of medical technology, we offer medical devices made of special plastics (infusion tubes, catheters, multilumen tubes, etc.), some of which are produced in our own extrusion facilities, as well as angiography sets. Angiography sets (which are used to diagnose vascular disease) and operation sets are also configured and distributed.

MASTERFLEX AG (D) since 1987					
Matzen & Timm GmbH	NOVOPLAST Schlauchtechnik GmbH	SURPRO Verwaltungs- GmbH (subgroup)	MASTERFLEX S.A.R.L.	MASTERFLEX Technical Hoses Ltd.	TechnoBochum GmbH
(D) since 2003 100%	(D) since 1990 100%	(D) since 2005 100%	(F) since 1991 80%	(GB) since 1996 100%	(D) since 2000 100%

Note: Dates refer to the year of acquisition by the Group

In the Advanced Material Design business unit, SURPRO GmbH and its subsidiaries carry out activities relating to metal surface coating.

DICOTA GmbH, together with its subsidiaries, is active in the Mobile Office Systems business unit. Its activities relate primarily to the distribution of system cases and bags for transporting notebooks and office systems. This business unit has been color-differentiated in the overview, since we no longer consider these activities to be part of our core business. However, after considering selling DICOTA GmbH in 2006, we have decided to retain the company within our group for the time being, and to continue overseeing its successful expansion.

The group's main production site is in Gelsenkirchen. Masterflex AG is also represented at eleven other production sites in Germany, France, the UK, Bulgaria, the Czech Republic and the USA, and is also indirectly represented in Asia. Masterflex AG has been listed on the Frankfurt Stock Exchange since June 16, 2000.

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

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

Management and control

Since December 2006, Masterflex AG has been managed by a three-member Executive Board. Since 2000, Detlef Herzog – one of the company's three founders – has been Chairman of the Board. Ulrich Wantia has been the Chief Financial Officer since the end of 2004.

Masterflex AG's innovative strength is an important part of its success. For this reason, we intend to expand the R&D section. On December 1, 2006, Dr. Andreas Bastin was appointed as an ordinary Executive Board member with responsibility for the newly-established Technical Section. After studying mechanical engineering, Dr. Bastin initially occupied various managerial positions in one of the Krupp-Hoesch Group's companies. During this period, he obtained his doctorate in engineering from Dortmund University. He then spent around ten years as Executive Director of a medium-sized technology company, before joining ETAS GmbH in Stuttgart (2004), a subsidiary of Robert Bosch GmbH. There, as a member of the management team, Dr. Bastin was responsible for the successful development of various global lines of business.

As well as intensifying the strategic development and innovation projects, the management of Masterflex AG will be focusing increasingly on expanding its successful core business relating to high-tech hose systems. For this reason, in November 2006, it was also decided to create a new position and appoint a division manager for the High-Tech Hose Systems business unit.

The Supervisory Board of Masterflex AG comprises three members. The engineer Friedrich-Wilhelm Bischooping is one of the company's three founders, and has chaired the Supervisory Board since 2000. Since June 9, 2004, his deputy has been Professor Detlef Stolten, Director of the Institute for "Materials and Processes Pertaining to Energy Technology", part of the Research Institute Jülich GmbH. The third member of the Supervisory Board, also appointed on June 9, 2004, is Professor Paulus Cornelis Maria van den Berg, an expert in intensive care medicine and anaesthesiology. Since it was deliberately decided to keep the Supervisory Board small, there are no separate sub-committees. The Executive and Supervisory Boards also discuss important issues outside meetings, by means of teleconferencing or strategy meetings convened at short notice. The Chairman of the Supervisory Board is also regularly updated regarding the course of business in Masterflex AG, as well as impending projects.

Board remuneration

Board members receive annual remuneration consisting of a fixed and a variable component. Total Board remuneration in the calendar year 2006 was € 525,000 (previous year: € 501,000)

	Fixed remuneration 2006 EUR thou.	Performance-related remuneration 2006 EUR thou.	Total 2006 EUR thou.
Chairman of the Board, Mr. Detlef Herzog	270	0	270
Board member, Mr. Ulrich Wantia	191	0	191
Board member, Mr. Dr. Andreas Bastin (since Dec. 1, 2006)	11	0	11
Board member, Mrs. Hiltrud Mütterich (till Dec. 8, 2004)	53	0	53
Total	525	0	525

No performance-related emoluments were paid out during the 2006 fiscal year.

Due to a post-contractual restraint on competition, the former Executive Board member Mrs. Hiltrud Mütterich received a waiting allowance of € 53,000 up to April 30, 2006.

Supervisory Board remuneration

Supervisory Board remuneration is fixed only. The General Meeting can provide a variable remuneration component; however, it has not availed itself of this option in the past. Fixed remunerations are paid after the conclusion of each fiscal year.

The Chairman of the Supervisory Board receives twice the remuneration amount, and the Deputy Chairman receives one and half times the remuneration amount. Remuneration for Supervisory Board members who only serve on the Supervisory Board for part of the fiscal year is prorated to the duration of their Board activity. Remuneration paid to members of the Supervisory Board for services personally rendered is published as prescribed by law.

As a whole, members of the Supervisory Board received emoluments totaling € 32,000 during 2006.

	2006 EUR thou.	2005 EUR thou.
Chairman of the Supervisory Board Friedrich-Wilhelm Bischooping	14	14
Deputy Chairman of the Supervisory Board Prof. Dr. Detlef Stolten	11	11
Supervisory Board member Prof. Dr. Paulus Cornelis Maria van den Berg	7	7
Total	32	32

The breakdown is also listed in the notes to the Annual Financial Statements under item 32.

Employee compensation system

Masterflex AG has a contemporary compensation system that includes variable components and fixed components. The variable component is based on the individual employee's performance, as well as general corporate success. Payment is made in the form of a bonus.

The option of receiving emoluments in the form of share options ceased at the end of 2005, since the programme expired and a new programme was not put in place.

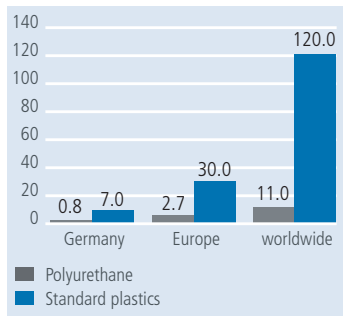
Market and competition

High-Tech Hose Systems

Over the years, Masterflex AG has attained a high degree of materials expertise with regard to special plastics. Masterflex has developed crucial innovations in the hose market. The primary material is polyurethane (abbreviated as PUR), a high-performance plastic which, due to its versatility, can be found in a growing number of application sectors. In the hose market, PUR is primarily valued for its high level of abrasion resistance, which is superior to conventional materials, especially PVC, rubber and steel. Since 1987 – thanks to a range of patents and innovations – Masterflex AG has built up a substitution market for hoses made of polyurethane and other high-tech plastics.

Masterflex operates in growing markets, since the demand for plastics, and polyurethane in particular, has been expanding for years. During 2006, according to an estimate by the trade association PlasticsEurope Deutschland GmbH, plastics sales from Germany again rose significantly by around 5 percent. Experts expect this growth to continue until 2010, with PUR set to record average growth of 5.5 percent (source: Fachverband Schaumkunststoffe e.V. (German trade association normally abbreviated as FSK)). Almost three-quarters of the plastics industry in German-speaking countries experienced even better business during the second half of 2006 than during the first half – which itself had been positive.

Plastics consumption in 2006
(millions of metric tons)

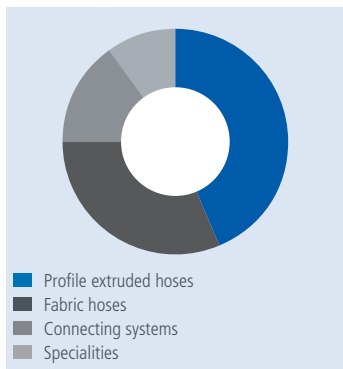


As a whole, over 11 million tons of polyurethane were used around the world during 2005. High-performance plastics such as PUR are increasingly key to the penetration of plastics in demanding application sectors. Unlike conventional plastics, which – for example – include PVC, PUR extrusion is very demanding technically. Therefore, this material is often used for highly-specialized applications.

World consumption of PUR represents less than one-tenth that of conventional plastics. Over 30 million tons of conventional plastics are processed in Europe, while the corresponding figure for PUR is just 2.7 million tons. In Germany, 0.8 million tons of PUR and around 7 million tons of conventional plastics are processed.

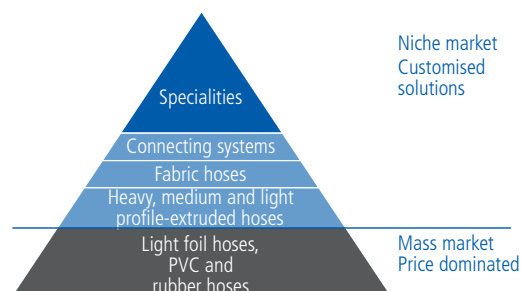
Germany is still the largest market for PUR processing, ahead of Eastern Europe, which processed 0.5 million tons. According to the Foam Plastics Industry Association, FSK, industry revenue in Germany was approximately EUR 6 billion in 2005. This sectoral turnover is shared by over 700 companies. The German PUR industry employs a workforce of around 37,000. The largest buyers of PUR are the furniture and mattress industry, representing revenue of EUR 1.7 billion, as well as the construction and insulation industry, representing revenue of nearly EUR 1.2 billion. Hoses are not listed separately and fall under the category “Other”.

Hoses Variety of Masterflex AG



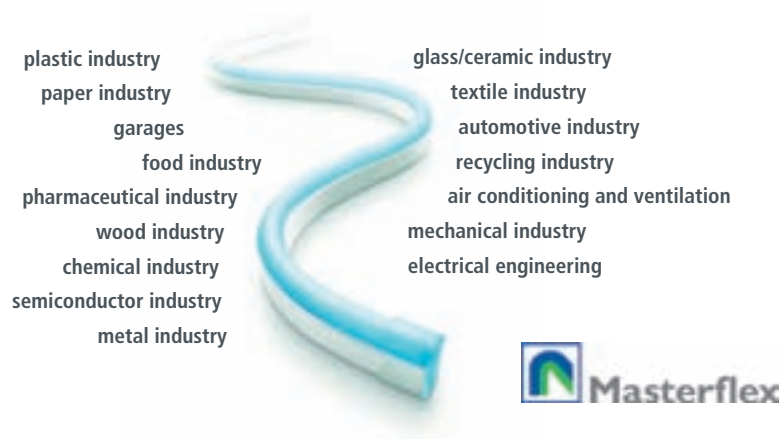
The High-Tech Hose Systems product line consists of suction and transport hoses, including extruded, highly abrasion resistant PUR hoses, plus associated connecting systems, as well as suction and blower hoses made of special fabrics. The majority of these hose solutions are made to order; frequently they are developed in close collaboration with the customers. Whereas the price-driven mass markets for PVC, rubber and corrugated plastic hoses are served by a variety of national and international suppliers, only a few, usually small and medium-sized, hose manufacturers not listed on the stock market cater to the relevant market for Masterflex AG.

Although, during the 2006 fiscal year, many processors of mass plastics continued to be hit by rising raw material prices, Masterflex AG experienced procurement price stability, thanks to long-term supply terms as well as a strong negotiating position as a specialist purchaser of polyurethane.



Masterflex AG targets a highly specialized niche market for which no official data is available. The German Federal Statistical Office groups hoses, extrusions, and tubes in the same category. The hose group, as defined by the National Association of Plastics Processors GKV, also includes extrusions, panels, and foils. It is therefore impossible to make precise statements regarding market volume and market potential for hoses. It is also not possible to delimit the purchase market since, in Germany, for example, we sell our hoses to over 6,000 customers in a range of sectors.

Areas of application



We consider the growth potential in this niche market to be outstanding, as experts are extremely positive in their assessment of the future for plastics and polyurethane. BASF forecasts that the overall global demand for plastic materials will increase to 250 million tons annually by the year 2010.

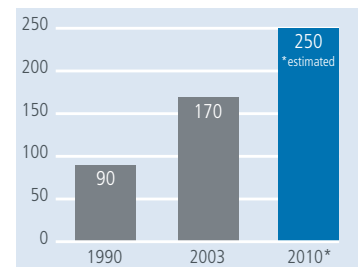
Moreover, the major manufacturers of raw materials expect stable growth of about 5 to 6 percent annually for the total PUR market over the next few years. The overall prognosis is that PUR consumption will continue to increase, reaching approximately 14 million tons by 2009 (source: Foam Plastics Industry Association FSK).

The growing use of PUR is due to the ongoing development of existing and new products, applications and processes, as well as increasing demand from Eastern Europe and Asia.

Prospects abroad

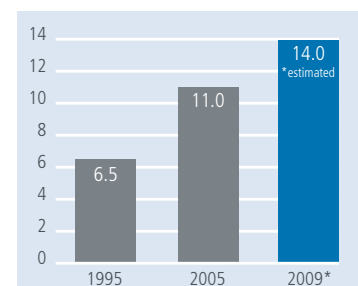
Masterflex AG believes that its growth potential lies (on the one hand) in ongoing product innovation and (on the other hand) in international expansion. We believe that the USA represents an interesting potential market, since PUR is scarcely known in the American hose market, which is therefore dominated by conventional PVC and rubber products. Masterflex AG has also operated successfully in Eastern Europe for some years. Here, the growing adaptation to EU environmental and industrial standards, as well as the development of production capacities by existing German clients bringing with them their own standards (and therefore Masterflex products), offers opportunities. The prerequisites that generate demand for our highly specialized hose systems in a market are the achievement of a higher level of industrial standards, as well as the need to comply with environmental regulations. This is why the Asian industrial regions are becoming increasingly interesting target markets for Masterflex AG.

Global plastics consumption
millions of metric tons



Source: National Association of Plastics Processors

Global PUR consumption
millions of metric tons



Source: FSK 2005

As a whole, plastics continue to represent an enormous innovation potential, and this was also recognized in a study conducted by the IKB Deutsche Industriebank AG in October 2004. This also applies to the medical technology sector, where BASF AG anticipates the average country-based increase in demand for special plastics to reach at least 5 percent p.a.

Following the superb 2006 fiscal year, prospects remain extremely positive. According to a survey conducted by the Plastics Sector Service at the end of January 2007, just 7 percent of respondents expected business to decline during the current first half of 2007, while 36 percent expected business to stabilise at the present level and 57 percent anticipated continuing growth.

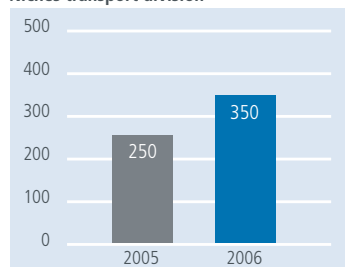
Fuel Cell technology

Once again, during the past year, increased attention was paid to renewable energies as a result of oil price developments and the risk of global warming posed by high CO₂ emission. Due to growing environmental awareness, investments in energy-saving measures and innovative technologies grew by leaps and bounds during 2006. Thus, according to the German Building Services, Energy and Environmental Technology Association (BDH), in 2006 around 200 percent more heat pumps, around 70 percent more pellet heating systems and around 60 percent more solar heating systems were sold than in 2005.

German industry is the global market leader when it comes to renewable energies. A study conducted by the IWR (International Business Forum for Renewable Energies in Münster) shows that, during 2005, 16,500 jobs were created in 3,000 companies in the renewable energy sector in North Rhine-Westphalia alone – and these companies generated a turnover of € 4.2 billion (an increase of 20 percent over the previous year). Masterflex AG is thus operating in a growing market environment with excellent commercial framework conditions.

It should also be noted that the renewable energy sector is being promoted by public policy. Thus, in 2000, the state government of North Rhine-Westphalia established the "North Rhine-Westphalian Competency Network for Fuel Cell and Hydrogen Projects", which has promoted 64 fuel cell and hydrogen projects to date. At the beginning of 2007, the NRW state government announced that it would be further boosting the assistance programmes as part of an energy efficiency initiative entitled "NRW Saves Energy". Following this, primary energy usage is to be reduced by 20 percent throughout Europe. The 7th EU Research Framework Programme, which will run until 2013, has been in force since January 1, 2007. The energy sub-sector includes assistance programmes with a value of at least € 2.35 billion. The NRW Minister for Economic Affairs, Christa Thoben, has announced that North Rhine-Westphalia will also be submitting a range of project proposals to this programme, especially in the area of fuel cell and hydrogen technology. The stated aim is to ensure that, by 2010, fuel cells and hydrogen will be the norm in many areas in North Rhine-Westphalia.

Fuel Cell units
Niches transport division



Source: Fuel cell today 2006 market survey

Electric bikes: a growth market

In the area of Fuel Cell Technology, 2006 saw a continuation of the trend from pure R&D to marketable products. Additional vehicle types were introduced in the transport sub-sector, including Masterflex AG's Cargobike, which is almost ready for series production. Over 80 percent of manufacturers' projects rely on the hydrogen-based PEM fuel cell (PEM= Proton Exchange Membrane); this type of fuel cell also dominates in terms of non-transport fuel cell projects.

As a whole, the transport sector – dominated by the automotive sector – relies almost exclusively on this type of fuel cell.

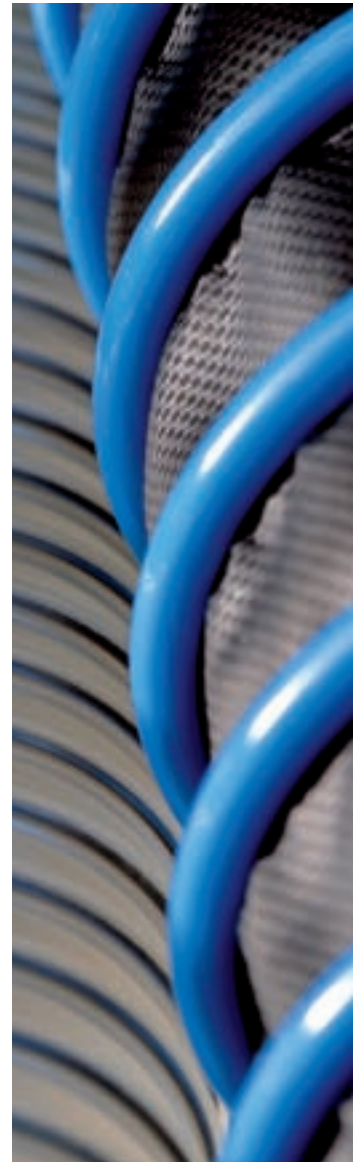
During 2006, the threshold limits introduced in 2005 for fine dust were once again exceeded by many large German cities. Increasing traffic density, together with noise pollution and exhaust fumes, as well as the IPPC report published in January 2007, all make it clear that we need new sustainable and environmentally-friendly mobility concepts. Within the EU, the intention is to reduce CO₂ emissions by 30 percent by 2020. Given this, Masterflex AG's fuel cell project, with a range of between 25 and 1,000 watts, has become increasingly important.

The market for electric bicycles is a growing market. Worldwide approximately 10 million light vehicles were sold; this number includes approximately 1 million battery-powered electric bicycles. These so-called "pedelecs" (from pedal electric) automatically link the motor's output with the cyclist's muscle power using a force or movement sensor. The motor is only activated when there is pressure on the pedals, and it supports the rider by providing additional power. Battery-powered pedelecs can achieve a range of between 20 to 50 kilometers, which is inadequate, particularly for professional and commercial applications. The Masterflex fuel cell powered bicycle achieves a range of approximately 120 kilometers with just 45 grams of hydrogen.

In 2006, we launched our Cargobike cargo taxi. The Cargobike, which is almost ready for series production, was conceived as a solution to the issue of transporting cargo in inner city areas – and it also represents a solution to the general problem of hydrogen supply. Cargobikes are equipped with integrated fuel cells and have a modular structure; the vehicle can thus be fitted out with a range of superstructures for different areas of deployment. As well as powering the vehicle, a 250 watt fuel system can also supply the power needed to illuminate the vehicle or refrigerate the goods being transported. The hydrogen is contained in a conventional 5 liter bottle which can easily be refilled or replaced. The Cargobike thus has a range of around 250 kilometers.

The following milestones were achieved during the past fiscal year:

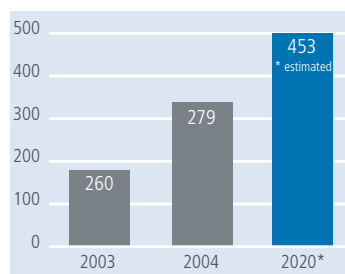
- In January 2006, we announced that Masterflex AG will take part in the EU HYCHAIN MINITRANS PROJECT. This cross-border project is intended to demonstrate innovative and sustainable alternatives to the heavily oil-dependent transport sector, and to create deployment opportunities for selected transport applications. HYCHAIN MINITRANS includes, in particular, the operation of 150 fuel cell powered small and light vehicles, as well as the generation, storage and logistical distribution of hydrogen. Test regions include the Ruhr area (Germany), the greater Grenoble area (France), Modena (Italy) and Castilla y Leon (Spain). Masterflex AG intends to deploy at least forty of its "Cargobike" cargo taxis in these four regions. Production of the Cargobikes will commence during the 2007 fiscal year. The HYCHAIN project is being co-financed by the EU to the tune of € 17 million.
- The world's first bicycle fleet powered by fuel cells has been permanently deployed in the North Rhine-Westphalian city of Herten since May 2006. Masterflex AG's fuel cells have displayed the same stable running performance on the ground as they achieved under laboratory conditions. Provision of the requisite hydrogen infrastructure represents another milestone in the project. In this regard, too, Masterflex AG has succeeded in establishing a smoothly functioning logistics system since the very beginning, enabling the bicycle fleet to be supplied with replaceable hydrogen cartridges.
- In June 2006, our Cargobike was demonstrated at the International World Hydrogen Energy Conference in Lyon (France). The first three Cargobikes were then ready to be tested on



the ground during the World Cup. T-Com (Deutsche Telekom's broadband/landline business) placed its trust in innovative, climate-neutral mobility powered by fuel cells, and used the Cargobikes as service vehicles in and around the World Cup stadia in Berlin and Dortmund.

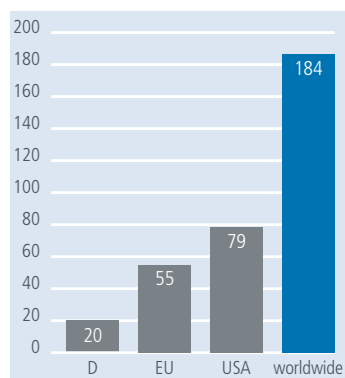
- During 2006, we secured important technology for the Cargobike through the acquisition by Masterflex Brennstoffzellentechnik GmbH of a majority holding in PERM Motor GmbH, based in Breisach (Germany). PERM supplies a key product for our Cargobike's electric actuation. The company develops and distributes electric motors, generators and electric actuations. Our acquisition of PERM Motor GmbH represents a further expansion of our Fuel Cell Technology. The focus is on the search for innovative energy concepts, which will also become more important as a result of the new EU Energy Efficiency Directive issued in May 2006. This directive stipulates that all manufacturers of electric appliances and actuation systems must significantly reduce the energy consumption of their products. PERM motors offer the best conditions for this, since they have a high efficiency level combined with a low weight.

Expenditures for healthcare
EUR billions



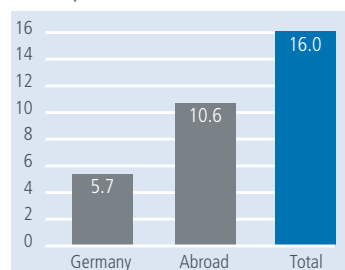
Source: Roland Berger 2005

Global market for Medical Technology
EUR billions



Source: Bundesverband Medizintechnologie et al.

German market for Medical Technology in 2006 | EUR billions



Source: Spectaris

Medical Technology

For the Masterflex Group, medical technology – in particular the area of medical devices (infusion tubes, catheters etc.) – has considerable potential due to the sector's growth prospects. In contrast, however, the impact of the German health reforms on the future of our business involving operation and angiography sets (which led to a goodwill amortization) is uncertain. The prospects for the medical technology sector are positively affected by a rapidly growing and aging world population, together with the increasing professionalization and commercialization of health and nursing care services. To these factors should be added increasing health expenditure due to an altered public health awareness, and the associated demand for state-of-the-art treatment methods and/or privately financed interventions. According to estimates, the world market for medical technology will experience long-term annual growth rates of around 4 to 5 percent until 2010 (source: Spectaris sector association).

In respect of Germany, experts anticipate that the market for health services will grow to € 453 billion in 2020. In 2004, expenditure was only € 279 billion.

Medical technology forms a sub-sector of this market. The global market for medical technologies is valued at around € 184 billion. This represents an eight percent share of total health expenditure. After the USA and Japan, Germany is the third largest individual market, at around € 20 billion. The international market is felt to have a great deal of potential, especially in Central and East European countries where there is still a very significant need to catch up in terms of medical facilities.

During the 2006 fiscal year German medical technology companies continued on their successful path, increasing turnover by 8.7 percent to € 16 billion. With growth of around 2 percent to € 5.7 billion, domestic turnover remained weak. Reasons included the doctors' strike and continuing price pressures in the clinic sector. In contrast, foreign business was satisfactory, with growth of 12.8 percent to around € 10.4 billion. The export quota was thus above 65 percent. According to experts, this discrepancy illustrates the continuing problems in the German health system. Around 1,200 enterprises (2005: 1,236) employed 87,545 staff, which approximated to the previous year's level.

The international competitiveness and innovative power of the German medical technology sector are in contrast to the weak development of the domestic market. The German medical technology sector is also quite downbeat about the domestic prospects for 2007, since urgently required funds are not being invested in the health system. This serious reluctance to invest is due to strong market insecurity as a result of the legal framework, as well as cost reductions and budgeting, and the introduction of the DRG flat-rate case payment system and integrated care. As a whole, the sectoral association Spectaris has talked of an investment backlog in German hospitals and medical practices totaling up to € 30 billion.

Improved growth in Germany is conditional upon optimisation of the political framework conditions. Products facilitating cost-efficient treatment have the best chances of success. According to the German Medical Technology Association, the flat-rate case payment rule will, in the future, force doctors and hospitals to assess acquisitions according to economic criteria (e.g. reduction of in-patient times) more than was previously the case. The challenge for the industry is to offer products which can play a role in process optimisation, while also saving time and offering reliability, ensuring that the patient requires a shorter stay and less aftercare.

During the 2006 fiscal year, Masterflex AG achieved turnover growth of 6.8 percent, primarily in the difficult domestic market. One trend offers us another prospect for the future: around 45 percent of all medical technology products around the world are now made of plastic. In Germany, in 2005, around 125,000 tons of plastics were used for medical products, corresponding to over 1 percent of total consumption. According to estimates by BASF, the use of special plastics is continuing to grow by between five and seven percent.

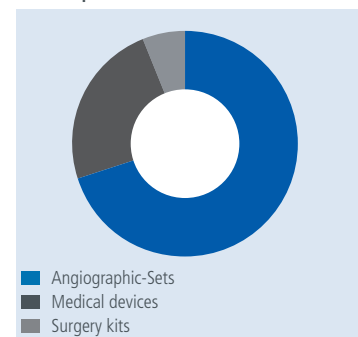
Product range coincides with trend towards cost reduction

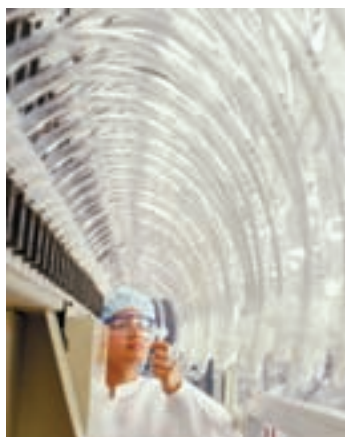
In the Medical Technology line of business, we offer a product range comprising medical sets and medical devices. These comply with the trend towards cost reduction and the use of medically compatible materials. However, during 2006 the various companies experienced differences in development.

Our subsidiary Angiokard Medizintechnik GmbH & Co. KG is one of the pioneers in terms of individual medical sets (CPTs/customer procedure trays) used in angiography. These sets drastically reduce the preparation time required for operations and examinations, because all the requisite components are assembled individually as required by the attending doctors, and are supplied pre-sterilized. These sets not only facilitate optimized warehouse logistics, but also meet the requirements of the flat-rate case payment rule for fixed calculation bases, since they are sold in the form of disposables with a fixed price.

Angiokard Medizintechnik GmbH & Co. KG operates primarily in the German market. It also distributes its products in Europe and the Middle East through partner companies which lead the market in angiographic sets. Its competitive advantage is flexibility, since Angiokard can assemble components regardless of manufacturer. Many competitors are subsidiaries of major groups, and these tend to focus on supplying their particular group's products in their sets, rather than offering their customers unbiased advice. In 2006, the company successfully defended its position as the market leader in Germany in the area of angiographic CPTs. We believe that this continues to be promising. In Germany alone, 750,000 sets are used per annum, representing around 900 procedures per 100,000 head of population. The key figures in the rest of Europe are similar. Nevertheless, this company's prospects of profit are hampered by competition and cost pressures, especially in Germany, as well as the unpredictable consequences of the German health reforms.

Medical products





We believe that continued internationalisation offers an opportunity for successful further development of the angiography and operation set sector, not only in terms of sales but also in terms of value. In 2006, our expansion focused particularly on Great Britain, Ireland, France and Spain, as well as the Middle East.

Since 2005, the Angiokard subsidiary Medic Health Care GmbH has also successfully developed the German market in the area of CPTs for the surgical sector, in particular cardiac surgery. Since then, MHC has managed to acquire a range of customers in its distribution sector, including five cardiac care centers. The MHC advises customers in the context of a comprehensive cost analysis, optimizing the use and specifications of CPTs in hospitals, and thus ensuring that customers can avail of an extensive service package comprising product availability, constant quality and logistics.

Thus, Angiokard Medizintechnik GmbH & Co. KG and Medic Health Care GmbH, based on their joint specialization in the CPT sector, focus on offering hospitals all the benefits associated with a complete package of product solutions and services. Based on this expertise, we continue to see positive development opportunities for successfully developing this sector in terms of value as well as in terms of sales. We will also take organizational steps to render the 'Sets' sector even more competitive.

We offer suitable connection systems through our subsidiary Fleima Plastic GmbH, a recognized specialist in the area of medical plastic connection components for the pharmaceutical and medical technology sectors.

For several years now, a ventilation development project has been underway at our company involving the internationally patented respiratory mask LaryVent. The aim of the project is to find, for the first time, a means of avoiding injury to the vocal chords since it is no longer necessary to insert a tube into the windpipe. Due to delays caused by production problems at one of our suppliers and extended, intensive clinical studies, it has not yet been possible to launch this product on the market. Market studies conducted last year have revealed that, whilst the product currently available on the market is superior, the market opportunities for our product will increase if it is equipped with an additional stomach tube. We are currently looking into whether it is more feasible to pursue this further development alone or in conjunction with a strategic partner. LaryVent has already been presented at a corresponding medical convention in Boston.

Due to their compatibility and safety, special plastics are among the most innovative materials in the medical technology sector. Polyurethane can, for example, be equipped with antibacterial, antithrombogenic or even self-degrading attributes. An increasing number of materials which are free of softening agents, and thus safe, are penetrating the medical sector. We seized on this trend a few years ago. Our subsidiary Novoplast Schlauchtechnik GmbH is continuing to experience growing success with its infusion tubes, catheters and multilumen tubes: these are free of softening agents and produced using state-of-the-art extrusion systems. Among these innovations are tubes for electro-medical probes, used in the case of internal bleeding and stomach ulcers, among other applications.

We believe that the framework conditions for successfully developing the companies Novoplast Schlauchtechnik GmbH und Fleima Plastic GmbH are very good. As a supplier of systems solutions and tailored products, we are exceptionally well equipped to withstand the increasing onslaught of suppliers of competing standard products from low-wage countries. With our medical components as well as angiography and operations sets, we provide products with a high degree of added value with good prospects for development on the market.

Mobile Office Systeme

We participate in the mobile office market (mobile computing equipment) via DICOTA GmbH, a company acquired in 2001. DICOTA is one of the world's top full-line suppliers. It primarily sells and distributes system cases and bags designed to transport notebooks and office systems. The product line also includes an extensive range of accessories (a mobile mouse series, numeric keypads, etc.).

With ten subsidiaries and around 80 staff, the company is represented around the world. At the end of 2006, a branch was established in Shanghai (China) to facilitate quicker access to the rapidly expanding Chinese market. With average growth of 25 percent – which even reached 31 percent during the 2006 fiscal year – DICOTA is among the sector's most successful companies. The international distribution network is being continuously expanded with the aim of positioning the company as market leader in the area of mobile computing.

During the 2006 fiscal year, the PC market was driven by notebooks. In the Christmas quarter of 2006 – an especially important period for the trade – 28.2 percent more notebooks were sold than during the same period in 2005; however, there was a 0.7 drop in desktop PC sales. Market research experts from IDC predict that quarter-on-quarter growth will be better during 2007 than during comparable periods in 2006. The notebook market is again expected to experience double-digit growth during 2007 of 23 percent to 88.7 million, while total PC sales are expected to grow by 11.7 percent to 233.7 million units (source: Channel Partner, Computerwoche). It is expected that, especially during the first half of 2007, there will be even heavier demand for notebooks by private users, since Microsoft's new Vista operating system has higher performance requirements. IDC does not anticipate any significant Vista-driven demand on the part of business clients, who are more likely to be replacing outdated equipment.

DICOTA GmbH recorded a successful 2006 fiscal year, with heavy expansion into Asia and Eastern Europe. Numerous product innovations also ensured positive development in established markets. The company will be celebrating its 15th anniversary during 2007. The company's history has been marked by success: since its establishment, DICOTA has developed into one of the leading suppliers of mobile workstations. Numerous awards bear testament to the company's high level of customer acceptance and its global leadership in the mobile office computing market. In 2006, for example, the company's "walk the dog" notebook case was classed as "very good" by "Macwelt" magazine. Innovations have played a crucial role in DICOTA's success. DICOTA has already flagged several product innovations due to be launched during this anniversary year.

Advanced Material Design

Since August 2005, we have been involved in the material processing sector through the SURPRO Group; this relates to the demanding development and processing of high-tech materials. The name SURPRO is derived from "surface protection". The company primarily specializes in coating with precious metals, and is one of the world's leading companies in this sector.

Thanks to this expertise, SURPRO is operating in a growing market segment. According to a study conducted by IKB Deutsche Industriebank in May 2005, surface technology is one of Germany's highest-growth sectors, since the modern processes involved are being used in an increasing range of applications. This technology is crucial to the quality and usability of products. In 2004, turnover recorded by the sector was approximately € 4.5 billion and, when one uses the broader umbrella heading of 'surface technology', turnover was almost € 14 billion. This means that, after Italy, Germany is the EU's leading player in the surface technology sector. Customers can be found in almost all sectors of the processing industry. The IKB anticipates that the future earnings potential in the surface technology sector will be very stable.

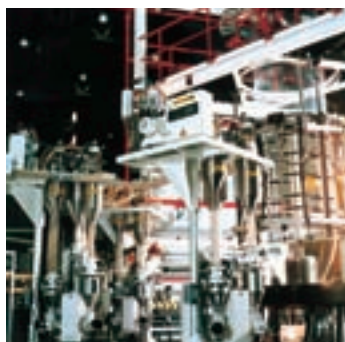


Among other classifications, surface technology is differentiated into functional and decorative galvanization technology. Function galvanization technology is used to protect structural components from corrosion and wear, to improve electric conductivity and in catalysis. Examples include the galvanization of screws, the production of metallic catalysators for the chemical industry or fuel cells, and the gold-plating and silver-plating of electric contacts. Decorative galvanization technology is primarily used to improve the appearance of items; in this regard, certain minimum attributes have to be achieved. Examples include plastic galvanization, chrome-plating of tubular steel furniture and motorbikes, and gold-plating of jewellery, cutlery etc.

As a galvanization, metal processing and assembly enterprise, SURPRO produces both functional and decorative goods. This highly specialized niche supplier, with its automated turning shop equipped with state-of-the-art computer-controlled machines, works three shifts producing turned parts with maximum accuracy and precision. SURPRO's particular specialties include the production and finishing of rotation-symmetrical parts made of stainless steel, brass, silver, gold, aluminium and plastic using the deep-drawing process, and CNC-turning of pipes and rods.

The company also produces and finishes highly refined surfaces. The surface coating is carried out in its fully-automated galvanization shop using environmentally-friendly processes. The items finished include, for example, decorative components for high-quality consumer goods, as well as technical components for the electrical, dental, aeronautics and aerospace sectors.

As a whole, galvanization accounts for around 26 percent (source: German Government Statistics Office) of all surface technology processes. Many small enterprises work in the galvanization sector, achieving an estimated total turnover of approximately € 5.6 billion (2004). Typical coating metals include zinc (accounting for around 40 percent) and other (precious) metals. There is an increasing trend towards coating plastics with metal, and Masterflex AG and SURPRO will be focusing more on this trend in the future. According to the IKB, the production value of plastic coating has grown by 350 percent during the past decade.



The IKB anticipates notional growth of 6 to 7 percent p.a. until 2008. The overall commercial benefit of surface technology is viewed very positively. In the medical technology sector, for example, patients' life expectancy and quality of life can be improved using this process. In other sectors, the process can be used to increase security or reduce the use of raw materials.

In view of this positive industry background, as well as the SURPRO Group's proven expertise in its primary line of business, we anticipate further growth potential. The first joint projects between Masterflex and SURPRO, focusing on investigating the metallic coating of plastics, are already in the pipeline.

Corporate Governance, objectives and strategies

Goals and strategies

Market leadership

Our aim is to achieve leadership in our target markets. In this regard, our goal is technological rather than price leadership. Masterflex AG has already successfully deployed this guiding business principle in the High-Tech Hose Systems and Advanced Material Design lines of business.

In the Fuel Cell Technology sector, too, we managed within five years to achieve technological leadership in the 25 watt to 1,000 watt energy sector, thanks to a fully functional fuel cell which offers stable running. During the next few years, we intend to further consolidate this leading position and translate it into marketable products, especially in respect of the market for light mobile vehicles. With regard to the Mobile Office Systems line of business, our subsidiary DICOTA GmbH is also among the market leaders. In our Medical Technology line of business, thanks to Angiokard Medizintechnik GmbH & Co. KG, we have achieved partial market leadership in Germany in the medical sets sector. Following extensive investment, we also intend to extend this market leadership to other sectors in the medium term.

Focus on R & D

Research and development have been important components in Masterflex AG's success story – a story which is now twenty years old. Using new technologies, we have established ourselves in the market as a specialist in the development and processing of innovative materials. We recognized the potential of polyurethane early on, and have consistently developed this material since 1987. Numerous product innovations bear witness to our technological leadership.

A primary goal of our strategic business planning is to secure our innovation strength. For this reason, in 2006, we established a Technical Section in the Executive Board, in order to drive forward our materials expertise in the area of high-performance plastics and to prepare our fuel cell for series production.

During 2006, the following projects – in particular – were launched or decisively advanced:

- A new hose type with inner lining was developed. This hose type achieves unique serviceable lives, making it particularly suitable for transporting highly abrasive media such as gravel, cement or shards. This revolutionary leap forward in hose technology is due to a special patented production process: the hoses are manufactured without internal welded seams or troughs. Thus, they are extremely smooth, while achieving significant wall thicknesses of up to 10 mm. The extremely high levels of pressure resistance are also unique. Series production is due to commence in the summer of 2007.
- The most important innovations of recent years include our hoses and connection systems for the food and pharmaceutical sectors. These meet the strictest hygienic requirements and conform to food safety standards in all respects. These requirements have been certified since the end of 2005. The polyurethane and/or polyolefin materials used in production comply with the relevant EU directives and the recommendations issued by the German Institute for Health-Related Consumer Protection and Veterinary Medicine (BgVV), and have also been approved by the American FDA. Polyolefin is resistant to acids, salts and alkaline solutions, and is also resistant to hydrolysis. In addition, the hoses have improved flexibility and higher temperature resistance of up to +80 °C (previously up to +65 °C). Since December 2006, Masterflex has been the first and only manufacturer to offer a certified all-in hose system for conveying liquid foodstuffs.
- We use innovative technologies to improve product attributes and develop new products. In 2006, existing projects relating to nanotechnology continued to be advanced.





- Masterflex AG and the SURPRO Group are cooperating in the development of hoses coated with precious metals.
- In 2006, Masterflex AG supplied the world's first bicycle fleet powered by fuel cells. 2006 also saw the deployment of the first Cargobikes powered by fuel cells.

Presence in profitable niche markets

We are striving for leadership in future-proof, profitable niche markets. This means that we are developing high-quality products and systems for sectors which are focused on technical solutions rather than price. Thus, market penetration tends to be value-centered rather than turnover-centered. When selecting a reference figure, we opted for earnings before interest and taxes (EBIT) and the EBIT margin: this should be in double figures. It may, however, be necessary to deviate from this strategy in order to achieve quicker market penetration.

Examples of such deviation include, firstly, the USA, where we are investing in personnel and more intensive stock supplies to our warehouses due to the size of this market. We will only achieve a double-digit EBIT margin there in a few years, since further investment is required to facilitate market penetrations.

Secondly, priority at our subsidiary DICOTA GmbH is currently being given to turnover growth, and thus quicker market penetration, rather than to value-related growth. Otherwise, DICOTA would forego the opportunity to position itself in time as a leader in the dynamically growing Asian market for mobile office systems. The successes achieved during the 2006 fiscal year have reinforced us in our view that we can be successful with this strategy while still achieving an appropriate margin.

Expansion into new markets

In its core line of business – High-Tech Hose Systems – Masterflex AG has achieved a superb market position in Western Europe. This market leadership was secured by opening up new product segments (e.g. food hoses, particularly abrasion-proof hoses with reinforced interior coatings) and expanding into new markets. The primary target areas are Eastern Europe and the USA. While we are developing our own production facilities in the USA, we are collaborating with local partners in Eastern Europe. The success of this collaboration to date means that, in the 2007 fiscal year, we will be assessing whether or not to establish our own production facilities, as well as joint ventures, in Eastern Europe. In addition, we feel that there is still considerable potential in Western Europe. As well as carrying out an extensive market and customer analysis, the new High-Tech Hose Systems directorate will be focusing on exploiting this potential.

In the area of Fuel Cell Technology, our strategy is – initially – to address niche markets in which fuel cell systems can, when using the appropriate logistics, offer significant commercial advantages despite the higher costs. We have identified products, such as electric bikes and cargo bikes, in which fuel cell systems can offer commercial benefits despite the increased costs. In the 2006 fiscal year, we took a major step towards commercializing electric bikes, in that we can now guarantee hydrogen supply for our products. For example, the absence of a hydrogen infrastructure, combined with significant technical challenges, is one of the major obstacles hindering commercialization of fuel cells in the automobile industry. Our target market relates

to commercial applications. We will initially be concentrating on the market launch of Cargo-bikes. However, bicycle powering is only one of the many areas in which our fuel cells can be deployed.

In the Medical Technology line of business, we hope to expand our market leadership in the angiographic operation set sector to other operation sectors. We have already spent the past two years successively expanding our leading position at home and abroad, and have recorded particular successes abroad. Our success in Germany was constrained by the doctor's strike last year. Nevertheless, even in Germany we have managed to persuade major clinics and medical practices of the merits of our innovative product range. Given the increasing use of polyurethane and minimally invasive operation methods, we will continue to strive to establish ourselves as the market leader for medical components made of safe materials.

In the Mobile Office Systems business unit, DICOTA GmbH will continue to drive forward its international positioning as a supplier of high-quality system solutions, especially in Asia.

Research and Development (R&D)

According to the Endowment Association for German Research, 2005 saw practically no increase in German companies' expenditure on R&D. During the same year, state and university investment in R&D rose again slightly for the first time, while the share of business fell slightly. Total R&D expenditure in 2005 was € 55.18 billion (2004: € 54.98 billion). The GDP share of R&D thus fell to 2.46 percent (2004: 2.49 percent).

Expenses of the economic system for research and development (in Bill. €)



During 2005, the business sector spent a total of € 46.7 billion on research and development (R&D), 1.5 percent more than in 2004. However, with R&D accounting for around 2.5 percent of GDP, Germany occupies ninth place internationally – behind the USA, Japan and EU members such as Sweden and Finland. Germany ranks better in the EU, where the median research quota is just 1.8 percent of GDP. According to the Research Minister Annette Schavan, when compared with the USA there is an annual research gap of € 480 billion in favor of the USA. Greater business expenditure on R&D is anticipated for 2006 (€ 48.8 billion) and 2007 (€ 50.4 billion).

Masterflex AG sets great store by research and development. Our success was and is based on our innovations. That is why we further strengthened this sector in 2006, so that we could continue consolidating our technological advantage. As stated elsewhere, we again launched a range of new developments, while re-launching or driving forward various development projects. In addition, the management team was expanded to include a board member with responsibility for technology.

In all our business units, we place great emphasis on continuous research and development in order to open up new markets. In this regard, personnel costs account for the lion's share of expenditure, since our development work is less plant-intensive and thus cost-intensive. In 2006, our R&D expenditure was € 1,125,000 (2005: € 1,224,000). This corresponds to a turn-over share of 1.0 percent (previous year: 1.4 percent). Of this, development costs amounting to € 920,000 (2005: € 812,000) were capitalized. Of the remaining total expenditure of € 205,000 (2005: € 412,000), a significant proportion was accounted for by personnel costs. Due to operational overlaps with the Technical, Production and Design sectors, it is not possible to accurately assign costs in respect of the personnel working in the R&D sector.



For purposes of research and development, we make use of all available information sources to ensure the long-term success of the company. We utilize both internal and external expertise in order to enhance and develop our product portfolio, and to penetrate new markets. Our employees develop innovative technologies for new products and production processes. Individual projects focus on the needs of operational product development and the production process. The results flow to the company's business units and create new opportunities for portfolio expansion. We tailor quality standards to meet the precise requirements of different markets as early as the research and development stage – right down to satisfying the specific requests and expectations of individual industrial customers.

Our intensive and ongoing research and development work means that, for the past several years, we have bucked the general trend in Germany.

Nanotechnology

We also incorporate nanotechnology in our research and development. For example, there are collaboration projects with the nanotechnology competency centers as well as other specialist institutions. Nanotechnology makes it possible to optimize the structure, and therefore the attributes of our materials or to generate new attributes. For example, it is possible to further improve the (already very good) abrasion attributes and behaviour of polyurethane at higher temperatures. The projects on which we are working relate to more abrasion-proof surfaces, antimicrobial and scratch-proof hoses, lotus surfaces and electro-magnetic compatibility (EMC). Another development project relates to a patented process with which hoses are internally coated with metal or ceramic displaying a nanoparticle structure.

Environmental protection

Environmental protection is a crucial issue for Masterflex AG. External safety officers keep us informed of statutory changes in environmental protection requirements and the various options for implementing these operationally, and they also regularly monitor the implementation of such requirements. We use polyurethane and other polymers which do not contain any toxic components and which, because they are plastics, generate lower energy costs during production than other materials.

The production of our profile-extruded PUR hoses generates practically no waste. Any rejects generated at the start and end of the production process are recycled. Wires and polyurethane are separated and resold, or used in production without compromising on quality. SURPRO GmbH carries out its surface coating work in its fully-automated galvanization shop using environmentally-friendly processes.

In developing our light vehicles powered by fuel cells, we hope to make an active contribution to solving traffic problems and the associated environmental pollution caused by CO₂ emissions. The first bicycle fleet and Cargobikes powered by fuel cells have been on the road since May 2006.

Internal corporate governance system

We measure the degree of goal achievement using an internal control system. We have established a group-wide, two-level monthly reporting system that indicates the corporate business situation via a target/actual achievement analysis. We receive a weekly status report about the number of orders received and liquidity. Sales, orders received, receivables, liabilities, and cash on hand of the subsidiaries are reported by the 5th day of the month. A balance sheet and a qualitative report about the sales, personnel, and accounting departments, as well as a market analysis and competitive analysis are due by mid-month. In addition, the quarterly consolidated financial statements are prepared in accordance with the international IFRS accounting standards.

Value-oriented corporate management via key performance indicators

Corporate governance is value oriented; consequently, profits are more important than revenues. Important key performance indicators are EBIT and EBIT margin (EBIT/revenue). We have defined target values for the overall Group and for the segments in this regard. Another profit indicator is net profit, which is the basis of the earnings per share, dividend and yield (dividend per share/market price) numbers that are important to our shareholders.

The value-oriented key performance indicator system will in future be expanded to include ROCE (Return on Capital Employed), which shows pre-tax profit in relation to capital employed. We will also use the key performance indicator ROI (Return on Investment), which we can use to identify Masterflex AG's value drivers.

Our important key performance indicator is cash flow from operating activities, which represents our internal financial strength. It shows how much we earn from our own business in order to finance our planned corporate growth from our own resources. The company's equity ratio is also important for evaluating our self-financing strength. Our equity ratio should sustainably exceed 30 percent. External financing should also be primarily long-term so that Masterflex AG has a reliable basis for calculating financial transactions.

Another frequently used key performance indicator is CAPEX (investment in capital expenditure). This key indicator is less important to Masterflex AG for corporate governance because, due to the importance of research and development and the high percentage of in-house developments, our investments are mainly in the expertise of our employees. In 2006, the CAPEX was € 7.4 million.



Medium-term goals

Key performance indicator	HTS	MZT	AMD	MOS	Group
Market leadership	x	x	x	x	x
Revenue increase p. a.	5–10 %	>20 %	>20 %	>20 %	double-digit
EBIT increase p. a.	>10 %	>20 %	>20 %	>20 %	double-digit
EBIT margin	>20 %	5–10 %	>10 %	>10 %	15–18 %
Operative cash flow					positive
Equity ratio					>30 %
Planned:					
ROCE					x
ROI					x

2006 target achievement

Key performance indicator	HTS	2006	MZT	2006	AMD	2006	MOS	2006	Group	2006
Market leadership	x	✓	x	✓ / –	x	✓	x	✓	x	✓
Revenue increase p. a.	5–10 %	✓	>20 %	–	>20 %	✓	>20 %	✓	double-digit	✓
EBIT increase p. a.	>10 %	–	>20 %	–	>20 %	✓	>20 %	✓	double-digit	✓ / –
EBIT margin	>20 %	✓	5–10 %	–	>10 %	✓	>10 %	✓	15–18 %	–
Operative cash flow									positive	✓
Equity ratio									>30 %	–
Planned:										
ROCE									x	
ROI									x	

Given the reference figures we selected, we are generally satisfied with our target achievement in 2006. We anticipate that the negative target deviations will only be temporary:

- **High-Tech Hose Systems**

In 2006, we failed to achieve our goal of EBIT growth exceeding 10 percent in respect of the overall High-Tech Hose Systems business unit, because this segment still includes fuel cell projects which, due to their current insufficient earnings, distort the result. In addition, the us market is still at constitution. We anticipate that we will achieve our growth targets in the medium term.

- **Medical Technology**

We have already achieved market leadership in sub-markets such as angiography. We are also striving for leadership in new market segments such as the market for OP sets. Since these markets are in a development phase, market leadership is a medium-term goal. In the OP set market, we have already pioneered these customer-specific sets; before now, the market was only familiar with standard solutions. The achievement of our EBIT goals should also be viewed against the background of medium-term criteria. Following extensive investments in recent years, the medical technology business unit has delivered positive EBIT contributions

since the 2004 fiscal year but has not yet fulfilled our expectations. Measures have been taken to achieve a lasting improvement in the earnings situation.

- **Advanced Material Design**

Since, in 2005, the SURPRO Group was consolidated on a pro-rata basis from August, a year-on-year comparison is not possible. The SURPRO Group is superbly positioned in the market. Since the intention is to continue expanding the business, we anticipate that the targets set will be met in the medium term.

- **Mobile Office Systems**

In order to penetrate new markets more quickly, we have consciously decided to allow profits to grow more slowly than sales. Despite the forced expansion, we have succeeded in achieving a double-digit EBIT margin of 10.5 percent, which meets our stipulation. Due to the ongoing expansion, however, the margin may fall below this target. We are, however, prepared to tolerate this in order to achieve market leadership more quickly.

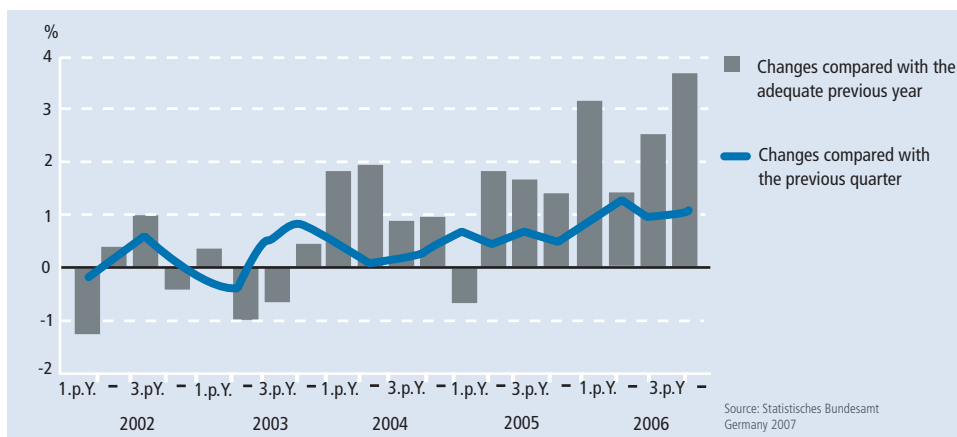


The 2006 Fiscal Year

General economic situation

During 2006, the global economy continued to be strong, growing by 5 percent. Crude oil prices ceased to rise. This was partly due to the fact that demand declined, largely as a result of the mild winter. Once again, China proved to be an important motor driving global economic growth in 2006. During the past year, economic output grew by 10.7 percent, the highest growth rate since 1995 (10.9 percent). US industrial output grew by 4.1 percent. At the beginning of 2006, high petrol prices were still depressing economic growth, and the construction sector was practically stagnant. While private construction grew, investment growth was restrained when it came to technical equipment. However, the indicators at the end of 2006 were overwhelmingly positive. Thus, the current account deficit was lower than anticipated, while both manufacturer prices and industrial production rose.

Development of the gross domestic product (adjusted for price)



In 2006, the German economy experienced an upturn not seen since 2000. Driven by investment growth and a recovery in private consumption, German GDP rose by 2.7 percent in real terms, according to the German Central Statistics Office. This meant that economic growth trebled in 2006 when compared with the 2005 figure of 0.9 percent. During 2006, Germany achieved GDP of € 2,303 billion, and was thus ranked third behind the USA and Japan.

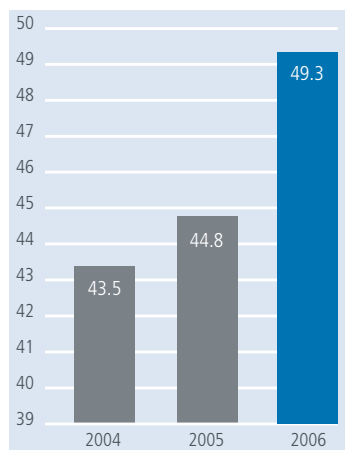
The upturn has been driven by the strong domestic economic recovery. Once again, investment in technical equipment recorded increased growth of 7.3 percent, while construction investment recorded growth of 3.6 percent – the first time growth was recorded since 1999. Private consumption which, at almost 59 percent, accounts for the lion's share of GDP, rose for the first time since 2001 with significant growth of 0.6 percent. Experts do not believe that there were any overall pull-in effects prior to the VAT increase on January 1, 2007. As a whole, domestic demand grew almost as strongly as at the turn of the millennium and – with a growth contribution of 1.7 percent – represented one of the pillars of economic growth. During 2006, exports rose rapidly, recording growth of 12.4 percent. Thus, according to calculations issued by the BGA Foreign Trade Association, Germany was the world's export champion for the fourth consecutive year, closely followed by China. With imports growing by almost the same amount (12.1 percent), the trade balance – the difference between exports and imports – still only contributed a computed 0.7 percent to economic growth. Experts assume that foreign trade will continue to be the most important growth pillar in 2007.

According to Creditreform, the number of company insolvencies continued to decline in 2006, falling by 15.1 percent when compared with the previous year. However, personal insolvencies are continuing to rise, increasing by 30.2 percent. As a whole, the number of insolvencies rose by 12.1 percent in 2006.

2006 was also a good year on the stock exchange. The DAX continued to rise in 2006, ending the year at almost 6,600 points, which corresponds to an increase of 22 percent. When compared with the main European stock exchanges, only Madrid performed better. A total of 210 companies with a market capitalization of around € 32,4 billion were listed for the first time, of which 40 were listed in the Prime Standard.

Based on the positive economic indicators, experts expect continuing economic growth of up to 2 percent for 2007. This prediction is also based on the positive data coming out of the USA, since an ailing US economy would have a deleterious effect on German exports. However, there is still a need to solve the labour market problems, and to reduce labour costs, in order to maintain lasting economic growth.

Revenues of plastic processing industry
EUR billions



Source: National Association of Plastics Processors

Plastics industry

According to the figures currently available, which are largely based on estimates, sales of plastics in Germany will grow significantly by around 5 percent. Production grew by around 1 percent, and capacity utilization was strong. The factors driving growth included increased domestic demand as a result of economic growth, as well as expanding exports. This is reflected in the foreign trade figures: the value of exports grew by 7.9 percent in the period to August 2006, while the volume of exports grew by 3.1 percent during the same period. During this period, the value of imports grew by over 20 percent, while the volume of imports grew by 12.8 percent.

With turnover of almost € 50 billion and a workforce of 276,000 employed in 2,730 companies, the plastics processing industry is one of Germany's most important economic sectors.

The 2006 fiscal year was very successful. Not only were the production drops recorded in the previous year more than reversed, but the sector even experienced a production increase of 8.5 percent. Sales grew notionally by 10 percent to € 49.3 billion (previous year: € 44.8 billion), thus significantly exceeding GDP growth. When adjusted for inflation (1.5 percent), real growth was 8.5 percent. With growth of 12.5 percent, the construction materials industry was the big winner (previous year: 6 percent). Other sectors also experienced positive development. While growth had primarily been export-driven during recent years, domestic sales also grew more strongly in 2006 than in previous year, increasing by 9 percent (previous year: 1.1 percent). Foreign sales grew by 12 percent (previous year: 6.4 percent).

The plastics processing sector continues to be upbeat about 2007. According to a survey on the economy carried out by the German umbrella association representing the plastics processing industry (GKV), 73 percent of companies expect sales to grow during the current fiscal year. Despite increased competition and price pressure, the GKV predicts growth of between 3 and 3.5 percent.

The experts working for PlasticsEurope and the trade journal Plastverarbeiter are also looking forward to a more positive 2007, since orders received during January 2007 rose once again. Since as far back as the third quarter of 2006, new domestic and foreign business has witnessed growth, and the plastics processing sector anticipates an overall production increase growth of 4.8 percent.

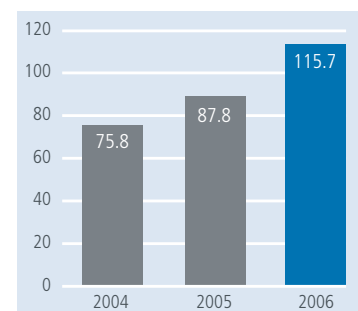
Masterflex AG

In operating terms, the 2006 fiscal year was an extremely successful year for Masterflex AG. Once again, the company's development surpassed that of the sector as a whole, since group turnover rose disproportionately by 31.8 percent to € 115.7 million (2005: € 87.8 million). We have thus significantly exceeded the original annual turnover projection of plus 20 to 30 percent. In the wake of these positive developments, we revised this projection upwards in November 2006 and are now projecting growth in excess of 30 percent.

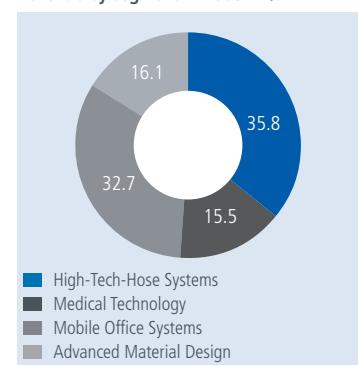
During the 2006 fiscal year, SURPRO was consolidated across the entire year for the first time. The organic group turnover grew significantly by 19.1 percent in 2006, adjusted to take account of this acquisition. It is particularly gratifying that sales grew markedly, with double-digit growth recorded in all lines of business except Medical Technology.

Our core line of business relates to High-Tech Hose Systems. In this regard, we continued to consolidate our market leadership during 2006, increasing turnover by 15.0 percent to € 41.4 million. In relation to total group turnover, this corresponds to a share of 35.8 percent (2005: 41.0 percent). Medical Technology grew by 6.8 percent, and thus had a € 17.9 million share (2005: € 16.8 million), or a percentage share of 15.5 percent (2005: 19.1 percent), in the group's successful growth. Turnover of € 18.6 million was achieved in the Advanced Material Design line of business, corresponding to a 16.1 percent share in group turnover. During 2005, for the first time, the SURPRO Group assigned to this line of business was consolidated on a pro rata basis; a year-on-year comparison is therefore not possible. Development of the Mobile Office Systems line of business was particularly dynamic due to forced internationalisation. Turnover grew by 31.4 percent to € 37.9 million (previous year: € 28.8 million). This corresponds to a share of 32.7 percent (previous year: 32.8 percent).

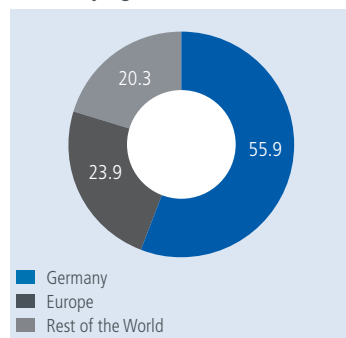
Group revenue development
EUR millions



Revenue by segment in 2006 in %



Revenue by region in %



Our most important sales market is Germany. Thanks to the tangible economic upswing, we were able to grow sales by 34.5 percent to € 64.6 million (2005: € 48.1 million). This corresponds to a 55.9 percent share in group turnover (2005: 54.8 percent). Sales in the EU member states grew by 19.7 percent to € 27.6 million (2005: € 23.1 million). This corresponds to a share of 23.9 percent (2005: 26.3 percent). The greatest growth was recorded in the Rest of the World, where sales grew by 40.8 percent. This was driven, first and foremost, by the heavy expansion into Eastern Europe and Asia. Sales increased from € 16.6 million during the previous year to € 23.4 million during the 2006 fiscal year. The regional share is now at 20.3 percent (2005: 18.9 percent). Due to our continuing internationalisation, we anticipate a shift in the sales share from Germany to other regions in the following years.

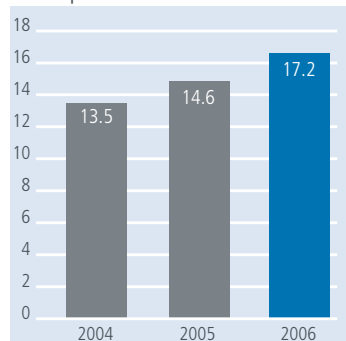
Group earnings development

When considering operating developments, and not accounting for goodwill amortization, it is apparent that Masterflex AG has grown not only in terms of volume, but also in terms of value. With the exception of Medical Technology, all segments contributed to the result, and in this regard the core High-Tech Hose Systems line of business accounted for the lion's share.

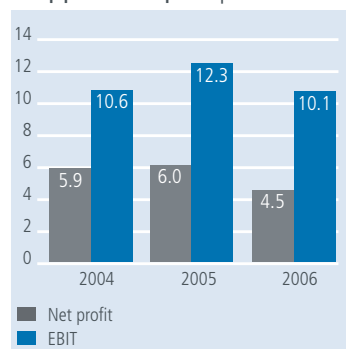
Group earnings before taxes, depreciation and interest (EBITDA) grew dynamically by 18.2 percent to € 17.2 million in the 2006 fiscal year (previous year: € 14.6 million).

Operative earnings before taxes and interest (EBIT) rose by 15.8 percent to € 14.2 million, not accounting for goodwill amortization. We are thus well within our forecast range of 10 to 20 percent for the past fiscal year.

EBITDA | EUR millions



Group profit development | EUR millions



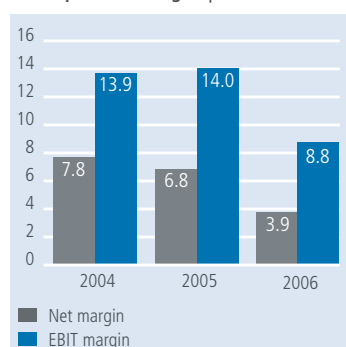
In accordance with IFRS rules, we are obliged to subject the value of our goodwill to an annual review. The goodwill review for Angiokard Medizintechnik GmbH & Co. KG resulted in the goodwill being amortized as of the reporting date (31 December 2006). One of the reasons for this is that we have new insights in the company's prospects for success, which are partly determined by the uncertain impact of the German health reforms on the business involving angiography and operation sets. This resulted in a depreciation of € 4.1 million. While this is liquidity-neutral, it did impact negatively on the results.

Thus, EBIT fell by 17.3 percent to € 10.1 million (previous year: € 12.3 million). Group profits before taxes (EBT) fell by 26.1 percent to € 7.2 million (previous year: € 9.7 million). When compared to the previous year, earnings before taxes were also encumbered by non-operating expenditure of € 731,000. These costs arose in connection with the assessment of a possible sale of DICOTA GmbH.

Due to the effects outlined, group net profit fell by 24.9 percent to € 4.5 million (previous year: € 6.0 million). This corresponds to earnings per share of € 1.03 (previous year: € 1.37). The tax quota improved to 31.3 percent (previous year: 34.1 percent).

When re-considering the operating EBIT development, it is apparent that value-related growth was less than the increase in group sales. This was due, in particular, to the forced internationalisation of DICOTA GmbH and the development of the US market in the High-Tech Hose System sector. In the case of DICOTA, development costs were incurred due to the establishment of branch offices and the development and expansion of the distribution network.

Development of margins | %



Another reason is the unsatisfactory development of the medical technology sector in terms of value. During 2006, for example, the German doctors' strike meant that six-figure EBIT contributions did not materialize.

Based on the impairment test carried out, the group margin development was regressive in terms of the group as a whole during the 2006 fiscal year.

Due to the positive operating earnings development, and the fact that the goodwill amortization was liquidity-neutral, we will recommend a dividend corresponding to the previous year's € 0.80 to the AGM on June 5, 2007. This represents a dividend yield of 3.5 percent based on the Xetra closing price on December 30, 2006 of € 23.00.

We are optimistic that the 2007 fiscal year will see us continuing on a growth course, since we have developed a portfolio of trend-setting products in all lines of business.

High-Tech Hose Systems

In 2006, our core High-Tech Hose Systems business unit generated € 41.4 million (2005: € 36 million), corresponding to a significant turnover increase of 15 percent.

Our hose subsidiaries have all recorded positive developments. The small tunnel construction segment, represented by TechnoBochum GmbH, is also once again developing satisfactorily. New and very promising orders were sourced, while foreign expansion was further developed. TechnoBochum has been showcased in a new website since January 2007 (www.techno-bochum.de.)

Germany remains the most important market for High-Tech Hose Systems. Here, the economic upswing was reflected in significant turnover growth. In February 2006, the company recorded its largest-ever number of orders on hand. Foreign sales also continued to grow. The development of new markets, especially in the USA and Eastern Europe, continued to proceed successfully.

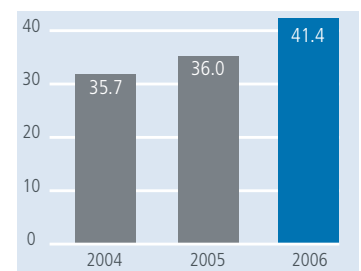
Sales in the Fuel Cell Technology sub-segment hit the six-figure mark for the first time ever, albeit it at the lower end of the scale. Ten fuel cell bikes were supplied to the city of Herten, while three Cargobikes were delivered to T-Com. To this must be added the turnover achieved by PERM Motoren GmbH, acquired in September 2006.

During 2006, we clearly achieved our earnings targets for the highly profitable High-Tech Hose Systems core business segment. In this regard, it should be noted that earnings figures were diluted by the development costs incurred in the USA and in the Fuel Cell Technology sub-segment.

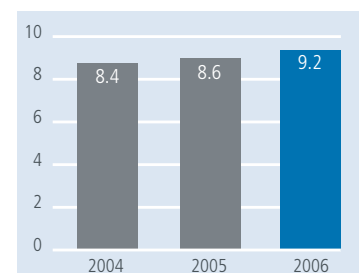
The segment's EBIT grew by 7.2 percent to € 9.2 million (previous year: € 8.6 million). This corresponds to an outstanding EBIT margin of 22.2 percent (previous year: 23.9 percent). High-Tech Hose Systems thus continue to form our company's stable earnings basis.

We will continue expanding our successful core segment during 2007. The focus will be on consistently exploiting the market potential, new products and further internationalisation.

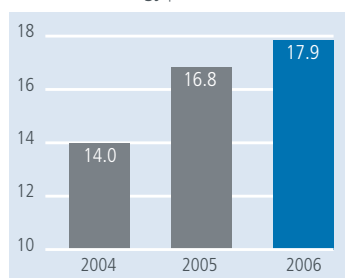
Segment revenue
High-Tech Hose Systems | EUR millions



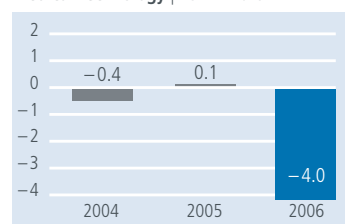
Segment EBIT
High-Tech Hose Systems | EUR millions



Segment revenue
Medical Technology | EUR millions



Segment EBIT
Medical Technology | EUR millions



Medical Technology

During 2006, turnover in our Medical Technology line of business grew by 6.8 percent to € 17.9 million (2005: € 16.8 million). More and more doctors, hospitals and primary suppliers of medical components are coming to depend on our medical components such as infusion tubes, catheters and multi-chamber hoses, as well as injection-moulded parts, made of medically safe materials.

Distribution of our medical sets continued to be driven forward. Angiokard Medizintechnik GmbH & Co. KG, and its subsidiary Medic Health Care GmbH, were represented at important trade shows, such as MEDICA in Düsseldorf, in order to increase awareness of operation sets. However, because the commercial results achieved to date are unsatisfactory we have decided on measures to improve the result. The overall framework conditions are positive, because the diagnosis-based flat case rates (DRG rule = Diagnosis Related Groups) require clear cost allocation. Such allocation is facilitated by our sets, which are sold at a fixed price.

Our internationally patented ventilator mask LaryVent was presented at a medical congress in Boston during 2006. In addition, the internal study on the possibilities of a market launch was completed. Clinical studies have shown that, while the premium quality of LaryVent is fully recognized, market opportunities could be significantly improved by developing it to include a stomach tube. The advantages of such a design are to be confirmed by further clinical studies.

In operating terms, even without LaryVent, we met our targets in 2006 due to successful developments in our other areas, since the earnings situation continued to improve. However, due to the impairment test, the segment EBIT fell to minus € 4.0 million (2005: € 0.1 million). However, the German doctors' strike prevented the earnings situation improving even further.

Thanks to our innovative product range and the measures initiated, we anticipate that 2007 will see significant earnings contributions; this applies in particular to our medical technical components.

Advanced Material Design

The SURPRO Group, which specializes in surface finishing, joined the Masterflex Group in August 2005. A year-on-year comparison is therefore not possible.

In 2006, sales of € 18.6 million were achieved, while earnings before interest and taxes rose to € 2.1 million. This represented a target achievement. We anticipate that the 2007 fiscal year will prove successful for the Advanced Material Design segment, since market penetration activities are to be expanded to include new target customer groups as well as international markets, thus availing of new opportunities.

Mobile Office Systems

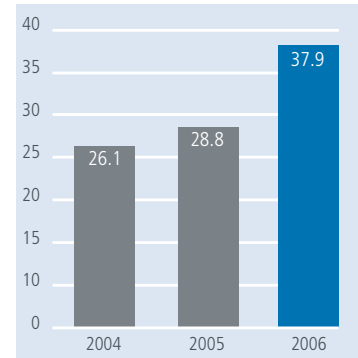
Our subsidiary DICOTA GmbH is one of the world's top suppliers of mobile computing equipment.

During the 2006 fiscal year, DICOTA continued to consolidate its market position, especially in Asia and Eastern Europe. The segment's turnover rose by 31.4 percent to € 37.9 million (2005: € 28.8 million). EBIT also grew by 26.4 percent to € 4 million (2005: € 3.1 million).

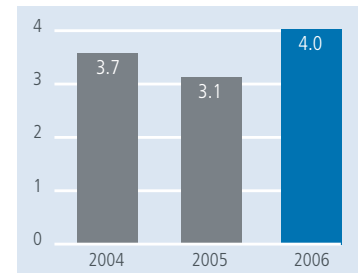
The disproportionately low EBIT growth when compared to turnover is due, as already stated, to the forced internationalisation. We anticipate that the 2007 fiscal year will see continuing business success thanks to the enhanced development of DICOTA GmbH's international presence.

DICOTA GmbH was acquired in 2001 because, at the time, it was anticipated that Fuel Cell Technology would make a breakthrough in respect of notebooks. At that time, we presented a Mobile Office System with a functional integrated fuel cell which could supply a notebook with power for over 50 hours. Since then, we have been focusing our development work on the use of fuel cells to provide light mobile vehicles with a power supply. This has resulted in a strategic reassessment of DICOTA GmbH, since synergy effects with the core High-Tech Hose Systems line of business are no longer present. The Mobile Office Equipment sector no longer forms part of Masterflex AG's core activities. Therefore, in 2006, a review was undertaken to assess whether DICOTA GmbH should remain within the group. Despite interest on the part of a range of prospective buyers, the group management of Masterflex AG decided, in October 2006, that DICOTA GmbH should remain within the group for the time being, and that Masterflex would continue overseeing the company's successful development. At present, it is unlikely that a potential sale will be considered again until 2008 at the earliest.

Segment revenue
Mobile Office Systems | EUR millions



Segment EBIT
Mobile Office Systems | EUR millions



Developments at our subsidiaries

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

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

Masterflex S.A.R.L.

Masterflex S.A.R.L., Béligneux, is our most successful subsidiary in the area of High-Tech Hose Systems. During 2006, business was further developed thanks to product innovations and the penetration of new market segments. The company was represented at the specialist international trade shows Vrac Expo and EXPOBOIS in France. Attendance at these trade shows is again planned for 2007.

MASTERFLEX AG (D) since 1987

Matzen & Timm GmbH	NOVOPLAST Schlauchtechnik GmbH	SURPRO Verwaltungs-GmbH (subgroup)	MASTERFLEX S.A.R.L.	MASTERFLEX Technical Hoses Ltd.	TechnoBochum GmbH
(D) since 2003 100%	(D) since 1990 100%	(D) since 2005 100%	(F) since 1991 80%	(GB) since 1996 100%	(D) since 2000 100%

Note: Dates refer to the year of acquisition by the Group

Masterflex Technical Hoses Ltd.

Last year, Masterflex Technical Hoses Ltd., Oldham, celebrated its tenth anniversary in the UK market for High-Tech Hose Systems. Once again, 2006 saw growth in both sales and earnings. During 2007, Masterflex Technical Hoses will again be represented at a range of industrial, plastics and specialist trade shows.

Flexmaster USA, Inc. and Masterduct Inc.

During 2006, Masterflex AG continued its successful development in the USA. The trend towards replacement of PVC and rubber hoses – which still dominate in the US – has strengthened. Our subsidiary Masterduct Inc., Houston, achieved double-digit turnover growth. We are also very satisfied with the earnings development, especially since the size of the market continues to require investment in marketing and distribution. This will also include personnel additions. In this regard, we hired a few new sales specialists during 2006. Other activities included participation in a timber trade show in Atlanta.

The success achieved showed that we correctly assessed the market opportunities in the USA. During 2007, we will increase our focus on our core line of business: High-Tech Hose Systems. In this regard, our activities will be focused on the US market. During the third quarter of 2006, we concluded a General Agreement with a large American purchasing association; thanks to this agreement, additional order volumes in the low seven-figure range can be anticipated for 2007.

In the established climate control/ventilation sector, Flexmaster Inc. has positioned itself as a specialist for high-quality solutions. In the autumn of 2006, Flexmaster launched a premium hose solution for the climate control/ventilation sector which reduces residential heating energy costs.

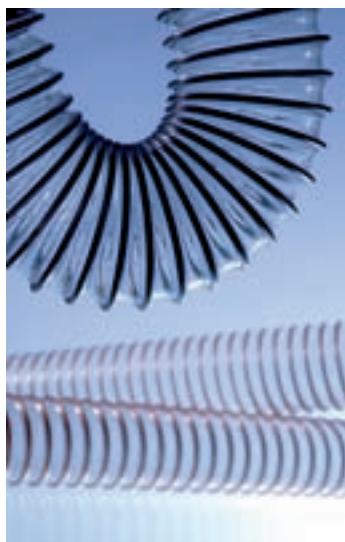
One of the most important trade shows attended – in January 2007 – was the AHR EXPO in Dallas (Texas), the world's largest climate control/ventilation trade show; this resulted in some interesting contacts. New acoustic hoses were shown at the EXPO trade fair with great success. The highly positive feedback shows that the market is open for quality products. Production capacities have been expanded as a result of this success. In addition, new distribution sites are planned for the west and east coasts.



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

TechnoBochum GmbH

TechnoBochum GmbH, Bochum, is a small subsidiary of Masterflex AG, specializing in hoses, fittings and accessories for concrete, water and compressed air; these are used primarily in the tunnel construction sector. The company is not a production enterprise, but rather assembles special products according to the requirements of the construction project in question. In recent years, Techno has been involved in major construction projects in Germany and elsewhere in Europe. Reference projects include, for example the Elbtunnel and Airport S-Bahn (both in Hamburg), as well as various tunnel and underground railway projects. Internationally, Techno has been involved, for example, in the Shannon River Crossing (Ireland), tunnel projects in the BeNeLux countries and, especially, projects in Austria and Switzerland. New markets have been developed in Eastern Europe, where the EU is assisting major infrastructure measures in the new member states. Techno also supplies projects in Africa, Hong Kong and Canada. With regard to the Canadian project, Techno has fitted out formwork carriages used in tunnel construction. Bogie wheels bearing loads of up to 20 tons have been coated with polyurethane. Given this high load range, rubber coatings have to be frequently replaced, leading to expensive downtimes.



TechnoBochum has expanded into a new line of business: specialist civil and underground engineering focused on recovering heat from the earth. The product range has also been expanded to include soiled water pumps. These are used on tunnel construction sites, for example to pump off mountain water. Thanks to these activities, the re-development of the company's markets has proceeded in a very promising manner, following the disappointing course of business in 2005.

During 2006, TechnoBochum presented its products at six major trade shows, making important contacts in the process. In 2007, TechnoBochum again intends to participate in major specialist shows, including the important tunnel construction trade show STUVA in Cologne.

In view of the infrastructure projects in Eastern Europe, as well as investment in two-track tunnel expansion projects, we feel that the future prospects for the tunnel construction market segment are very promising.

Masterflex Bulgaria Eood

Masterflex Bulgaria Eood was established in 2002 as a pure production facility for technical hoses. These hoses are supplied solely to companies within the group. The enterprise has successfully contributed to an expansion of the product range.

We are considering whether to exploit synergies and relocate production in 2007 to the Czech Republic, where the SURPRO group has a state-of-the-art production facility with excess capacities.

Masterflex Cesko s.r.o.

Masterflex Cesko s.r.o., Plana (Czech Republic), was established on 23 November 2006 as a 100percent subsidiary of Masterflex AG. This subsidiary will be a pure production enterprise for technical hoses. Masterflex Cesko's premises are currently under construction, and production commencement is planned for the autumn of 2007. It will only supply hoses within the Masterflex group of companies.

Matzen & Timm GmbH

Matzen & Timm GmbH, established in 1925, supplies highly specialized hose systems and moulded parts which are used in applications where high levels of precision and sturdiness are required. Areas of use include, for example, aircraft, helicopters, cars, trains, tool machines and aerospace

applications. The main sector is the aeronautical industry. Matzen & Timm GmbH is a supplier for all AIRBUS models. Almost all the cabin air distribution for the German component of the AIRBUS A 380 is carried out using the company's hoses and moulded parts. The General Agreement with AIRBUS will run until December 31, 2011.

Since 2006, Matzen & Timm products have complied with the fire protection regulations issued by the French Railways, thus opening the way for further potential sales.

Matzen & Timm also sells specialty hoses for vacuum lifting systems, which are used to lift heavy loads by means of suction. These devices make it possible to lift weights of up to 300 kilograms without straining the back. The company's hose products are used by one of the world's leading manufacturers of such handling systems.

During 2006, Matzen & Timm GmbH relocated its headquarters to Norderstedt near Hamburg. The new location offers more efficient production capacities; these, in turn, are intended to facilitate quicker material throughput and thus a higher level of production density.

The order situation continued to develop positively in 2006. For example, Matzen & Timm supplied various parts for APUs (auxiliary power units), cabins and bleedair systems (compressed air systems) for the AIRBUS A 400 M. In addition, vacuum lifting hoses for heavy loads of up to around 300 kg were supplied to domestic and foreign customers.

2006 saw Matzen & Timm showcasing its products at major trade shows such as the AIRCRAFT Interiors Expo aeronautics fair and Berlin's international traffic trade show, InnoTrans. Contacts with potential customers were successfully established at these shows. In 2007, Matzen & Timm plans to attend the AIRCRAFT Interiors Expo as well as the automotive suppliers' show AMITEC.

NOVOPLAST Schlauchtechnik GmbH

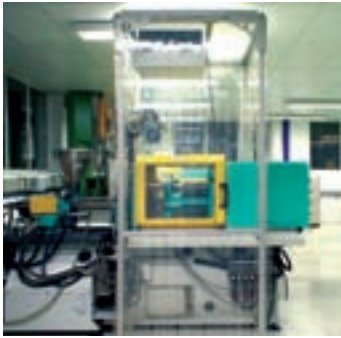
Our subsidiary Novoplast Schlauchtechnik GmbH, based in the German town of Halberstadt, continued its successful development during the 2006 fiscal year. The company produces industrial and medical High-Tech Hose Systems made of high-quality plastics. Among other venues, the products were exhibited at international trade shows such as the World of Industry in Istanbul, the Hanover Fair and the international sub-suppliers' trade show, ComPaMED. Novoplast Schlauchtechnik GmbH will again attend these trade shows during the 2007 fiscal year.

Product innovations in the industrial sector include a new standard product range of hydrolysis-resistant and microbe-resistant PUR pneumatic hoses, flexible polyamide hoses and thermoset hoses.

In the area of medical hoses, Novoplast Schlauchtechnik launched more innovations during the 2006 fiscal year. These included, for example, hoses for electro-medical tubes used, among other applications, to investigate internal bleeding and stomach ulcers. The company also launched another innovation: a light-guarded PUR infusion tube. Thanks to a special formula, UV rays are filtered so that light-sensitive medications are not adversely affected.

Since 2006, Novoplast Schlauchtechnik has been a member of the Nemo network "MIMEG" (www.mimeg.de) which aims to develop plastics with specific attributes (antimicrobial, hydrophilic etc.).





ANGIOKARD Medizintechnik GmbH & Co. KG (subgroup)

Our subsidiary Angiokard Medizintechnik GmbH & Co. KG, based in Friedeburg, is one of the leading manufacturers of customer-specific sets (customer procedure trays/CPT) for the cardiology, radiography, anaesthesiology and intensive care medicine sectors, while also producing the requisite accessories in the form of separate products. A range of over 4,000 separate components is kept in stock, guaranteeing quick supply.

The move away from individual products towards sets is gaining ground both nationally and internationally. The advantages of sets include reliable product availability, reduced operation preparation times and a reduction in packaging waste. These advantages also offer simplified logistics, which in turn results in time and cost benefits. Sets also facilitate clear cost allocation, which – for example – meets the requirements of Germany's flat-rate case payment rule.

During the 2006 fiscal year, Angiokard continued its efforts to open up new markets. The product concept was presented at a range of medical congresses and trade shows, including the 72nd annual congress of the German Cardiology Association, held in April 2006. For the first time, Angiokard Medizintechnik and Medic Health Care participated in MEDICA, the world's largest medical technology show. Abroad, the company attended the major Arab Health show in Dubai. Angiokard was also showcased at the German Radiography Congress in Berlin, as well as at numerous regional medical events.

New products included customer-specific diagnostic catheter sets for angiographic examinations. Before, the market had only offered standard products, while Angiokard allows the customer to freely integrate the required components into his or her set together with the use of the diagnostic catheter. Other innovations include sets for heart-lung machines (used, for example, during heart bypass operations) and the new "Mediodrape" product range in the draping materials sector.

Medic Health Care GmbH – development of a brand

We estimate that the potential market for operation sets in Germany alone is in the hundreds of millions. MHC Medic Health Care GmbH, established in 2004, is intended to transfer Angiokard's product and production expertise to other application sectors. The surgical sector represents an important sub-market.

During 2006, MHC was represented at major medical trade shows, including MEDICA, the German Conference of Cardiac Surgeons and Arab Health. In 2007, the company will be presenting surgical sets, surgical accessories, surgical drapes, and surgical workwear for the ophthalmic sector at the 20th International Congress for Ophthalmic Surgeons in Nuremberg.

Fleima Plastic GmbH

Established in 1974, the Mörlenbach-based Fleima Plastic GmbH specializes in producing high-quality injection-moulded plastic components for the pharmaceutical and medical technology sectors. The company has its own toolshop equipped with state-of-the-art processing machinery. In the medical technology sector, Fleima's products are used in a range of areas including dialysis technology, cardiology and surgery as well as infusion and transfusion technology. A technological development took place in 2006: as well as a range of new projects, the first two-component injection moulded part was produced.

Due to its comprehensive expertise in thermoplasty, Fleima Plastic GmbH also offers services including toolmaking, parts production and development services for components tailored specifically to customer requirements. Thanks to these services, Fleima Plastic GmbH today enjoys market recognition as a specialist. In 2006, the company presented its range of services at the MEDICA trade shows, as well as in other European countries.

Given its innovative products and services, the Angiokard Group feels that it is well positioned for the future. During 2007, it is intended to drive forward the group's successful expansion into new and foreign markets.

DICOTA GmbH (subgroup)

DICOTA GmbH, based in Bietigheim-Bissingen, is one of the world's leading all-in suppliers in the mobile office sector (so-called Mobile Computing Equipment). Ten subsidiaries employing around 80 staff, as well as over 80 partners, distribute system cases and bags as well as accessories for transporting notebooks and office systems around the world. The company is thus represented in all the main key markets. DICOTA is one of the sector's most successful enterprises, and is one of the market leaders in the mobile computing sector thanks to its ongoing international expansion.

In 2006, the product range was concentrated on five product groups in order to improve visualization for retail partners and customers. The website www.dicota.de was revised accordingly. A range of bag innovations was introduced in these five product groups.

Following a brief growth dip in the summer of 2005, DICOTA continued and strengthened its growth from the fourth quarter of 2005. The 2006 fiscal year was very successful: at the end of September 2006, DICOTA GmbH recorded the highest turnover in its history. As a whole, sales grew by over 30 percent. The company showed its products at the CeBit computer fair, held in March 2006, which proved very successful. Good contacts were established and new business set in train. This is due to the rapid and successful market penetration in Asia and Eastern Europe. Earnings also continued to grow.

As stated elsewhere, Masterflex AG will continue to supervise DICOTA GmbH's successful development, and the company will remain within the Masterflex Group for the time being. DICOTA will further expand development of its international presence during 2007. The expansion into Asia has been promising up to now, so that further positive developments can be anticipated.



SURPRO Verwaltungs GmbH (subgroup)

Wilster-based SURPRO Verwaltungs GmbH has been part of the Masterflex Group since August 2005. The name SURPRO is derived from the English "surface protection". The company is primarily specialized in coatings utilizing precious metals, and is one of the world's leading companies in this sector. In this regard, if required, the company can offer an all-in service, from development/design through component production and finishing right up to the finished product.

SURPRO is in the business of electroplating and metal processing for functional and decorative economic goods, and specializes in manufacturing and refining high-quality surfaces. The surface coating is done in a fully automated, state-of the-art electroplating facility using an environmentally sound process. SURPRO is a member of the precious metal board of the German Society for Electroplating and Surface Technology and co-author of diverse publications in the precious metal sector. The profitable company's products are purchased by the medical sector, the aerospace industry and others.

SURPRO also has extensive expertise in CAD, tool making and manufacturing. Masterflex AG, which strongly emphasizes material science and new materials in its research and development, expects this expertise to considerably stimulate product development. There should also be synergies with its Medical Technology and Fuel Cell Technology business units and the plastics metals coating process.

During the 2006 fiscal year, antiseptic coatings based on silver represented a crucial project in the medical technology sector. In the high-end consumer goods sector, SURPRO has continued to grow its sales while driving forward its expansion abroad. Target markets include the USA, as well as Europe and Asia. SURPRO is operating in a growing market segment, since surface technology is one of Germany's fastest-growing sectors.

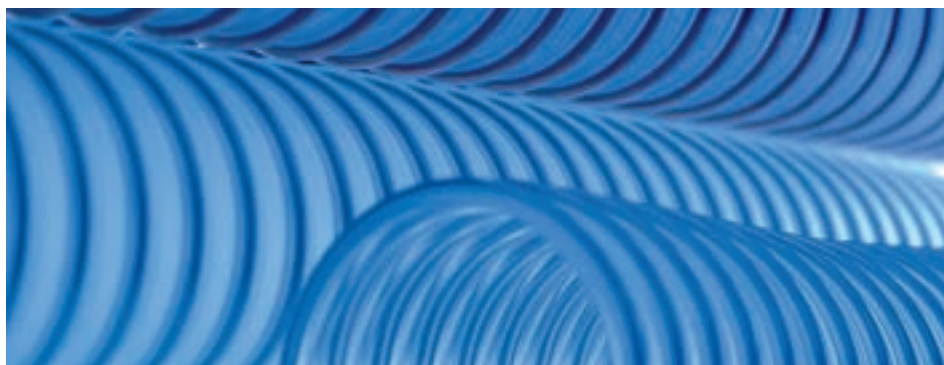


Masterflex Brennstoffzellentechnik GmbH

Masterflex Brennstoffzellentechnik GmbH was founded in Germany in December 2005 in order to clearly separate the area of Fuel Cell Technology from the other business units organizationally. The company is based in Herten. Production takes place in Herten. The company now has eight employees.

During the 2006 fiscal year, Masterflex acquired a 67 percent holding in the Breisach-based PERM Motor GmbH; the acquisition was backdated to January 1, 2006 at a purchase price of € 95,000. The remaining shares will continue to be held by the previous shareholder, who will continue to act as PERM's Executive Director.

PERM supplies a key product for the electric actuation of our Cargobikes. The company develops and distributes electric motors, generators and electric actuators. The acquisition of PERM Motor GmbH represents a further expansion of our Fuel Cell Technology. The focus is on the search for innovative energy concepts; this has also gained in importance as a result of the new EU Energy Efficiency Directive issued in May 2006.



II. Earnings, Financial Situation and Net Assets

Earnings position

	2006		2005		difference		2004		2003	
	EUR thou.	%	EUR thou.	%	EUR thou.	%	EUR thou.	%	EUR thou.	%
Revenue	115,706	96.0	87,773	93.2	27,933	106.2	75,752	94.9	66,917	95.6
Changes in inventories	561	0.5	1,164	1.2	-603	-2.3	406	0.5	396	0.6
Work performed by the enterprise and capitalized	959	0.8	1,066	1.1	-107	-0.4	903	1.1	953	1.4
Other operating income	3,276	2.7	4,203	4.5	-927	-3.5	2,777	3.5	1,732	2.4
Total output	120,502	100.0	94,206	100.0	26,296	100.0	79,838	100.0	69,998	100.0
Cost of materials	-55,123	-45.7	-40,637	-43.1	-14,486	-55.1	-34,313	-43.0	-32,148	-45.9
Staff costs	-26,859	-22.3	-21,309	-22.6	-5,550	-21.1	-17,538	-22.0	-15,211	-21.7
Depreciation and amortization expense	-7,096	-5.9	-2,321	-2.5	-4,775	-18.2	-2,991	-3.7	-2,897	-4.1
Other operating expenses	-21,281	-17.7	-17,676	-18.8	-3,605	-13.7	-14,443	-18.1	-12,435	-17.8
Operating expenses	-110,359	-91.6	-81,943	-87.0	-28,416	-108.1	-69,285	-86.8	-62,691	-89.5
EBIT	10,143	8.4	12,263	13.0	-2,120	-8.1	10,553	13.2	7,307	10.5
Non-operating expenses	-731	-0.6	0	0.0	-731	-2.8	0	0.0	0	0.0
Financial result	-2,229	-1.8	-2,544	-2.7	315	1.2	-1,130	-1.4	-1,187	-1.7
Other taxes	-212	-0.2	-246	-0.3	34	0.1	-198	-0.2	-220	-0.3
Income before taxes and minority interests	6,971	5.8	9,473	10.0	-2,502	-9.6	9,225	11.6	5,900	8.5
Income taxes	-2,248	-1.9	-3,315	-3.5	1,067	4.1	-2,932	-3.7	-2,299	-3.3
Income attributable to minority interests	-245	-0.2	-193	-0.2	-52	-0.2	-351	-0.4	-217	-0.3
Net profit for the year	4,478	3.7	5,965	6.3	-1,487	-5.7	5,942	7.5	3,384	4.9

Masterflex AG's earnings position continued to improve in 2006. Changes in the profit structure are therefore mainly attributable to the company's successful performance.

Sales proceeds rose for the 19th consecutive year, increasing by 31.8 percent to € 115.7 million (previous year: € 87.8 million).

Material and personnel expenditure rose by 35.6 and 26.0 percent respectively. In relation to the sales proceeds, the materials expenditure ratio worsened slightly. The ratio was 47.6 percent (previous year: 46.3 percent). The personnel expenditure ratio was 23.2 percent (previous year: 24.3 percent) and thus declined slightly. The figures, especially in respect of personnel expenditure, changed in absolute terms; this was primarily due to hiring in the High-Tech Hose Systems business unit.

Write-offs in respect of assets fell by € 4,775,000 to € 7,096,000 against last year (previous year: € 2,321,000). This is primarily due to the amorisation of goodwill in respect of Angiokard Medizintechnik GmbH & Co. KG amounting to € 4,055,000.



Due to the increased sales proceeds, other operational expenditure rose in absolute terms by 20.4 percent to € 21,281,000 (previous year: € 17,676,000). This is primarily due to the successful expansion of the DICOTA Group.

The increases in turnover, together with the relatively high rise in expenditure, resulted in the profit before interest and taxes (EBIT) falling to € 10.1 million (previous year: €12.3 million), which in turn resulted in an EBIT margin of 8.8 percent (previous year: 14.0 percent). Accounting for goodwill amortization, the Masterflex Group would have achieved an EBIT increase of 15.8 percent, resulting in € 14.2 million.

The pre-tax profit decreased by 26.4 percent to € 6,971,000. The primary reason for this was extraordinary expenditure of € 731,000 which arose in connection with the possible sale of DICOTA GmbH.

The financial result for 2006 rose by 12.4 percent to minus € 2,229,000, since, against last year, no impairment losses on short-term securities could be made.

During the 2006 fiscal year, the tax ratio improved to 31.3 percent when compared with the previous year (2005: 34.1 percent).

The group annual surplus is € 4.5 million (previous year: € 6.0 million). The net yield was 3.9 percent. This represents earnings of € 1.03 per share.

We look forward to a positive earnings situation again for the 2007 fiscal year. In view of the product offensive being launched in respect of High-Tech Hose Systems, the continuing positive development of our subsidiary DICOTA, the increase in the earnings contributions made by our Medical Technology line of business and the fact that our Fuel Cell Technology may break even, we are forecasting a double-digit increase in turnover of between 10 and 20 percent, and improvement in earnings before interest and taxes of between 50 and 60 percent, as well as an ongoing positive development in the net result.

Financial Situation

Principles and goals of financial management

Masterflex AG is aiming for technology leadership in its target markets. The strategy must be supported by efficient financial management that provides inexpensive access to liquid assets so that the business can be expanded successfully. It must also ensure that the capital employed generates above-average returns.

In all of its financing activities, Masterflex AG makes sure that it maintains a balance between equity and debt that guarantees the financial independence of the corporate group.

To continue to grow the company successfully, the highest priority focus must therefore be on liquidity. To keep the cost of capital low, Masterflex AG also considers the leveraging effect of external financing, which increases the return on equity.

The company tries to borrow at low interest rates that are fixed for the longest possible period when taking out a loan. Here Masterflex AG relies on the opportunities offered by innovative financing instruments and subsidies.

In addition, the company analyzes the financing needs of the various companies so as to identify and take advantage of opportunities to lower interest rates for the entire Group.

Masterflex AG carries on an ongoing and transparent dialog with various financial institutions about the company's current business situation, the financing measures required, and the minimization of bad debt risk. This also secures our financial independence.

Financing analysis

In September 2004, Masterflex AG's excellent credit rating enabled it to secure a borrower's note loan in the amount of EUR 23 million with maturities of five and seven years at attractive terms from IKB Deutsche Industriebank AG. The loan is being used primarily to finance the Masterflex Group's strategic expansion plans. Part of the loan proceeds were already used in the previous years to optimize our liability structure and to purchase Fleima Plastic GmbH. At the beginning of 2005, we acquired the remaining shares in DICOTA GmbH and Novoplast Schlauchtechnik GmbH.

The acquisition of the SURPRO Group, which was largely financed through debt, occurred in the reporting period. Debt was also raised to acquire land for the construction of the new production plant of Matzen & Timm (completion 2006). In the reporting period was furthermore outside capital necessary for the financing of current assets.

Investment analysis

The importance of research and development and the high share of in-house developments causes Masterflex AG to invest above all in creative employees. Investments in property and plant and equipment are therefore within a manageable range of 6.4 percent of revenue and for the year 2006 consisted mainly of investments in expansion.

In the area of High-Tech Hose Systems, we invested in expanding our self-developed machine train at our Gelsenkirchen facility. Construction investments were undertaken by our subsidiary Matzen & Timm, which relocated its production to Norderstedt, near Hamburg, in the summer of 2006. Novoplast Schlauchtechnik completed a new logistics and warehouse hall in 2006.

Investments in intangible assets totalled € 2,413,000. These investments primarily related to territorial exclusivity agreements, patents, utility models and licenses for the following projects: interior coatings, the LaryVent respiratory mask and Fuel Cell Technology.

Liquidity analysis

During the 2006 fiscal year, cashflow from current business activities increased by 50.7 percent to € 6,859,000. The result for the accounting period, and the scheduled and unscheduled amortization of assets, are offset, in particular, by the increase in stocks and in receivables from goods and services. These originate primarily from the DICOTA and SURPRO groups.

During the reporting year, cashflow outgoings from investment activities dropped by € 13,671,000 to € 6,166,000; this was dominated by investments in fixed assets. These outgoings are partially offset by the incoming cashflow from financing activities, amounting to € 632,000. The significant year-on-year difference of € 10,442,000 is primarily due to incoming payments of € 9,500,000 deriving from the sale of securities during the 2005 fiscal year.

Cash in hand and cash equivalents increased by 10.7 percent to € 5,419,000 on the reporting date.



Net Assets

Assets	Dec. 31, 2006 EUR thou.	%	Dec. 31, 2005 EUR thou.	%	Change EUR thou.	%	Dec. 31, 2004 EUR thou.	%	Dec. 31, 2003 EUR thou.	%
Intangible assets	28,343	25.1	32,716	33.5	-4,373	-29.3	23,258	26.6	22,597	34.6
Property, plant and equipment	25,746	22.8	23,221	23.7	2,525	17.0	17,221	19.7	14,760	22.6
Non-current financial assets	1,215	1.1	1,315	1.3	-100	-0.7	2,391	2.7	2,993	4.6
Deferred taxes	1,799	1.6	709	0.7	1,090	7.3	394	0.5	593	0.9
Non-current assets	57,103	50.6	57,961	59.2	-858	-5.7	43,264	49.5	40,943	62.7
Inventories	23,771	21.1	20,573	21.0	3,198	21.5	13,569	15.6	10,492	16.1
Prepaid expenses	760	0.7	743	0.8	17	0.1	639	0.7	195	0.3
Trade accounts and notes receivable	25,666	22.8	13,660	14.0	12,006	80.6	12,189	14.0	10,037	15.4
Current assets	50,197	44.6	34,976	35.8	15,221	102.2	26,397	30.3	20,724	31.8
Cash flow	5,419	4.8	4,895	5.0	524	3.5	17,598	20.2	3,594	5.5
	112,719	100.0	97,832	100.0	14,887	100.0	87,259	100.0	65,261	100.0

Equity and Liabilities	Dec. 31, 2006 EUR thou.	%	Dec. 31, 2005 EUR thou.	%	Change EUR thou.	%	Dec. 31, 2004 EUR thou.	%	Dec. 31, 2003 EUR thou.	%
Consolidated equity	30,875	27.4	30,606	31.3	269	1.9	28,039	32.1	28,102	43.1
Minority interest	645	0.6	434	0.4	211	1.4	809	0.9	449	0.7
Total equity	31,520	28.0	31,040	31.7	480	3.3	28,848	33.0	28,551	43.8
Provisions	1,320	1.2	1,289	1.3	31	0.2	292	0.3	259	0.4
Financial liabilities	28,191	25.0	25,783	26.4	2,408	16.2	26,967	30.9	7,213	11.0
Deferred income	2,814	2.5	2,616	2.7	198	1.3	2,606	3.0	2,263	3.5
Other noncurrent liabilities	2,925	2.6	3,016	3.1	-91	-0.6	3,280	3.8	10,943	16.8
Deferred tax liabilities	2,283	2.0	2,444	2.5	-161	-1.1	1,588	1.8	413	0.6
Noncurrent liabilities	37,533	33.3	35,148	36.0	2,385	16.0	34,733	39.8	21,091	32.3
Provisions	5,344	4.7	4,504	4.6	840	5.6	4,419	5.1	3,199	4.9
Financial liabilities	18,901	16.8	14,327	14.6	4,574	30.7	4,198	4.8	6,160	9.4
Deferred income	221	0.2	233	0.2	-12	-0.1	243	0.3	243	0.4
Other current liabilities	19,200	17.0	12,580	12.9	6,620	44.5	14,818	17.0	6,017	9.2
Current liabilities	43,666	38.7	31,644	32.3	12,022	80.7	23,678	27.2	15,619	23.9
	112,719	100.0	97,832	100.0	14,887	100.0	87,259	100.0	65,261	100.0



Structural assets analysis

The year-on-year change in specific balance sheet items reflects the successful expansion of business activity. Total group assets rose by 15.2 percent from € 97,832,000 to € 112,719,000.

The individual items changed as follows:

Within the assets, intangible assets fell year-on-year by 13.4 percent to € 28,343,000, most notably due to the revaluation of goodwill at Angiokard Medizintechnik GmbH & Co. KG.

Taking into account usual investments amounting to € 5,292,000 and accruals due to the change in companies included in the consolidated group amounting to € 41,000, less write-offs amounting to € 2,619,000, fixed assets rose by 10.9 percent to € 25,746,000 (previous year: € 23,221,000).

Financial assets declined by 7.6 percent to € 1,215,000.

Stock rose by 15.5 percent to € 23,771,000, due to the increased material requirements of the SURPRO Group, as well as DICOTA GmbH's positive order situation. Receivables and miscellaneous assets rose by € 12,006,000 to € 25,666,000, most notably due to the rise in trade receivables which is especially attributable to DICOTA GmbH. Current assets rose by € 10.7 percent to € 5,419,000.

The equity was € 31,520,000 on the reporting date. The company held 134,126 of its own shares on December 31, 2006, the acquisition costs for which reduced the equity. The debit side of the balance sheet shows that, during 2006, Masterflex AG continued to display a very positive equity ratio of 28.0 percent. The year-on-year reduction in the equity ratio was primarily due to the increased balance sheet total, which in turn was due to the increased financial liabilities.

Long-term debt rose by 6.8 percent to € 37,533,000.

Short-term debts rose by 38.0 percent to € 43,666,000 due to the increase in financial liabilities to € 18,901,000 (previous year: €14,327,000) and Other liabilities by € 6,620,000 to € 19,200,00.

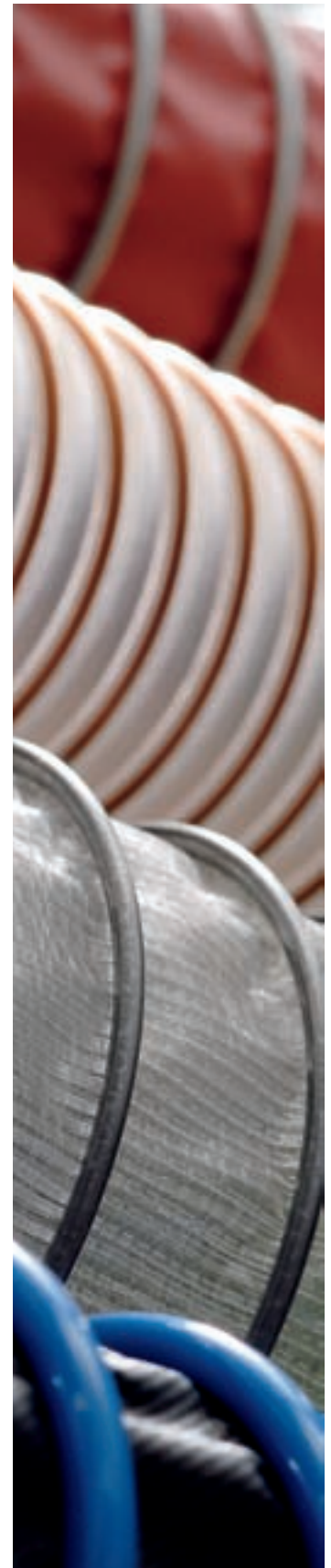
During 2006, provisions increased to € 6,664,000 (previous year: € 5,793,000). This is especially due to the rise in other provisions.

Company acquisitions

During the 2006 fiscal year, Masterflex AG Brennstoffzellentechnik GmbH acquired a 67 percent holding in PERM Motor GmbH, Breisach. The purchase price was € 95,000, and the acquisition was backdated to January 1, 2006. The remaining shares are held by the previous shareholder, who will continue acting as PERM's Executive Director.

Employees

The innovations we have developed over the years and the technological advantage they represent would have been unthinkable without the creativity and commitment of our employees. In all business units, our success is founded on the unflagging attention to the requirements of our customers. We therefore attach great value to research and development, which often



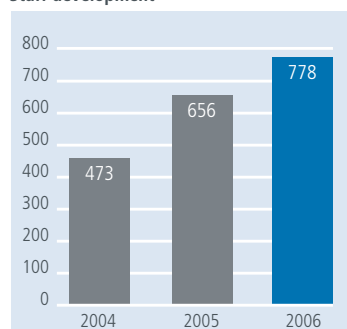
takes place in cooperation with our customers. This requires highly trained technical employees who have a sense for a product's marketability and potential, as well as for what is technically feasible.

We also need a sales force that engages in constant dialog with customers and is able to pass on their suggestions to the development department. Our customers value this focus and surveys show that they are very satisfied with the high quality of our service and the commitment of our employees.

The Masterflex Group is aware of its social responsibilities. As well as a commitment to Germany as an industrial location, this also includes the provision of vocational training. We have officially provided vocational traineeship at our Gelsenkirchen headquarters for a number of years. We have been training two young people as industrial administrators since August 2004. During the 2007 fiscal year, we will again offer training places for two industrial administration trainees.

Our oldest subsidiary, Novoplast Schlauchtechnik GmbH, has been an officially sanctioned provider of vocational training for many years, and in 2006 provided industrial vocational training to four young people. Matzen + Timm, TechnoBochum GmbH, Angiokard Medizintechnik GmbH & Co. KG and SURPRO GmbH are also officially sanctioned vocational training providers. As a whole, the Masterflex Group employed 17 apprentices during the past fiscal year. We also regularly offer work experience placements for schoolchildren and students. During the 2006 fiscal year, a young chemistry student completed a five-month internship with Masterflex AG in Gelsenkirchen.

Staff development



We also offer employees who have families the opportunity to work part-time so that we do not lose the expertise of these experienced workers.

We greatly value a good working atmosphere that leaves room for innovative ideas and commitment. The turnover rate among our employees is extremely low. Absenteeism due to illness is also well below the German industry average. We are proud to have not only satisfied customers; but also a satisfied workforce. Altogether, the number of employees rose 38.7 percent to 656 workers due to new hires and the acquisition of the SURPRO Group in 2005.

III. Supplementary report

Events of particular significance following the end of the fiscal year

There were no significant events following the reporting date which could impact on the group's assets, financial or earnings situation.

IV. Risk report

Risk management system

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.

What we mean by risk management is the targeted safeguarding of existing and future profit potential. Our risk management system includes risk recognition, valuation and management. This process aims to systematically identify potential risks within the Group at an early stage, to monitor them and through applicable management measures, to limit or avoid them. This controlled exposure to risks secures the Group's net assets, financial and earnings positions.

Efficient organization of risk management

The Board of Masterflex AG has established a decentralized risk management system that is continually expanded and refined. Its essential components are Group planning, periodic internal reporting including actual and forecast reporting, and comprehensive risk reports.

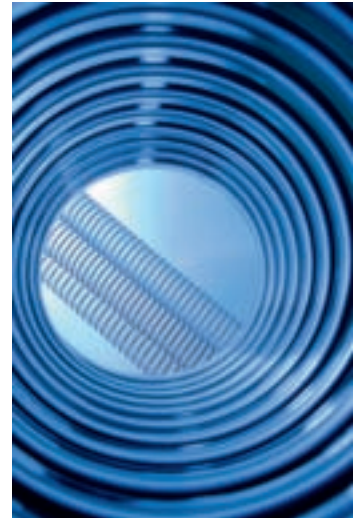
Based on strategic Group planning and medium-term financial planning, the budget to actual system enables potential risks to be discovered early, evaluated and taken into consideration during the decision-making process so that suitable managerial actions for dealing with the risk can be implemented on time.

Monitoring and control of the economic risks associated with the current business are ensured with the help of a standardized internal reporting system set up according to uniform guidelines applying to the entire Group. The Board is thereby informed in detail each month about the current economic situation and to what degree we achieved our targets. These steps are supplemented by analyses of the market and the competition that further increase risk transparency.

The company business segments for high-tech hose systems, Medical Technology, Mobile Office Systems and Advanced Material Design are involved in different types of businesses; therefore, they need different risk profiles geared to the specific risks of each of their fields. It is the decentralized risk managers' responsibility to identify the risks as part of their regular risk reporting, to evaluate them concerning their possible degree of damage and how great the chances are that they will occur, and to document and communicate them. Furthermore, it is local management's job to develop and, if necessary, to implement the proper measures to avoid risk, to diminish and to protect against it.

The decentralized management is supported by the central Group risk management unit that, aside from coordinating tasks and processes, also determines the uniform conditions and guidelines for the entire Group. The central risk management unit also identifies the consolidated risk position of the Masterflex Group and informs the Board regularly and in detail.

We have listed below the most important risk areas that could have a major impact on both our business development or our net assets, financial and earnings position. To these we must



add the risks that we do not yet know about and those that we currently consider to be less important, but which could have a negative effect on our company if the situation were to change.

Risk factors

Market risks

There are potential market risks for the companies in the Masterflex Group both on the procurement side and on the sales side.

On the procurement side, the availability and the purchase prices of raw materials, as well as primary and intermediate products pose a potential risk for our companies. We try to reduce these prices and supply risks on the procurement side with international purchasing programs, long term supply contracts and by continuously optimizing our supplier profile. In addition, we use contracts with price escalation clauses in order to minimize the negative effects of changes in the purchase price. When choosing suppliers, Masterflex AG chooses those with excellent performance and quality records. For key third-party components, we try to cooperate very closely with our various suppliers and include them as early as possible in new project developments in order to guarantee the economic success of the project. The risk for Masterflex AG associated with this close cooperation is the potential dependency on the supplier.

On the sales side, we counter the possible increase in competitive pressure in our business areas by continually improving our products and services, as well as our business processes and cost structures.

We try to counter general customer risk (e.g. loss to competitors, insolvency of key customers or an increase in price pressure due to market dominance) with a broad spectrum of customers and by avoiding dependencies.

Financial risks

We classify liquidity, market price and bad debt risks as financial risks. These kinds of risks can result from transactions in operative business where hedging activities, financial decisions and changes in value are caused by financial positions in the balance sheet. At the Masterflex Group, we manage and monitor Group financing centrally, including the limitation of financial and economic risks.

There are mandatory regulations about what kind of financing instruments can be used, their exposure limits and the participating banks. We regularly check to ensure that all limits are strictly adhered to. The credit risk is reduced by systematically obtaining business information, setting credit limits and by active debtor management including sending reminders and an aggressive collection department.

The fundamental risk strategies for interest-rate, currency and liquidity management are determined centrally. We make financing and hedging decisions based on our financial and liquidity planning, which takes into account all the material company business units.

Business and financing activities are rarely conducted in other than the respective country's currency, but when it does happen, there are cash flows in foreign currencies. The individual company units are required to monitor the risks resulting from this themselves and, if neces-



sary, to hedge appropriately in consultation with Group management, provided there are no country specific barriers or other reasons that might make this unadvisable. Forward exchange contracts, currency swaps and simple currency options are used for these purposes. Foreign currency risks are reduced as far as possible by using natural hedging; for example, by ensuring that subcontracts and services are provided in the same currency as the original order.

Any interest-rate risks that arise from the different periods to maturity of borrowings on the capital market are managed centrally. For this, we use interest-rate derivatives such as interest rate and currency swaps or interest options.

Translation risks resulting from the conversions for Group companies that do not use euros in their balance sheets are not hedged with financing instruments.

Production risks

If there were to be a loss of production over a longer period of time due to a catastrophe (e.g. fire damage) at any single location, the subsidiary in question would suffer a potential threat to its ability to deliver its products.

We counter these risks with preventive maintenance measures, by keeping important replacement parts available, taking certain steps regarding fire prevention and protection, by training employees and by building up a network of external suppliers. We are insured against events of damage or loss that might take place despite these preventive measures to an amount that makes good business sense.

In order to manage quality risks related to services rendered, Masterflex emphasizes quality assurance. The Masterflex Group consistently contains quality-relevant risks by applying critical quality measures during development, rigorous inspections throughout the entire process chain, and staying in continuous contact with suppliers.

Technology and quality risks

Masterflex Group tries to strengthen its market position by offering products and services that are internationally competitive. This requires continuous innovation and development in order to meet the demanding specifications of our customers. We also try to work closely with our customers, in order to tap into new applications and markets early. This often leads to innovative new business ideas that ideally become standard applications. Masterflex, with its leading position in innovations and quality, is separated from its competitors by a wide margin.

Quality assurance errors or developing products that are out of touch with the needs of the market reduce the chances of selling the product. High-quality products and services are not only a prerequisite for a steady stream of orders from customers, they also reduce the additional expenses caused by servicing warranty and damage claims. Targeted innovation and quality management are therefore a top priority.

IT risks

Appropriate IT systems are absolutely essential to running a business at our various locations. Inhouse and third-party experts therefore work constantly to optimize the decentralized systems we have set up to ensure information security. To protect against a possible disruption of operations due to external causes such as viruses penetrating the computer system, we categorically use the most up-to-date hard- and software components available on the mar-





ket. An example of the technical protective measures we take is the application of up-to-date virus scanners and state-of-the-art firewalls, as well as comprehensive access controls.

Legal risks

At present, we know of no legal disputes or threats that could have a material impact on the Group's financial situation. However, such risks cannot be categorically ruled out for the future.

Personnel risks

The performance of our employees is of utmost importance for the growth and development of our company. We compete with other companies for highly qualified specialists and executive staff. We do not see any issues worth mentioning that might pose a risk to filling specialist and executive positions in line with our growth objectives.

General statement on the Group's risk situation

There are no identifiable single risks that could endanger Masterflex AG's existence at present or in the foreseeable future or substantially impair the company's net assets, financial position and results. Nor is there any apparent threat to Masterflex AG from the total sum of all risks. We believe that our core business of High-Tech Hose Systems has a particularly solid foundation and that there are no material risks to its continued existence. There are three areas in which we cannot guarantee that there will not be any unforeseen developments. They would deprive Masterflex of significant development opportunities for the future but would not affect the Group's core business.

1. In the medical technology sector (MZZ), our subsidiary Angiokard Medizintechnik GmbH & Co. KG, based in Friedeburg, has to date worked solely in the area of angiography sets. At the end of 2004, we decided to expand the company's expertise to include a new line of business, 'operation sets'. We believe that this offers significantly greater market potential, and much higher earning opportunities. The operation set business is just starting. Due to the wide range of application possibilities, this market of the future is still not sufficiently penetrated, or sufficiently clearly structured, to assess future developments. It must also be said that there was no way of predicting the impact of Germany's health reform on this company. Steps have been approved to provide a lasting improvement to the earnings situation. If, contrary to expectations, Angiokard GmbH & Co. KG does not prove commercially successful, it may prove necessary to adjust the value of the holding. Development work on the LaryVent respiratory mask, which is also allocated to the Medical Technology line of business, has once again been delayed. As a result, the market launch is planned for the end of 2008. Expenditure to date totals € 673,000; this was activated in the context of an order development. We continue to view this as a trend-setting investment with a high level of development potential. Should our expectations not be met, this development expenditure will result in a corresponding loss.
2. The development of the Fuel Cell Technology line of business has so far exceeded expectations. This relates, in particular, to the technical leadership which has been achieved in respect of various individual components, as well as the system development as a whole. Market research to date has shown that rapid market penetration could be hindered by, in particular, the absence of infrastructural facilities relating to the blanket provision of hydrogen and/or filling stations. Masterflex AG is not in a position to provide such blanket

services. We are therefore focusing on so-called island solutions. This refers to ensuring dense (volume-wise) service provision in a manageable region, allowing us to secure the provision of hydrogen through external service-providers. We launched two variants of this system during 2006. In respect of the bicycle fleet, certified cartridges were used which were transported to and from filling stations by shipping companies. In respect of the Car-gobike, we use a 5 liter standard steel hydrogen bottle, supplied by gas companies using their standard distribution network.

3. We believe that new lines of business such as hose coating offer significant opportunities. If the expected success failed to materialize, however, it would possibly be necessary to record the capitalized development expenses as a current expense.

V. Forecast report

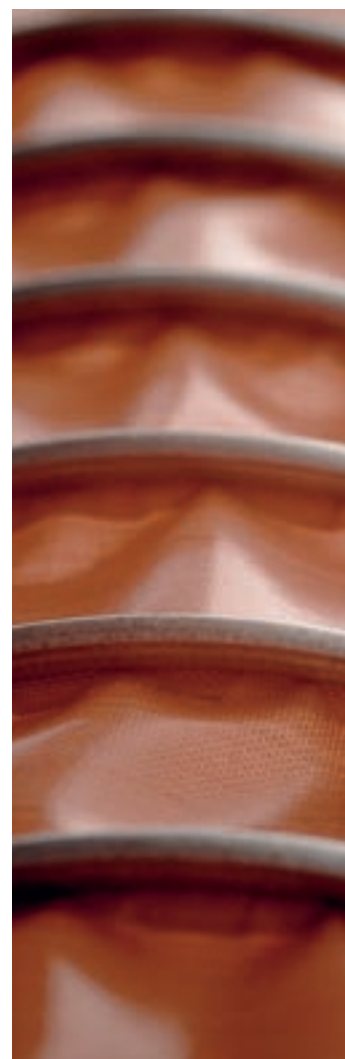
Opportunities report

Masterflex AG continued its successful operational development during the 2006 fiscal year. Sales increased very dynamically, while profits also continued to grow, if one disregards the liquidity-neutral impairment test. This underlines Masterflex AG's capacity for both sales-centered and value-centered growth. During the 2006 fiscal year, we continued to put in place the conditions for successful development, and believe that the following opportunities exist for sustainable growth:

We use innovative materials

Due to their versatility, high-performance plastics such as polyurethane are increasingly proving to be the key to the development of high-end applications. While other materials are reaching the limits of their capabilities, these high-performance plastics are penetrating more and more new areas, and can be combined with other substances to form new materials. Experts anticipate that demand for polyurethane will continue growing. Even today, due to their superb attributes, products made of polyurethane are replacing conventional materials such as PVC, rubber and steel with increasing frequency. Especially in areas where abrasion resistance is required, polyurethane is clearly superior. This explains the success of this material in the market for high-tech hose systems. Special plastics are being used with increasing frequency in the medical technology sector, because they are not only free of softening agents, and are thus safe, but they are also anti-thrombogenic and antibacterial, even without the use of additives which may be harmful to health. Thus, long-term catheters can be used for longer without risk to the patient.

Opportunities are also offered by the use of nanotechnology, with the help of which our materials can be further improved or new attributes developed. Our development department is working on this, in some cases in collaboration with other institutions.





We are constantly developing innovations

Although the German economic downturn meant that many companies have been cutting their R&D budgets for years, Masterflex AG views product innovation as a major pillar underpinning the company's success. These new developments and improvements have positioned the company as a technological leader. In the area of High-Tech Hose Systems, Masterflex AG has, for years, been recognized as a specialist in solving highly complex technical problems. Many of these innovations have resulted in what are today viewed as conventional and industry-standard solutions.

The high value Masterflex assigns to research and development can be seen from the numerous product innovations and the ongoing development and enhancement of materials, products, production and process technology that we have introduced to the market. Here it is worth mentioning the example of the first flame-retardant PUR hose for the lumber industry, the pipe bend with patented PUR inner coating for improved conveyance of bulk material, multi-lumen tubes for Medical Technology and the first electric bicycles powered by fuel cells.

Our expertise, demonstrated by numerous patents, extends across the entire supply chain; from the material itself and its further processing using internally developed equipment and production processes, through to our own field sales force. This combination of chemistry and engineering is the foundation of our success and is what makes our product range so exceptional. Our problem-solving expertise is reflected in the example of a hose that can cost up to EUR 3,500 per meter because of its sophistication. This type of highly specialized product has enabled us to become the recognized market leader in High-Tech Hose Systems.

We have consistently transferred this principle of success to all our fields of business. We keep abreast of new scientific and technological developments on an ongoing basis and ally closely with reputable partners such as research institutions and universities, in order to guarantee the high standard of quality of our products in Medical Technology and Fuel Cell Technology. Our first patents have shown that here, too, we are on the right track.

We focus on profitable niche markets

Our enterprise strategy is clear and simple: as a supplier of specialist, often tailor-made, products and system solutions, we have focused consistently on profitable and future-proof niche markets. These niche markets are determined by the products' quality and ability to solve the problem in question, rather than by price and product volume. We customize many products to specific customer requirements.

This strategy has proved successful. Since the company was established in 1987, we have achieved a positive sales and result situation in our core line of business, High-Tech Hose Systems. The hose market shows practically no indications of saturation, since the global substitution potential of traditional materials such as PVC, rubber and steel is very good. Since there are no dependencies on individual customers or sectors, our business is less vulnerable to economic fluctuations. We can therefore survive and prosper even in a difficult environment.



Medical technology is a profitable sub-sector of the health market, and is currently one of the few growth sectors in a difficult German market dominated by cost savings. Our markets are wherever we can latch onto this trend and offer products with real added value and a reliable costing basis. We were pioneers in the German market with our angiography sets, and are now developing the set concept to apply it to other operations and examinations, because even in those sectors it is possible to significantly reduce warehouse logistics and preparation times. Our catheters and infusion tubes lower the risk of thrombosis or infection, thus helping reduce post-operative complications and extended in-patient times.

In the Mobile Office Systems business unit, we offer bag solutions specifically tailored to customer requirements. We have thus specialized in a profitable niche in the large personal computer market, and in the growing notebook sub-sector. The demand for notebooks is rising due to increasing industrialization, especially in Asia and Eastern Europe, and thus offers significant growth potential.

Experts agree that Fuel Cell Technology offers the greatest future potential for solving our growing environmental and traffic problems. The traffic and transport sectors have largely already opted for the hydrogen-based fuel cell. However, in view of significant technical problems and the absence of a hydrogen infrastructure, wide market availability is still some time away. This is where Masterflex AG is already a step ahead. We are focusing on the niche market for light electric vehicles. We have already developed products (in the form of our electric bicycle and Cargobike) which are almost ripe for series production, and we have developed a functioning hydrogen supply system together with external partners.



The market for light electric vehicles is already a growth market, and we believe this market offers even greater potential for the future with the introduction of solutions utilizing fuel cell actuation, since this will significantly increase the range, while the use of electric bicycles also offers economic benefits. If our fuel cell projects prove successful, Masterflex AG may have a major opportunity to take Fuel Cell Technology a decisive step further, and to ensure that the company's development is buttressed by another future-proof pillar.

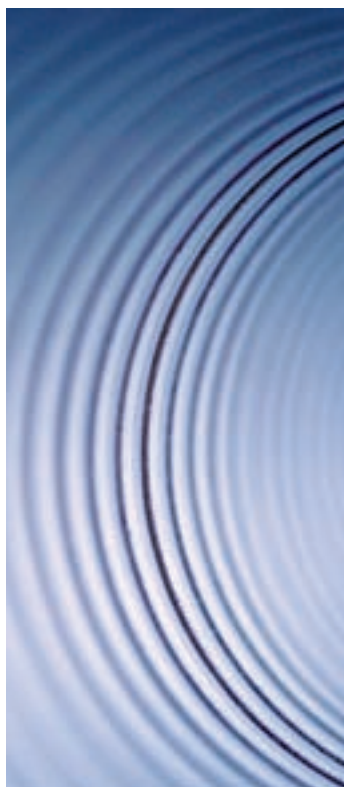
We seek synergies

Our acquisitions policy is strategically aimed at strengthening and expanding existing business areas. In addition, we always consider acquiring a company if its purchase would make a material contribution to the growth of the company.

As a technological leader in the area of High-Tech Hose Systems, company acquisitions in this line of business are only of interest to us if they allow us to penetrate new market segments in which the decisive criteria are competence, specialization and quality (e.g. acquisition of Matzen & Timm GmbH in 2003, aeronautics and aerospace sector).

The SURPRO Group was acquired in 2005 because its coating expertise was important to the ongoing development of our products in the High-Tech Hose Systems and Medical Technology lines of business.

PERM Motor GmbH, acquired in September 2006, supplies a key product for the actuation of our Cargobikes. This acquisition allows us to strengthen our position as a technological leader in the light mobile vehicle sector.



When considering acquisitions, we also take care to ensure that the companies in question have already reached a certain size, so that the integration costs remain manageable in view of our high accounting standards. Such companies must not only be market leaders or recognized specialists in attractive niche markets, but must also be successful and profitable. We are not interested in merely acquiring turnover without the corresponding earnings.

Our conclusion

The successful development of our company over a period of almost 20 years shows that we have many years' experience in detecting potential opportunities for success, and exploiting opportunities for positive enterprise development. Thanks to our trendsetting materials, our processing expertise, our innovative strength and our stable core business, we believe that the future offers many opportunities – and only a few risks – for successfully continuing our business activity.

Outlook

The economic conditions are optimal for further growth, since we are operating in growing markets. We have an extensive portfolio of products which are only at the beginning of their life cycles. We are not dependent on individual sectors or customers, so we can better weather economic downturns.

The PUR sector and the medical technology industry are developing much better than other industries, and are characterized by a range of innovations. We are among the market leaders in the surface technology and mobile office equipment sectors. We are a technological leader in respect of mobile applications and, in view of future energy problems, enjoy broad political support at both a national and a European level. There are major potential opportunities for successful business development, which is why we anticipate further growth during the 2007 fiscal year.

Business segments

High-Tech Hose Systems

For the 2007 fiscal year, our aim is to maintain a clear focus on our core business unit, High-Tech Hose Systems. We have appointed a section manager for this line of business, whose task is to consistently expand our leading technological and market position in respect of system solutions made of high-performance plastics.

We will further professionalize the identification of customer requirements, product development and the internationalisation of our business. In this regard, we will further expand the R&D sector, recognizing it as our most important foundation stone for success. We will use innovative technologies such as nanotechnology, and will avail of the surface-finishing expertise of our subsidiary SURPRO in order to both improve existing product attributes and develop innovations.

In terms of market positioning, we will continue to pursue our success strategy, developing quality products which meet the most stringent requirements. We will continue to be guided by our motto: "Masterflex – always a step ahead". We will create markets with the aid of new products for existing or future applications.

Thanks to a high-quality range of products offering clear benefits, we will distinguish ourselves from suppliers of conventional hose solutions made of rubber, PVC and steel. We will showcase our products at a range of trade shows (including the Hanover Fair, AnugaFoodTec, WIN – World of Industry) at home and abroad, strengthening our contact with local partners.

We will systemize our internationalisation, identifying potential opportunities in existing markets and opening up new markets, especially in Eastern Europe. We will develop strategies to accelerate our entry into the American market. We will also prepare for our entry into the Asian market.

We had already launched several projects in 2006. This includes the development of hoses with interior coatings of metal or ceramic, as alternatives to conventional hoses or stainless steel pipes. During the 2007 fiscal year, we will launch more test series. We will start the market launch as soon as usable results of these test series are available. 2007 will see the preparation of initial samples and pilot projects to smooth the way for commercialization.

Fuel Cell Technology

During 2006, we took decisive steps to advance our fuel cell projects. Ten electric bicycles and three Cargobikes are in continuous operation. In respect of our Cargobike, we have solved the problem of hydrogen supply and will therefore be able to start actively marketing them during the 2007 fiscal year. This year and next year, the production of Cargobikes will form the focus of the EU HYCHAIN Minitrans project.

At the same time, we will continue developing our Fuel Cell Technology through PERM Motor GmbH. PERM develops and distributes electric motors, generators and electric actuators and, primarily, supplies a key product for the electric actuation of our Cargobikes.

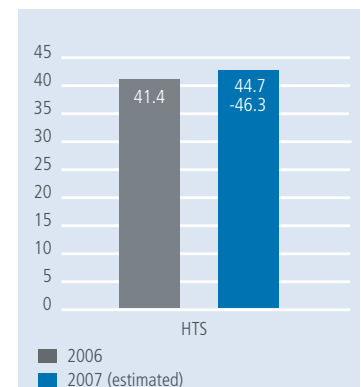
The focus will be on the search for innovative energy concepts; this will also gain further importance as a result of the new EU Energy Efficiency Directive issued in May 2006. This Directive requires all manufacturers of electric appliance and actuation systems to significantly reduce their products' energy consumption. PERM motors offer the best prerequisites in this regard, since they have a high efficiency level combined with a low weight.

Our projects are focused on the light mobile vehicle market, which we believe to be a promising pioneer market for fuel cells. The advantage is that the functionality of this market does not necessarily depend on the blanket supply of hydrogen, since local supply networks – the so-called island solution – already facilitate commercial applications.

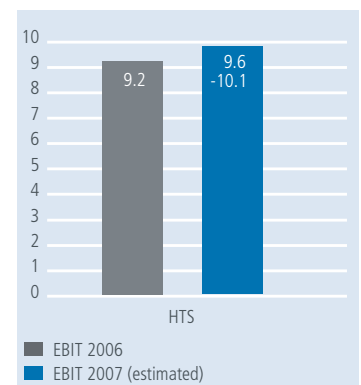
We believe that, in 2007, the sale of Cargobikes and the activities of PERM will contribute to turnover in the seven-digit range, as well as a small EBIT contribution.

As a whole, in respect of the High-Tech Hose Systems business unit, we anticipate that 2007 will see turnover grow by between 8 and 12 percent, accompanied by an increase in earnings before interest and taxes (EBIT) of between 5 and 10 percent.

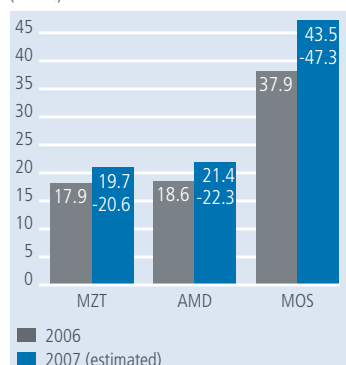
Sales Forecast High-Tech Hose Systems
(in m €)



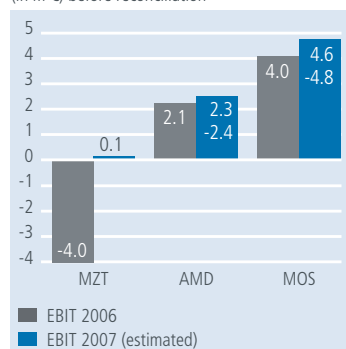
EBIT Forecast High-Tech Hose Systems
(in m €) before reconciliation



Revenue Forecast by segments
(in m €)



EBIT Forecast by segments
(in m €) before reconciliation



Medical Technology

During 2006, turnover in the Medical Technology segment increased, and minor positive contributions to the result were achieved in the area of medical devices. However, in operational terms, the profit development of Angiokard Medizintechnik GmbH & Co. KG was encumbered by the German doctors' strike. In addition, the impairment test resulted in the EBIT being depressed by € 4.1 million. These companies' future prospects for success depend on how the German health reforms will impact on the business involving angiography and operation sets.

Our aim during the next two years is to achieve a lasting EBIT improvement in the Medical Technology business unit. We hope to do this, in particular, by opening up further markets for our softener-free medical devices and operation sets for new areas of application. It is intended to establish Medic Health Care GmbH as a brand for operation sets. Our business activity will focus on measures designed to increase name recognition at home and abroad, as well as the development of innovative sets. In order to render our internationally patented respiratory mask LaryVent competitive, the existing product must be expanded to include an stomach probe. It will certainly take at least two years before the product can be launched on the market.

Therefore, LaryVent has not been included in our plans for the Medical Technology business unit for the 2007 fiscal year. We anticipate that 2007 will see turnover grow by between 10 and 15 percent, with a positive EBIT development slightly exceeding that achieved during the previous year, not accounting for any depreciation on goodwill.

Advanced Material Design

In the Advanced Material Design business unit, we believe that 2007 will offer potential opportunities for further increasing turnover, and – in particular – achieving a significant year-on-year improvement in the result.

Our subsidiary SURPRO is a profitable company and has a superb market position as one of the market leaders in the metal coating sector. It is intended to further consolidate this leading market position and access new customer segments. In the industrial sector, we will concentrate on the coating of connection systems.

As a whole, we anticipate that the Advanced Material Design business unit will see a turnover increase of between 15 and 20 percent, with earnings before interest and taxes increasing by between 10 and 15 percent.

Mobile Office Systems

In 2006, we decided to retain DICOTA GmbH within the group for the time being, so as to continue overseeing this subsidiary's successful development, despite the fact that the Mobile Office Systems business unit no longer forms part of our core activities.

We are convinced that, during the current fiscal year, DICOTA GmbH will continue its successful development. Given the successful expansion into Asia, we believe that 2007 will continue to see dynamic sales growth, and with increase of between 15 and 25 percent, coupled with EBIT growth of between 15 and 20 percent.

Overall group

In the nineteenth year of our existence, we once again achieved an increase in turnover. We have recorded an operational double-digit growth in our results. We have thus shown that the market potential is not nearly exhausted, and that our portfolio includes innovative products.

We have created the conditions for lasting growth through organizational measures, by expanding the Board and creating the new position of Division Manager for High-Tech Hose Systems. We have thus enhanced our R&D sector, because innovative strength is the basis of our success. And we want to continue expanding that innovative strength in our core line of business, High-Tech Hose Systems. As a whole, we are looking to the future with optimism, because we believe that our other lines of business also offer considerable growth potential.

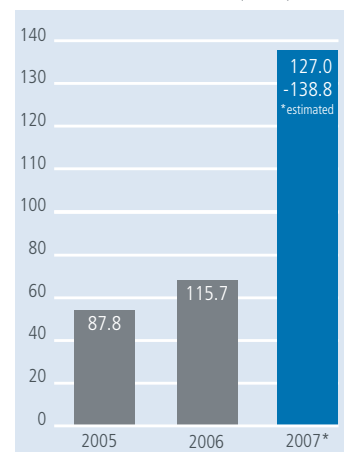
In respect of our successful company development, operative and value-related growth will generally retain priority over pure sales growth. However, we will continuously assess whether it makes sense to deviate temporarily from this strategy in order to achieve more rapid market penetration.

Our primary strategic goal for the coming years is to expand and consolidate our technological and market leadership in our lines of business. The aim is for Masterflex AG to be the recognized specialist for demanding system solutions at the highest technical level in all our lines of business. In those areas where we have already achieved technical leadership, we will avail of new opportunities through product innovations, and we will also drive forward our international expansion.

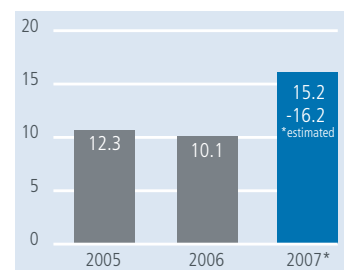
Our growth goals are to achieve a lasting two-digit growth level in respect of group turnover and to ensure that the group earnings situation is, at a minimum, stable, in order to maintain an attractive EBIT margin. We anticipate that the 2007 fiscal year will see group turnover rise by between 10 and 20 percent, and group earnings before interest and taxes rise by between 50 and 60 percent. Based on the operating group EBIT for 2006, this would mean a corresponding increase of between 6 and 12 percent.

We are confident that our growth will be even more dynamic in 2008. In our core line of business, High-Tech Hose Systems, we have prepared a range of innovation projects which, if successfully developed, have the potential to take us a major step forward. In the Medical Technology line of business, the measures initiated this year should lead to a tangible value-related improvement during the coming year. We also believe that the Advanced Material Design segment will see further growth, thanks to the planned penetration of new customer groups. Further internationalisation means that the Mobile Office Systems line of business can look forward to potential opportunities in 2008.

Consolidated Sales Forecast (in m €)



Consolidated EBIT Forecast
(in m €) before reconciliation



In respect of our investment policy, we will focus on our success factors. Creative and committed employees, developing top level products, represent our most important capital asset. Therefore, investment in employee development and product innovation is the top priority. It is intended that our projects will be largely financed from our own resources. Therefore, the sustainable achievement of positive cash flow contributions is a central company goal. During the 2006 fiscal year, the free cash flow was negative due to extensive investments and acquisitions during preceding years. Because of the positive growth prospects we expect to again experience positive free cash flows from the 2007 fiscal year onward.

Another company goal is to implement a financing policy based on an appropriate ratio between borrowed capital and equity. The equity ratio was 28.0 percent during the 2006 fiscal year. In the long term, we intend to maintain an equity ratio of at least 30 percent.

Finally, we will continue to ensure that shareholders profit from the company's success in the form of dividend payments, as long as the profits achieved are not required to expand our business activities.







THINKING *outside the box* requires flexible contacts from the start.

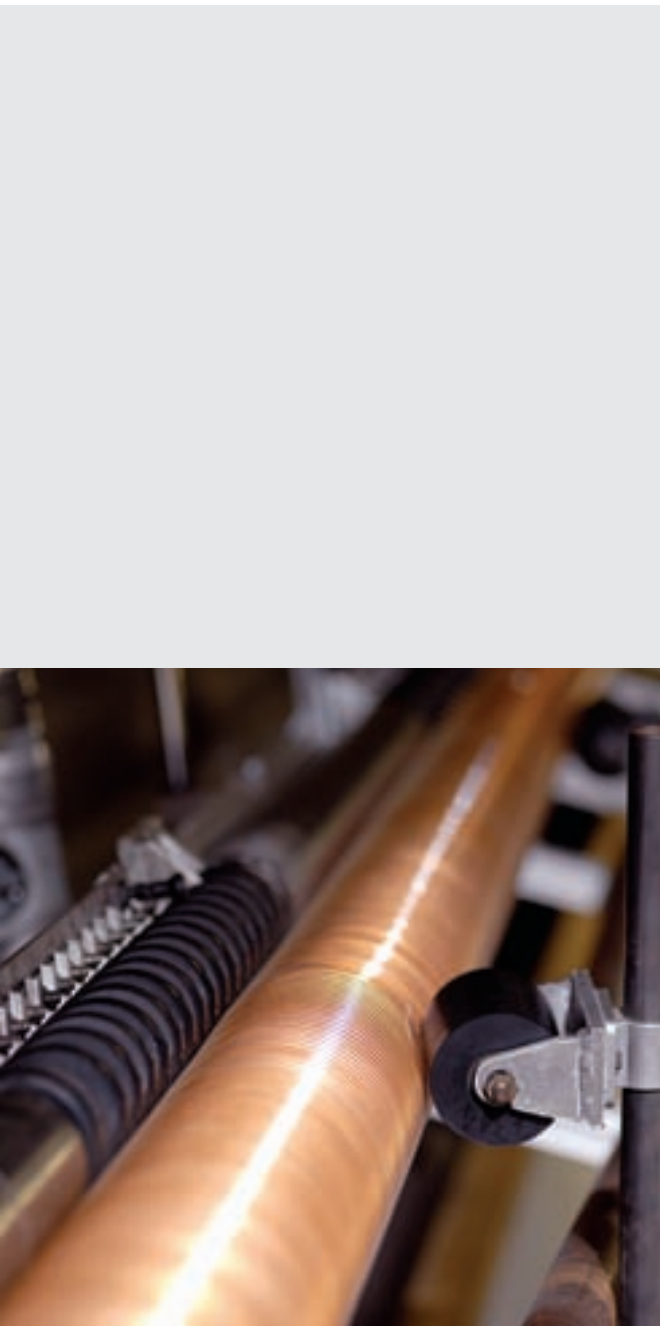


THE MASTERFLEX SHARE

2006 stock exchange year

The 2006 stock exchange year proved to be very successful in Germany. The DAX started to rally, ending 2006 at nearly 6,600 points. This represented a 22 percent increase. Of the main European stock exchanges, only the Madrid exchange performed better. Once again, smaller companies beat the DAX heavyweights. The MDAX achieved a historic high, gaining 29 percent, while the SME exchange SDAX gained almost 30 percent.

The market for initial public offerings (IPO) continued to accelerate. A total of 210 companies with a market capitalization of around € 32.4 billion were listed for the first time, of which 40 were listed in the Prime Standard. The floatation volume was € 7.9 billion. The stock exchange newcomers also include several companies which were listed before Masterflex AG. Masterflex AG therefore ceased being represented in the SDAX as of 18 December 2006.

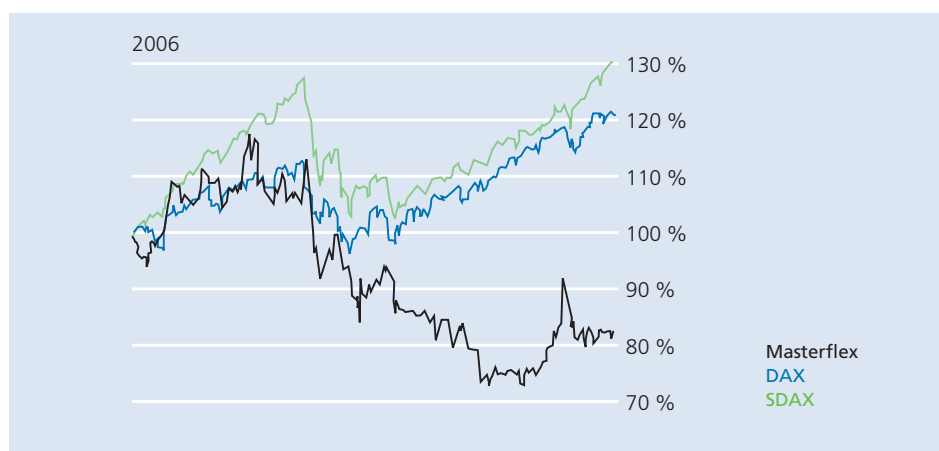


Share information

ISIN Code	DE 000 549 293 8
WKN	549 293
Type of share	Ordinary bearer shares
Exchange symbol	MZX
Bloomberg symbol	MZX.GR
Reuters symbol	MZXG.F
Market segment	Prime Standard
Included in the following indices	CDAX
	Prime All Share Index
	Classic All Share Index
	Prime Industrial Index
Designated sponsors	HSBC Trinkaus & Burkhardt
Number of shares	4.5 million
Notional value	€ 1.00

Masterflex AG's year on the stock exchange

Masterflex share price development compared with DAX and SDAX.



In general, during 2006 the Masterflex share price failed to reflect the company's continuing positive business development. The share price was still hovering around the € 30 mark until the middle of May. It then fell continuously. Despite the good 2006 half-yearly results, and the improved outlook for the year as a whole, Masterflex AG's share price fell to a year's low of € 20.45 on September 27, 2006. By the end of November 2006, the share price had recovered to € 25, only to fall again following the announcement that Masterflex AG had been dropped from the SDAX. The share price ended the year at € 23 (XETRA) on December 29, 2006. When compared with the price at the start of the year (€ 27), this represents a performance of -14.8 percent.

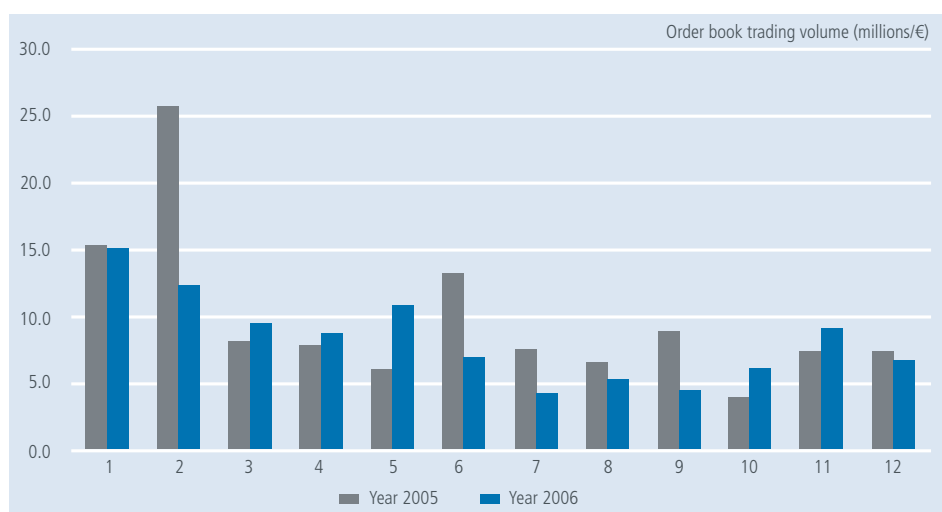
One of the causes of this unsatisfactory share price development which we have identified is the general market trend which saw many investors reinforce their interest in other segments, especially the DAX, following the strong performance of secondary shares even during the previous year 2005. Another reason, we believe, was that – following our announcement in the spring of 2006 that we would examine the possible sale of DICOTA GmbH – the capital market expected a swift decision. From an investor's point of view, it took a long time until, in October 2006, it was decided that DICOTA would initially remain within the group; this caused investors to sell, in turn causing the share price to fall.

Now that our approach to this issue has been clarified, we expect the share price development to recover due to the successful 2006 fiscal year and the positive outlook for the 2007 fiscal year.

Share price statistics

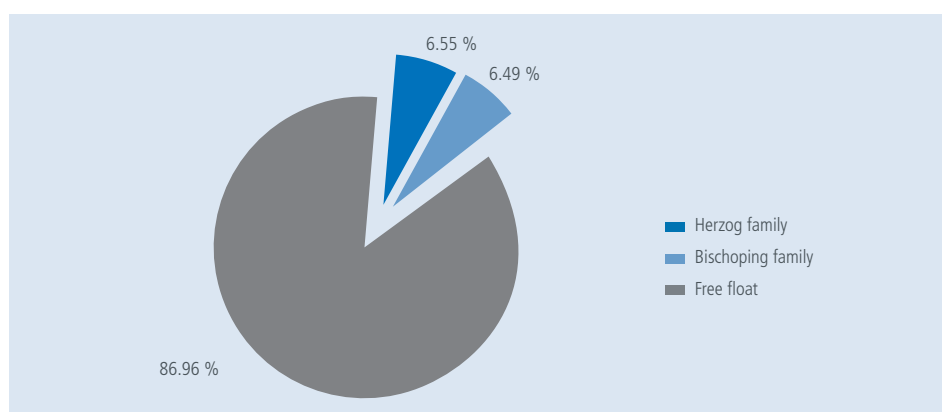
		2007	2006	2005
Xetra		Jan. 2 to Mar. 20		
Maximum variable price in	€	26.80	32.80	37.75
Lowest variable price in	€	22.90	20.40	24.20
Opening price in	€	23.40	27.00	27.00
Closing price Dec. 30/Mar. 20 in	€	24.75	23.00	27.00
Performance		5.8 %	-14.8 %	0.0 %
Trading floor				
Maximum variable price in	€	26.70	32.49	31.10
Lowest variable price in	€	22.91	20.40	24.36
Opening price in	€	23.40	27.10	27.10
Closing price Dec. 30/Mar. 20 in	€	24.89	22.80	26.75
Performance		6.4 %	-15.9 %	-1.29 %
All time high price in	€	39.00		
All time low price in	€	9.95		

Order book volume



During 2006, the average monthly Xetra trading volume of Masterflex shares (order book item trading volume) was 208,810, and thus 21 percent below the previous year's level (previous year: 264,790). This corresponds to an average monthly volume of € 5.5 million (previous year: € 7.4 million). An average of 80,271 shares were traded on the floor, corresponding to around € 2.1 million (previous year: € 1.8 million. This corresponds to a slight increase of 16.3 percent.

Taking all German stock exchanges together, a total of 3.8 million Masterflex shares were traded during 2006 (previous year: 4.2 million). This corresponds to a drop of 10.2 percent. In terms of value, this corresponds to a trading volume of € 99.1 million (previous year: € 117.9 million). The trading volume was thus around 15 percent less than in the previous year. The free float rose up to 87 percent.



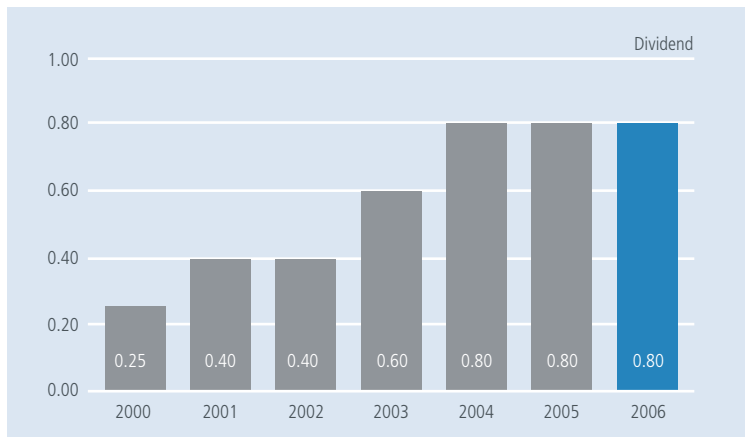
Coverage

The following banks monitor Masterflex AG, publishing regular assessments of the company (investment assessment as of March 2007):

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

The analysts' assessments are available on our website (www.masterflex.de) in the section on Investor Relations / Analysts and Media Assessment.

Dividend payment for the sixth consecutive year



For what is now the sixth consecutive year, we have paid a dividend enabling our shareholders to participate in the positive business development. At the AGM due to be held on June 5, 2007, the Executive and Supervisory Boards will propose a dividend of € 0.80 per share, corresponding to the previous year's figure. This again underlines our position in the equity market: Masterflex shares represent both growth and value.

Result development during 2006

Key figures per share		2006	2005
Authorized capital	Millions/€	4.5	4.5
Number of shares	Millions/shares	4.5	4.5
2006 closing share price (floor)	€	22.80	26.75
Stock exchange value Dec. 31	Millions/€	102.6	122.4
Market capitalization Dec. 31	Millions/€	99.5	106.52
Free float Dec. 31		86.9 %	83.3 %
IAS result per share	€	1.03	1.37
Net dividend per share	€	0.80*	0.80
Net dividend yield (basis: Dec. 31)		3.5 %	2.9 %
*Proposal to the AGM on June 5, 2007			

2006 Investor Relations policy

During 2006, we conducted a number of discussions with investors. During the spring, this included the Renewable Energies Conference held by HSBC Trinkaus and Burkhardt, the Commerzbank Capital Market Conference, the DVFA Analysts' Conference and, in November, the Equity Capital Forum held by the German Stock Exchange which now includes over 4,000 participants. In addition, international road shows were held in Europe following publication of the 2005 financial statements and the nine-month figures.

Numerous investors inspected the main Masterflex AG production site in Gelsenkirchen or visited our stand during one of the many trade fairs (e.g. Hanover Fair, CeBit, MEDICA) to find out more about our products. During a telephone conference, the Board provided investors and analysts with information about the future of DICOTA GmbH.

Our open, transparent and real-time information policy involves all the players in the capital market. Private shareholders can obtain comprehensive information from our website www.masterflex.de or by subscribing to our e-mail newsletter service. In addition, there is a mail distribution list for sending interim and annual reports. Direct shareholder contact with the company is provided for primarily at the AGM or at shareholders' meetings. On July 14, 2006, over 300 shareholders took the opportunity to attend the AGM of Masterflex AG and make personal contact with members of the Masterflex Board and Supervisory Board. Shareholders expressed themselves satisfied with the development of Masterflex AG during the previous fiscal year, and significant majorities approved all items on the agenda.

Transparent and clear reporting is a primary goal of Masterflex AG's investor relations policy. This approach was rewarded in 2006 during a business reporting competition held by Managermagazin. We were ranked fourth among SDAX companies in terms of the content quality of our reports. Masterflex was also ranked among the top third of Prime Standard companies during a study conducted by the Handelsblatt business newspaper, which asked how well groups inform their shareholders. These superb rankings were the yardsticks we used when preparing the 2006 Annual Report.

Media reporting was also expanded further. Many German-language television stations, including WDR, N24, Pro 7 and 3Sat, reported on our fuel cell bikes and, in particular, the 'Cargobike' load taxi, which was used for the first time during the FIFA-World Cup.

Numerous interviews and articles were published in important stock exchange media, as well as trade journals and the Internet. In addition, Masterflex AG was featured in a film clip about Gelsenkirchen presented to foreign journalists and guests on the occasion of the 2006 FIFA-World Cup.

Investor Relations 2007 – continuing to focus on transparency

During 2007, we will continue working to increase the attractiveness of Masterflex shares by using a range of discussions and interviews to ensure that the capital market is clearly and fully informed of our company's future potential. At the beginning of 2007, we had already held numerous talks with investors.

The first quarter of 2007 was dominated by preparation of the annual report. Publication of the 2006 financial statements at the financial press and DVFA analysts' conference due to be held on 2 April 2007 will again be followed by an international road show. During April, Masterflex will also be showing its hose systems and fuel cell bikes at the Hanover Fair. DICOTA GmbH also

had a large stand at the CeBIT trade show in March 2007. The AGM will take place on June 5, 2007, and the venue will again be Schloss Horst in Gelsenkirchen. Another road show is planned for the autumn following publication of the nine-month figures. Other events are also being planned.

2007 Financial Calendar

24–28 February	WIN Istanbul, exhibitor: Masterflex AG
15–21 March	CeBIT 2007, exhibitor: DICOTA GmbH
2 April	Balance sheet press conference, presentation of the 2006 annual report, 9.30 a.m., Industrieclub Düsseldorf
2 April	DVFA Analysts' Conference, 3 p.m. DVFA Multi Media Center, Frankfurt
16–20 April	Hanover Fair, exhibitors: Masterflex AG, Novoplast Schlauchtechnik GmbH, Masterflex Brennstoffzellentechnik GmbH
April	International Road Show
15 May	Quarterly report I/2007
5 June	AGM, 11 a.m., Gelsenkirchen
15 August	Quarterly report II/2007
14 November	Quarterly report III/2007
November/December	Equity Forum, International Road Show



WE CREATE NEW MARKETS *because we do the unexpected.*



CORPORATE GOVERNANCE REPORT

In accordance with Clause 3.10 of the German Corporate Governance Code, the Executive Board of Masterflex AG – acting at the same time on behalf of the Supervisory Board – has issued the following report on the company's corporate governance:

The term 'corporate governance' is synonymous with responsible company management and control focused on long-term added value. The main aspects of good corporate governance include:

- Efficient collaboration between the Executive and Supervisory Boards;
- Regard for shareholders' interests; and
- Openness and transparency in company communication.

Masterflex AG has traditionally placed a high value on corporate governance. The overwhelming majority of the principles and recommendations embodied in the Corporate Governance Code are already integral to our company culture. Masterflex AG's Compliance Officer was appointed as far back as the 2002 fiscal year to address issues of corporate governance. He reports regularly to the Executive Board and Supervisory Board regarding the current implementation status of the German Corporate Governance Code, as well as the latest developments in Germany. He also reports on compliance with the Code throughout the group.

Masterflex AG endorses the German Corporate Governance Code, which formulates guidelines for responsible corporate management. The Code was submitted by the government

commission on Corporate Governance on February 26, 2002, and was promulgated by the German Justice Ministry on November 26, 2002 in the official part of the electronic German Government Gazette. In the years that followed, further recommendations and addenda were promulgated; these related particularly to increasing transparency in terms of executive and supervisory board emoluments, as well as strengthening the role of the supervisory board.

The Code embodies important statutory regulations governing the management and monitoring of quoted German companies, as well as incorporating recognized international and national standards of good and responsible corporate governance (comprising so-called recommendations and proposals). The Code is intended to render the German corporate governance system transparent and plausible. Observance of, and compliance with, the statutory regulations included in the Code is mandatory for the company without exception. The company may deviate from the recommendations included in the Code. Such deviations are explicitly provided for in the Code's preamble, and are intended to serve the "flexibilization and self-regulation of German company constitutions".

Declaration of Compliance

In December 2006, the Executive and Supervisory Boards of Masterflex AG declared that, since the last Declaration of Compliance of December 2005, the recommendations of the Code as amended and issued on 2 June 2005, as well as the recommendations issued by the German Corporate Government Code government commission amended on June 12, 2005, had been complied with (with the exceptions specified therein), and continued to be complied with (with the stated exceptions). This declaration is permanently available to Masterflex AG shareholders online at http://www.masterflex.de/de/index.php?&node_id=21. All other Declarations of Compliance published to date are also available there.

Exceptions

4.2.3. Publication of the main features of the system of emoluments

The main features of the emoluments system, as well as the concrete formulation of a share option plan, or comparable formulations for components with a long-term incentivization effect and risk character, are explained in the company's annual report, which can also be downloaded from the website.

5.3.1., 5.3.2. Supervisory Board

With three members, the Supervisory Board of Masterflex AG has been kept deliberately small to ensure that – as in the group as a whole – decisions can be taken efficiently, quickly and flexibly thanks to lean structures. The appointment of recognized experts to the Supervisory Board provides Masterflex AG with an important foundation, allowing the joint development of important strategies for successful business development on the basis of ongoing dialogue. Given this background, it would make little sense to establish sub-committees, which would also have to include at least three members of the Supervisory Board.

5.4.7. Individualized itemization of supervisory board emoluments

The emoluments received by members of the Supervisory Board only comprise fixed components and are specified in the articles of association.

7.1.2. Publication deadlines

The Code recommends a publication deadline of 45 days for quarterly reports and 90 days for the Annual Report. In this regard, we comply with the requirements of the German Securities Trading Act as amended by the German Transparency Directive Transposition Act, as well as

the exchange regulations issued by the Frankfurt Securities Exchange. These stipulate publication within two or four months respectively.

7.1.4. Publication of subsidiaries' results

In this regard, the Code envisages that the individual results of subsidiaries for the previous fiscal year should be published in the financial statements. We deviate from this recommendation, choosing not to publish the results. Our subsidiaries are SMEs, and, in our view, their competitive position could be damaged by publication of their results.

The Declaration of Compliance and the German Corporate Governance Code can be viewed at any time by all interested parties in the Investor Relations section of our website www.masterflex.de.

The auditor informs the Supervisory Board, or inserts a note into the audit report, if – during the audit – s/he discovers matters which would invalidate the Declaration of Compliance issued by the Executive and Supervisory Boards in accordance with §161 of the German act governing corporations (AktG).

Key elements of Corporate Governance at Masterflex AG

The German act providing for improved investor protection requires increased compliance with corporate governance

The act providing for improved investor protection (AnSVG) entered force on October 30, 2004. Transposition of the EU Directive resulted in the laws governing insider trading, ad-hoc publicity and market manipulation being updated and harmonized at European level.

The Act, which also amended the German Securities Trading Act (WpHG), seeks to increase investor confidence in capital markets. Masterflex AG has taken all the steps necessary to comply with the new regulations in question. Employees of Masterflex AG were informed of the new rules governing insider trading, and the associated introduction of new events requiring publication. Masterflex AG has complied with its duty to maintain a register of insiders. This lists all individuals with regular or project-based access to insider information.

Efficient cooperation between the Executive and Supervisory Boards

We are firmly convinced that intensive ongoing dialogue between the Executive and Supervisory Boards forms the basis for successful corporate development. The Executive Board of Masterflex AG provides the Supervisory Board with regular, timely and comprehensive reports, both written and oral, on all issues relating to corporate planning and strategic development, as well as the way in which transactions are proceeding and the group's situation, including the risk situation and risk management issues. Any deviations in the course of business from previously formulated plans and goals are specifically explained, and the company's strategic direction is mutually agreed. Actions and transactions of fundamental significance are communicated to shareholders and the equity market in a timely fashion, thus ensuring transparency of decision-making processes throughout the year, and ensuring that all those involved in the equity market are adequately informed. Rules designed to avoid conflicts of interest are laid

down in the by-laws. Directors' and Officers' Liability Insurance has been taken out on behalf of Masterflex AG's Board and Supervisory Board members; the policy stipulates an excess. Due to the increased liability risk on foot of the AnSVG legislation, measures to ensure full documentation have been enhanced, as have the risk management procedures.

Compliance as a risk management focus

Responsible risk management is part of a company's good corporate governance. Therefore, in the context of its value-centered company management, Masterflex AG has developed a comprehensive risk management system to ensure that risks are detected at an early stage. The risk management system is continuously reviewed, developed and adapted to changing framework conditions. Details relating to risk management are explained in the Management Report.

Shareholder rights

Masterflex AG's shareholders exercise their rights, including their right to vote, at the AGM. Shareholders may either exercise their voting rights in the AGM themselves, or may appoint a proxy of their choice; alternatively, they may have their rights exercised by a company proxy bound by their instructions.

Openness and transparency in company communication.

We are particularly concerned to ensure that all shareholder groups receive timely, regular and simultaneous information. For this reason, we attach particular importance to publishing information on our website www.masterflex.de. This ensures that private shareholders and other capital market players can obtain regular information about our company. Such information also includes a financial calendar briefing interested parties on important dates and publications (e.g. Annual Report, quarterly reports, AGM).

We offer all shareholders and interested parties the option of subscribing to an electronic newsletter providing ongoing information on current developments within the group, important events, product launches, ad-hoc company notifications and press reports. The financial and trade press are also regularly briefed by means of press releases, press conferences and interviews. Press releases can also be accessed via our website.

Increased transparency as a result of the new Transparency Directive

The Transparency Directive Transposition Act (TUG) took effect on January 20, 2007. As the name implies, this legislation is intended to further increase transparency and, in particular, improve the international comparability of financial statements. The following items are relevant to Masterflex AG:

1. There are new reporting thresholds for securities transactions. The new lower reporting threshold is 3 percent (hitherto 5 percent), and there are other thresholds at 15, 20 and 30 percent. Options and own shares are now also subject to compulsory reporting.
2. There are expanded publication obligations. An abbreviated interim management report must be prepared in respect of the half-yearly report.

3. There are new rules governing the dissemination of company news. Such news must now be disseminated throughout Europe. In addition, notifications relevant to the capital markets (including ad-hoc notifications, voting rights notifications, financial reports and notifications regarding consequential admission duties, including the AGM and dividend payments) must be reported to the Register of Companies established on January 1, 2007 (www.unternehmensregister.de)

Notifiable securities transactions on the Masterflex AG website

Upon entry into force of the Fourth Act governing Promotion of the Financial Market, on July 1, 2002, the members of the Executive and Supervisory Boards, as well as their spouses, must – pursuant to §15 a of the German Securities Trading Act – report the acquisition/sale of their own shares, as well as securities transactions related to Masterflex shares (e.g. the acquisition or sale of option certificates). Following the entry into force of the German act providing for Improved Investor Protection in the autumn of 2004, the circle of individuals with a notification duty was expanded. Now, those individuals with regular access to insider information and the power to make significant business decisions, as well as legal and natural persons who are closely associated with Executive Board or Supervisory Board members, must also report securities transactions.

Such transactions are published online on the Masterflex website in the Investor Relations section under "Directors' Dealings". The following reportable transactions were carried out during 2006:

Date	Person with notification obligation	Number of shares	Course/price in €	Total volume in €
30.05.2006	Brigitte Herzog	3,200	26.57	85,024

Remuneration report

Masterflex AG has three Executive Board members and three Supervisory Board members.

The remuneration of Executive Board members comprises annual emoluments with a fixed and a variable component. The criteria for assessing the appropriateness of the remuneration include the duties of each Executive Board member, his/her personal performance, the company's success, and the prospects for the future.

The fixed component is paid monthly. Payment of the performance-related remuneration will be made during the subsequent fiscal year, but provision was made for this during the previous fiscal year. The variable portion, in the form of a bonus, depends on the development of the group EBIT.

In addition to their fixed emoluments, Executive Board members received additional benefits-in-kind such as the private use of a company car and accident insurance cover. In addition, post-contractual competition restraints have been agreed with the Board members, together with the usual waiting time allowances. No other agreements have been concluded.

The total remuneration of the Executive Board during the 2006 calendar year was € 525,000 (previous year: € 501,000).

	Fixed 2006 EUR thou.	Performance-related remuneration 2006 EUR thou.	Total 2006 EUR thou.
Chairman of the Board, Mr. Detlef Herzog	270	0	270
Board member, Mr. Ulrich Wantia	191	0	191
Board member, Dr. Andreas Bastin (since Dec. 1, 2006)	11	0	11
Board member, Mrs. Hiltrud Mütterich (till Dec. 8, 2004)	53	0	53
Total	525	0	525

No performance-related remuneration was paid during the 2006 fiscal year. Due to a post-contractual restraint on competition, the former Executive Board member, Ms. Hiltrud Mütterich, received a waiting allowance of € 53,000 up to April 30, 2006.

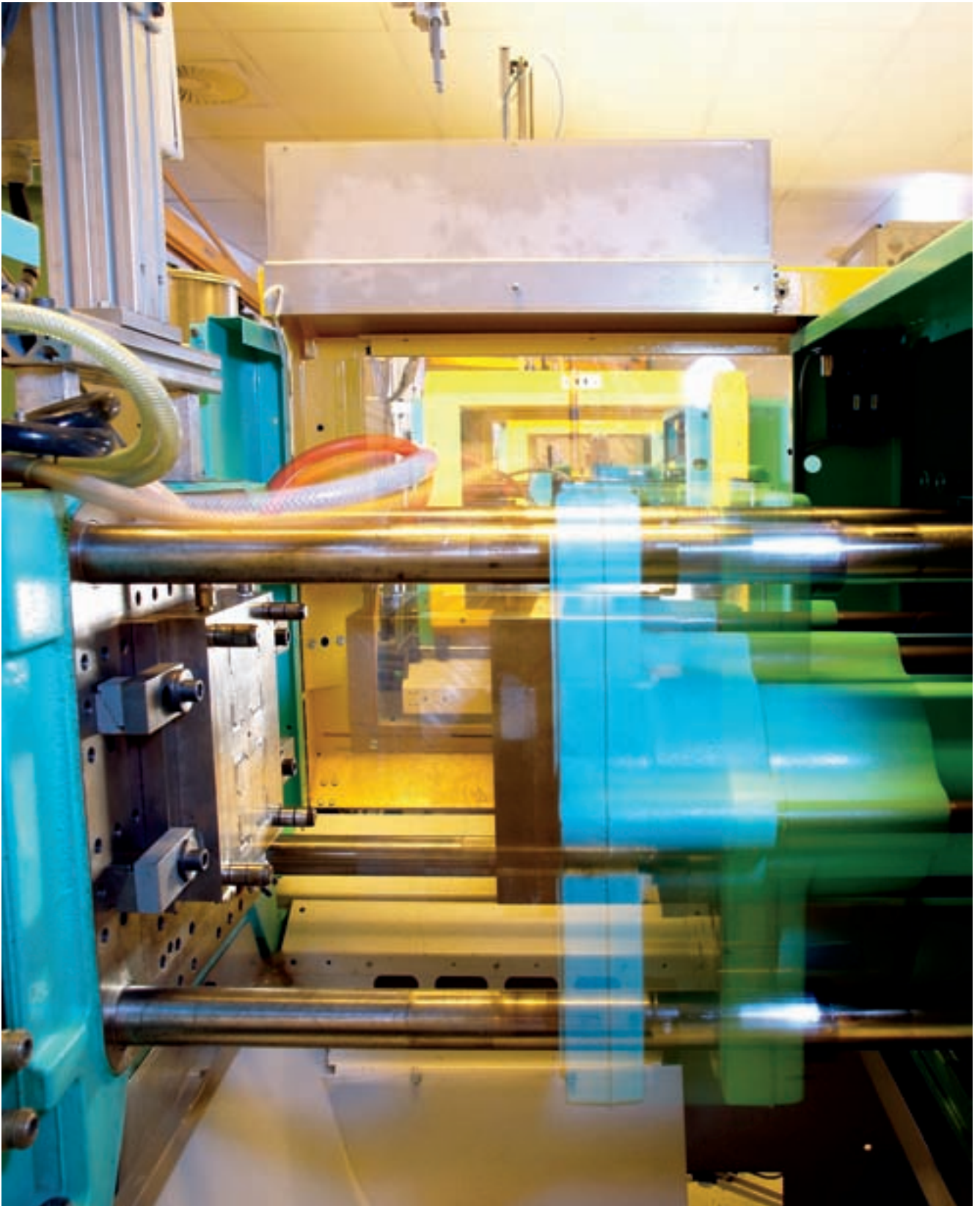
Remuneration of Supervisory Board members is provided for in the articles of association, and specified at the AGM. The remuneration is determined by the duties and responsibilities of the Supervisory Board members.

Remuneration of the Supervisory Board members currently only comprises fixed components. The AGM may provide for variable remuneration, but has hitherto not availed of this option. The fixed remuneration sum is paid after the expiry of each fiscal year.

The Chairman of the Supervisory Board receives twice the standard remuneration, while his/her deputy receives one-and-a-half times the standard remuneration. Supervisory Board members who have only been on the Supervisory Board for part of a fiscal year receive their remuneration on a pro-rata basis. The remuneration paid to Supervisory Board members for services provided personally is published as required by law.

As a whole, members of the Supervisory Board received emoluments totaling € 32,000 during 2006.

	2006 EUR thou.	2005 EUR thou.
Chairman of the Supervisory Board, Mr. Friedrich-Wilhelm Bischooping	14	14
Deputy Chairman of the Supervisory Board, Professor Detlef Stolten	11	11
Supervisory Board member, Professor Paulus Cornelis Maria van den Berg	7	7
Total	32	32





SOMETIMES, *everything depends on you having a good connection.*



CONSOLIDATED FINANCIAL STATEMENT



Consolidated Balance Sheet

Assets		December 31, Notes 2006 EUR thou.	December 31, 2005 EUR thou.
A. NONCURRENT ASSETS			
I.	Intangible assets	20 28,343	32,716
II.	Property, plant and equipment	20 25,746	23,221
III.	Long-term investments	20 1,215	1,315
IV.	Deferred tax assets	17 1,799	709
		57,103	57,961
B. CURRENT ASSETS			
I.	Inventories	21 23,771	20,573
II.	Prepaid expenses	760	743
III.	Trade accounts and notes receivable	22 24,467	12,665
IV.	Income tax refund claims	1,199	995
V.	Cash and bank balances	5,419	4,895
		55,616	39,871
Total Assets		112,719	97,832

Equity and liabilities		Notes	December 31, 2006 EUR thou.	December 31, 2005 EUR thou.
A. SHAREHOLDERS' EQUITY				
I.	Consolidated equity	23-26	30,875	30,606
II.	Minority interest	27	645	434
	Total equity		31,520	31,040
B. NONCURRENT LIABILITIES				
I.	Provisions	28	1,320	1,289
II.	Financial liabilities	29	28,191	25,783
III.	Deferred income	31	2,814	2,616
IV.	Other noncurrent liabilities	30	2,925	3,016
V.	Deferred tax liabilities	17	2,283	2,444
			37,533	35,148
C. CURRENT LIABILITIES				
I.	Provisions	28	3,833	3,109
II.	Financial liabilities	29	18,901	14,327
III.	Deferred income	31	221	233
IV.	Income tax liabilities	30	1,511	1,395
V.	Other current liabilities		19,200	12,580
			43,666	31,644
Total Equity and liabilities			112,719	97,832

Consolidated Income Statement

		December 31, 2006	December 31, 2005
	Notes	EUR thou	EUR thou
1. Revenue	8	115,706	87,773
2. Changes in inventories of finished goods and work in progress		561	1,164
3. Work performed by the enterprise and capitalized		959	1,066
4. Other operating income	9	3,276	4,203
		120,502	94,206
5. Cost of materials	10		
Cost of raw materials and consumables used and of goods purchased and held for resale		-52,188	-38,072
Cost of purchased services		-2,935	-2,565
		-55,123	-40,637
6. Staff costs			
Wages and salaries		-22,242	-17,635
Social security contributions, retirement and other benefit costs		-4,617	-3,674
		-26,859	-21,309
7. Depreciation and amortization expense	11, 12	-7,096	-2,321
8. Other operating expenses	13	-21,281	-17,676
9. Non-operating expenses	15	-731	0
10. Income from investments	16	1,526	14
11. Other interest and similar expenses	16	351	501
12. Write-down of current securities	16	0	-662
13. Interest and similar expenses	16	-4,106	-2,397
14. Net profit from ordinary activities		7,183	9,719
15. Income tax expense	17	-3,500	-3,655
16. Deferred taxes	17	1,252	340
17. Other taxes		-212	-246
18. Income attributable to minority interests		-245	-193
19. Net profit		4,478	5,965

Consolidated Statement of Changes in Equity

	Issued capital	Share premium	Retained earnings (retained profits brought forward)	Revaluation reserve	Exchange differences	Minority interest	Total
	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.
Notes	23	24		25	26	27	
Equity at Dec. 31, 2004	4,411	18,519	7,360	-671	-1,580	809	28,848
Net profit/result minority interest in earnings	0	0	5,965	0	0	193	6,158
Changes in fair values of financial instruments	0	0	0	167	0	0	167
Currency translation gains/losses from translation of foreign financial statements	0	0	0	0	1,008	0	1,008
Sale of treasury shares	50	1,200	204	0	0	0	1,454
Purchase of own shares	-95	-2,198	-308	0	0	0	-2,601
Dividend distributions	0	0	-3,498	0	0	-120	-3,618
Change due to equity decreases	0	0	0	0	0	-448	-448
Other changes	0	0	72	0	0	0	72
Equity at Dec. 31, 2005	4,366	17,521	9,795	-504	-572	434	31,040
Net profit/result minority interest in earnings	0	0	4,478	0	0	245	4,723
Changes in fair values of financial instruments	0	0	0	85	0	0	85
Currency translation gains/losses from translation of foreign financial statements	0	0	0	0	-801	0	-801
Sale of treasury shares	0	0	0	0	0	0	0
Purchase of own shares	0	0	0	0	0	0	0
Dividend distributions	0	0	-3,493	0	0	-100	-3,593
Change due to equity decreases	0	0	0	0	0	50	50
Other changes	0	0	0	0	0	16	16
Equity at Dec. 31, 2006	4,366	17,521	10,780	-419	-1,373	645	31,520

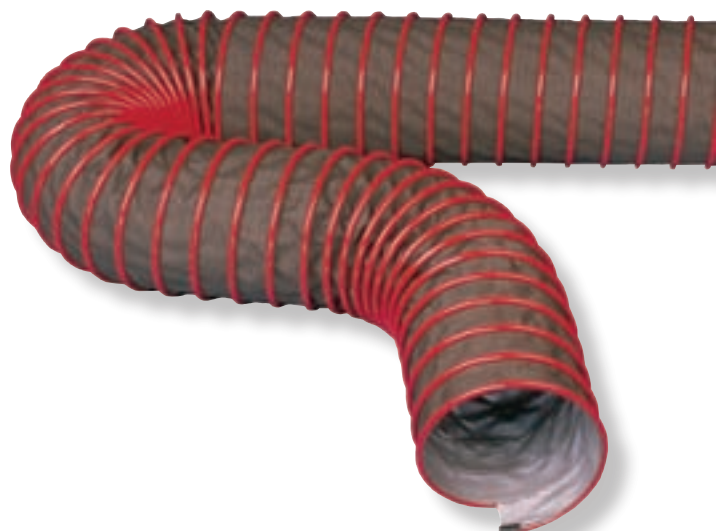
Consolidated Cash Flow Statement

	2006 EUR thou.	2005 EUR thou.
Result for the accounting period (annual surplus) before taxes, interest expenses and financial yields	8,955	11,824
Payment of earning taxes	-3,284	-3,655
Depreciation and amortization expense	7,096	2,321
Change in provisions	871	1,082
Other non-cash expenses/income and gain/loss on disposal of noncurrent assets	-705	-1,027
Changes in inventories	-3,026	-7,004
Changes in trade receivables and other assets	-11,934	2,914
Changes in trade payables and other equity and liabilities	8,886	-1,903
Net cash from operating activities	6,859	4,552
Proceeds from asset disposals	135	1,842
Payments to acquire noncurrent assets	-6,200	-13,757
Payments to acquire consolidated subsidiaries	-101	-7,922
Net cash used in investing activities	-6,166	-19,837
Proceeds from additions to equity (capital increases, sales of treasury shares)	0	1,454
Dividends paid to owners and minority interests (dividends, acquisition of treasury shares)	-3,527	-6,672
Interest and dividend receipts	1,828	515
Interest expenditure	-4,028	-2,397
Proceeds from securities/term deposits	60	9,500
Payments to acquire securities/term deposits	11,559	12,938
Repayment of borrowings	-5,260	-4,264
Net cash from/used in financing activities	632	11,074
Net change in cash and cash equivalents	1,325	-4,211
Changes in cash and cash equivalents due to exchange rates and other factors	-801	1,008
Cash and cash equivalents at beginning of period	4,895	8,098
Cash and cash equivalents at end of period	5,419	4,895

Explanation report in attachment 6



NOTHING IS MORE SATISFYING THAN MAKING
the seemingly impossible possible.



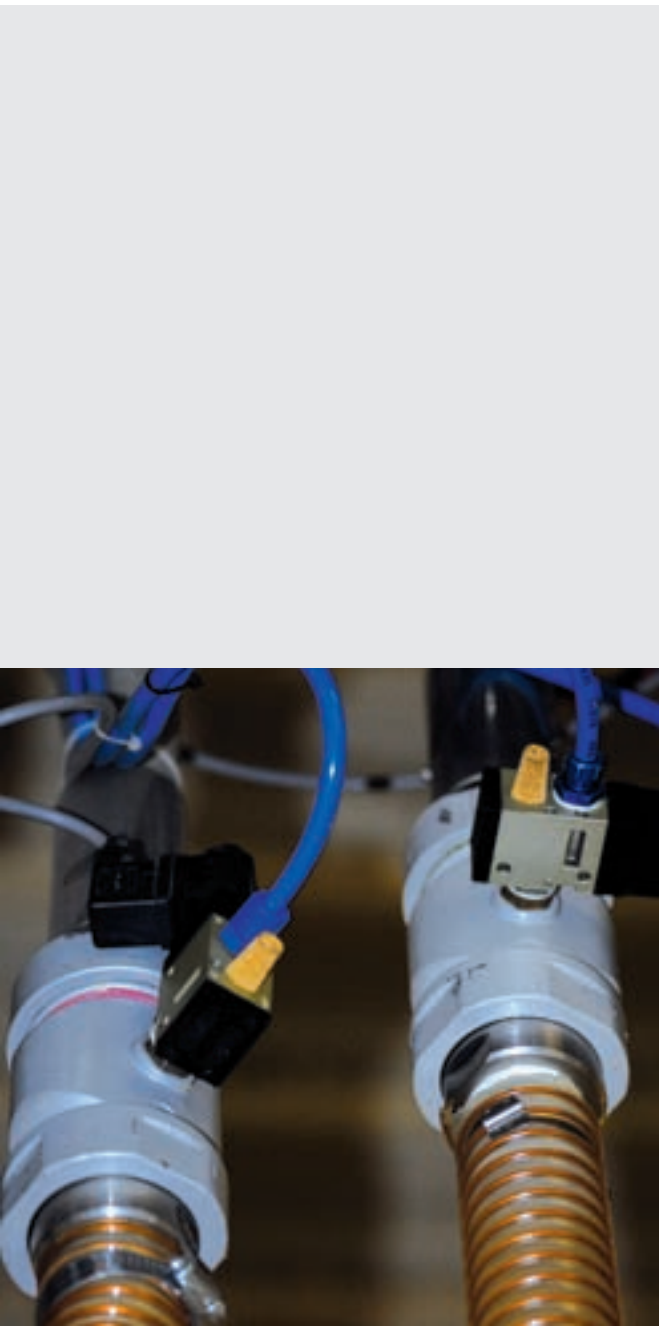
NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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 315a of the Handelsgesetzbuch (HGB – German Commercial Code), the preparation of consolidated financial statements in accordance with the IFRSs (International Financial Reporting Standards) exempts the Company from its duty to prepare consolidated financial statements in accordance with the provisions of German commercial law.

The single-entity financial statements for the companies included in the consolidation (see Note 4), which were prepared in accordance with national accounting standards, were adjusted to comply with the IFRSs. In the fiscal year, the necessary changes mainly relate to the measurement of noncurrent assets, including an assessment of whether leased assets must be capitalized, the recognition of internally generated intangible assets, fair value measurement of derivatives, the recognition of deferred tax assets from tax loss carryforwards, the measurement of deferred tax assets and liabilities arising from temporary differences, the accounting for 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. Important information on comparability

Unlike the previous year, during the 2006 fiscal year the companies Perm Motor GmbH, Masterflex Cesko s.r.o. and DICOTA Trading Shanghai were included for consolidation. Perm Motor GmbH is a 66.7 percent subsidiary of Masterflex Brennstoffzellentechnik GmbH; Masterflex Cesko s.r.o. is a 100 percent subsidiary of Masterflex A; and DICOTA Trading Shanghai is a 100 percent subsidiary of DICOTA GmbH (see Section 4).

On foot of a contract dated September 29, 2006, Masterflex Brennstoffzellentechnik GmbH acquired 66.7 percent of the nominal capital of Perm Motor GmbH for € 95,000 plus ancillary acquisition costs of € 6,000. The shares in the nominal capital correspond to the voting rights. The purchase price was paid in cash. In the context of the purchase price allocation at the time the share was acquired, adjustments in the assets area were carried out totaling € 322,000; these exceeded the book value of € 54,000. The latent tax deferrals increased correspondingly. No active differential sum materialized. The valuation of intangible assets was limited to that amount which would not generate negative goodwill. The minority shareholders' share of the 2006 annual result allocated to them during the 2006 fiscal year was € -7,000.

Masterflex Cesko s.r.o. was established on November 23, 2006 and has not yet started trading.

DICOTA Trading Shanghai was established on October 1, 2006 and started trading on October 1, 2006.

3. Principles of consolidation

Capital consolidation

Capital consolidation must be carried out in the context of full consolidation for company acquisitions over which a controlling influence is exerted. In this regard, the acquisition costs for the acquired shares are offset against the revalued equity of the subsidiary at the time of acquisition, taking into account the participation quota. The positive differential sums arising from the offsetting are activated as goodwill. Negative differential sums are realised directly as income, and are shown as "other operating income".

In each case, the amount recognized for the equity investment and the remeasured equity of the subsidiaries as of the actual acquisition date were used as the basis for determining the amount of goodwill. Due to the adoption of IFRS 3, Business Combinations, in conjunction with IAS 36, Impairment of Assets, and IAS 38, Intangible Assets, the company has ceased to amortize goodwill effective January 1, 2005.

Minority interests in the equity of the subsidiaries are recognized as of the closing dates and presented as a Minority interest caption under equity. This also reflects the fact that, in accordance with the IFRSs, 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. In accordance with IFRS, minority interests in consolidated net profit were reported separately in the income statement, before consolidated net profit for the year.

Consolidation of intercompany balances

During the consolidation of intercompany liabilities, receivables and payables between companies included in consolidation were eliminated.

Interim profits

Interim profits were eliminated in the fiscal year.

Expenditure and income consolidation

In the context of expenditure and income consolidation, internal sales and other earnings within the group have been eliminated or offset against the corresponding expenditure.

The consolidated profit-and-loss statement takes account of all included companies over a 12-month period. This does not include the holding in Perm Motor GmbH, which has been included in the consolidation since October 1, 2006, the holding in Masterflex Cesko s.r.o. included in the consolidation since November 29, 2006, or the holding in DICOTA Trading Shanghai included in the consolidation since October 1, 2006.

Conversion of foreign financial statements

In the consolidated financial statement, balance sheet items were converted using the exchange rate applicable on the recording date, while items in foreign subsidiaries' income statements were converted using the average exchange rate over the fiscal year. Subsidiaries' equity was converted using historic exchange rates (modified closing rate method). Currency conversion differences were included directly in the equity.

4. Consolidated Group

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

When compared with the previous year, the group of companies to be consolidated was expanded to include Perm Motor GmbH, Masterflex Cesko s.r.o. and DICOTA Trading Shanghai. The dates of acquiring control over, and thus the dates of incorporation into the consolidated financial statements of the above-referenced subsidiaries correspond to the respective contract signing dates.

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

Masterflex S.A.R.L. and Masterflex Technical Hoses Ltd. produce and distribute high-tech hose and connecting systems for industrial applications in France/Southern Europe and Great Britain respectively.

Flexmaster USA, Inc. operates in 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.

Masterflex Bulgaria Eood exclusively manufactures certain types of high-tech hose, which are then distributed via Group companies.

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

Matzen & Timm GmbH produces and distributes special high-temperature hoses for the aerospace, automotive and engineering industries.

Masterflex Cesko s.r.o. only produces specific high-tech hose systems which are distributed solely via companies within the group.

Angiokard Medizintechnik GmbH & Co. KG. This company produces and distributes advanced injection molded parts made of plastic for use in medical technology applications. Medic Health Care GmbH is a wholly-owned subsidiary of Angiokard Medizintechnik GmbH & Co. KG and distributes medical products, in particular surgery kits. DICOTA GmbH is one of the leading suppliers of mobile office systems in Europe and Asia. It is the parent of a subgroup encompassing five second-tier subsidiaries in the above regions.

Angiokard BV is a wholly-owned subsidiary of Angiokard Medizintechnik GmbH & Co. KG. and distributes medical products.

Fleima Plastic GmbH is a wholly-owned subsidiary of Angiokard Medizintechnik GmbH & Co. KG. This company produces and distributes technically sophisticated plastic injection moulded parts which are then used in medical technology.

Medic Health Care GmbH is a wholly-owned subsidiary of Angiokard Medizintechnik GmbH & Co. KG and distributes medical products, most notably operation sets.

DICOTA Asia Ltd. is a wholly-owned subsidiary of DICOTA GmbH and distributes mobile office systems in Asia.

DICOTA Far East Ltd. is a wholly-owned subsidiary of DICOTA GmbH and distributes mobile office systems in the East Asia region.

DICOTA Eastern Europe s.r.o. is a 75 percent subsidiary of DICOTA GmbH and distributes mobile office systems in eastern Europe.

DICOTA UK Ltd. is a wholly-owned subsidiary of DICOTA GmbH and distributes mobile office systems in Great Britain.

DICOTA France S.A.R.L. is a wholly-owned subsidiary of DICOTA GmbH and distributes mobile office systems in France.

DICOTA Trading Shanghai is a wholly-owned subsidiary of DICOTA GmbH and distributes mobile office systems in the People's Republic of China.

Subra International Ltd. is a wholly-owned subsidiary of DICOTA GmbH and operates as a buyer of mobile office systems for the DICOTA companies.

SURPRO Verwaltungsgesellschaft mbH is the parent of a sub-group, holding and managing the equity investments in the entities SURPRO Oberflächenbeschichtungs- und Beratungszentrum GmbH, SURPRO Metalltechnik GmbH and TEKOV-SURPRO s.r.o. (Czech Republic).

SURPRO Oberflächenbeschichtungs- und Beratungszentrum GmbH is a wholly owned subsidiary of SURPRO Verwaltungsgesellschaft mbH that produces and distributes superior metal-working products and inert metal coatings.

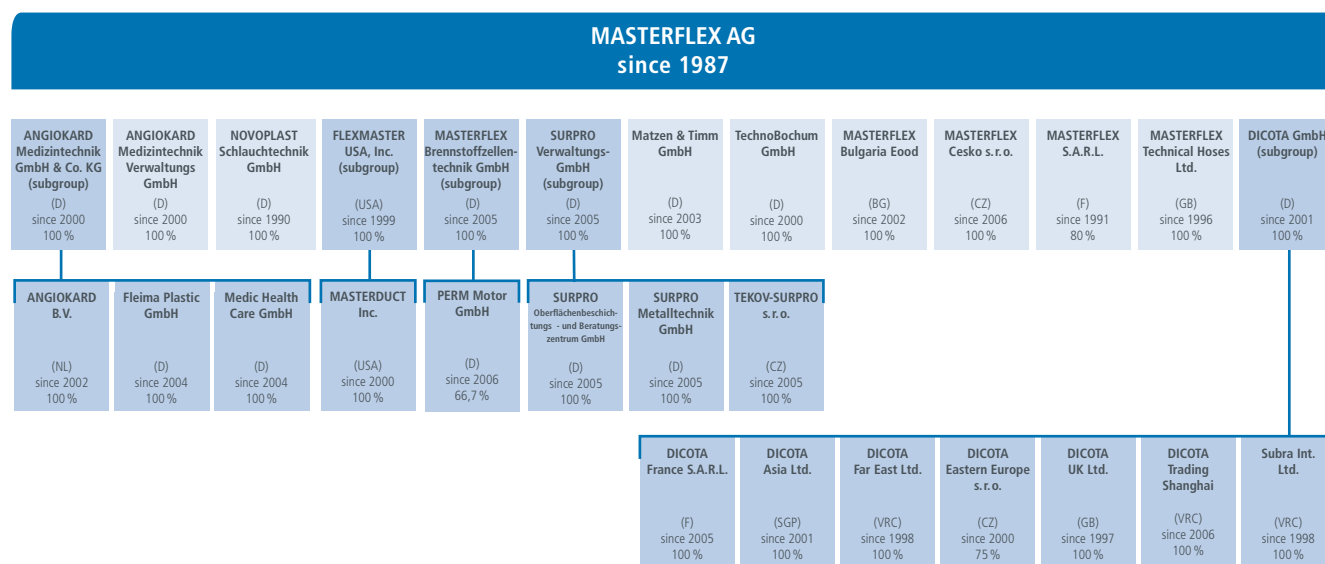
SURPRO Metalltechnik GmbH is a wholly owned subsidiary of SURPRO Verwaltungsgesellschaft mbH that produces and distributes superior metal-working products and inert metal coatings.

TEKOV SURPRO s.r.o. is a wholly owned indirect subsidiary of SURPRO Verwaltungsgesellschaft mbH, producing and distributing superior metal-working products.

Masterflex Brennstoffzellentechnik GmbH is a wholly owned subsidiary of Masterflex AG that develops, produces and distributes fuel cell systems and allied technologies.

Perm Motor GmbH is a 66.7 percent subsidiary of Masterflex Brennstoffzellentechnik GmbH and develops, produces and distributes electric motors, generators and electric drives.

The Group structure is as follows:



The subsidiaries named above and listed in the following table were fully consolidated as of December 31, 2006:

Name	Domicil		Interest held by Masterflex %
Novoplast Schlauchtechnik GmbH	D	Halberstadt	100
Masterflex S. A. R. L.	F	Beligneux	80
Masterflex Technical Hoses Ltd.	GB	Oldham	100
Flexmaster USA, Inc.*	USA	Houston	100
· Masterduct Inc.	USA	Houston	100*
Masterflex Bulgaria Eood	BG	Sofia	100
TechnoBochum GmbH	D	Bochum	100
Masterflex Cesko s. r. o.	CZ	Plana	100
Matzen & Timm GmbH	D	Norderstedt	100
Angiokard Medizintechnik Verwaltungs GmbH	D	Friedeburg	100
Angiokard Medizintechnik GmbH & Co. KG*	D	Friedeburg	100
· Angiokard B. V.	NL	Hillegom	100*
· Fleima Plastic GmbH	D	Mörtenbach	100*
· Medic Health Care GmbH	D	Friedeburg	100*
DICOTA GmbH*	D	Bietigheim-Bissingen	100
· DICOTA Asia Ltd.	SGP	Singapur	100*
· DICOTA Far East Ltd.	VRC	Hong Kong	100*
· DICOTA Eastern Europe s. r. o.	CZ	Prag	75*
· DICOTA UK Ltd.	GB	London	100*
· Subra International Ltd.	VRC	Hong Kong	100*
· DICOTA France S. A. R. L.	F	Paris	100*
· DICOTA Trading Shanghai	VCR	Shanghai	100*
SURPRO Verwaltungsgesellschaft mbH*	D	Wilster	100
· SURPRO Oberflächenbeschichtungs- und Beratungszentrum GmbH	D	Wilster	100*
· SURPRO Metalltechnik GmbH	D	Wilster	100*
· TEKOV-SURPRO s. r. o.	CZ	Plana	100*
Masterflex Brennstoffzellentechnologie GmbH*	D	Herten	100
· PERM Motor GmbH	D	Breisach	66,7*

*) = Subgroup

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

5. Accounting policies

For the fiscal year starting January 1, 2005, the Consolidated Financial Statements are presented in accordance with IAS 1 (2004). With respect to deferred taxes as well as Group-specific items related to the presentation of equity, the above-referenced provisions were supplemented by the corresponding IFRS requirements. With respect to equity, this relates in particular to unrealized gains and losses on noncurrent financial assets, which are recognized as a separate item under equity in accordance with IAS 39. Internal development costs are reported separately as part of noncurrent assets.

The income statement in accordance with IFRS was prepared according to the total cost method and classified in accordance with IAS 1. In addition, the deferred taxes and minority interests are reported separately.

a) Currency translation

Currency translation

Transactions denominated in foreign currencies were translated into the relevant local currency at the rate prevailing on the transaction 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 (EUR) on the basis of the functional currency concept of 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, 2006	EUR
1 Pound Sterling (£)	1.4890
1 US Dollar (\$)	0.7585
1 Bulgarian Leva (LEV)	0.5113
1 Czech Krone (CZK)	0.0364

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, 2006	EUR
1 Pound Sterling (£)	1.4656
1 US Dollar (\$)	0.7957
1 Bulgarian Leva (LEV)	0.5113
1 Czech Krone (CZK)	0.0353

Currency translation differences are recognized directly in equity as currency translation adjustments.

Foreign currency hedges

Loans to finance a foreign equity investment were taken out in the local currency. In accordance with IAS 21, the resulting translation differences are recognized directly in equity.

In accordance with IAS 12, related taxes were also recognized directly in equity. In the mobile office systems segment, currency risks were hedged by purchasing USD. Derivatives are carried at fair value.

b) Effect of tax rules

In accordance with IFRS, carrying amounts adopted solely for tax purposes are not recognized in the consolidated financial statements.

c) Intangible assets

Intangible assets consist of goodwill from three individual companies and from business combinations, purchased software and licenses, as well as internally generated intangible assets to be accounted for in accordance with IAS 38. In accordance with IFRS 3, goodwill was amortized over 20 years until December 31, 2004, if the companies were included in the consolidated Group on March 31, 2004. As of January 1, 2005, goodwill is tested for impairment and only impairment losses are recognized. This treatment applies to companies that were acquired on or after March 31, 2004. Software is recognized at cost and amortized over a useful life of four years using the straight-line method. Licenses are also capitalized at cost and amortized over their individual useful lives using the straight-line method. Research and development costs that do not meet the criteria for capitalization under IAS 38 are expensed as 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 production of internally produced plant and equipment comprises all specific costs directly attributable to the asset. Borrowing costs are not capitalized. No write-downs were taken. Gains or losses from the disposal of noncurrent assets are reported 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
Software	4 years	straight-line
Licenses and similar rights	over contractual period	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

As of January 1, 2005, goodwill is no longer amortized and is instead subjected to an impairment test in accordance with IFRS 3, which may result in the recognition of impairment losses if appropriate.

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 net of any income tax effects are recognized directly in equity in a separate Revaluation reserve account.

g) Inventories

Inventories comprise raw materials and consumables, finished goods, work in progress 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 taken for inventory risks resulting from excessive storage periods or impaired marketability.

h) Trade receivables

Trade receivables are recognized at their principal amount and measured after adjustment for all identifiable risks. Specific allowances for doubtful accounts were charged against 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 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 principal 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 and 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 incidental 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 that are subject to the lease are capitalized at fair value or at the lower present value of the minimum lease payments and – to the extent that they involve buildings – depreciated over the course of their customary useful lives using the straight-line method.

l) Prepaid expenses

Prepaid expenses were recognized for expenditures representing expenses for subsequent periods. The main item is the discount on a borrower's note loan.

m) Income tax liabilities

In the case of German companies, income tax liabilities comprise outstanding obligations in relation to trade tax, corporate income tax and the solidarity surcharge. In the case of the foreign companies included in the consolidation, they encompass 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 arising 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 comprise 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) Financial liabilities

Liabilities vis-à-vis financial institutions are recognized at their settlement or redemption amount and are classified as financial liabilities.

p) Trade payables

Trade payables are recognized at their redemption amount and are classified as other current liabilities.

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.

r) Revenue recognition

Income for a fiscal year is recognized – 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 are incurred.

t) Financial instruments

The financial instruments recorded on the balance sheet of Masterflex AG comprise in particular cash and cash equivalents, available-for-sale securities, trade receivables, trade payables, and bank loans and overdrafts. Financial instruments held for trading, and in particular derivatives, are carried at fair value, with any changes in fair value being recognized in income. Available-for-sale securities are carried at fair value, with unrealized market value gains and losses recognized separately in equity in the Revaluation reserve item. The Board classifies the financial instruments at the time of their acquisition and reviews this classification at every balance sheet date. Securities held are reported under both 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 at a number of financial institutions and focuses in its risk management strategy on minimizing its dependence on any single financial 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 taxes

In accordance with IAS 12, deferred tax assets and liabilities are recognized according to the liability method 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 (temporary differences). Deferred taxes are recognized on the probable amount of tax payable or recoverable in future fiscal years. Where German companies are concerned, the 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 it is probable according to projections that the companies concerned will generate sufficient future taxable profits. The measurement is based on the tax rate of the Group company concerned.

Deferred tax assets and liabilities are offset where they relate to the same fiscal 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 reversed to income over the life of the asset. IAS 20 does not allow such grants to be recognized immediately as income.

w) Use of estimates and assumptions

Preparing consolidated financial statements in accordance with IFRS requires that, for certain items, assumptions are made and estimates given which have an impact on how they are carried in the balance sheet or the consolidated income statement. The actual figures may deviate from these assumptions and estimates.

6. Cash flow statement

The consolidated cash flow statement has been prepared in accordance with IAS 7 (Cash Flow Statements). It is broken down 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 in hand and other bank balances:

The formation of Masterflex Cesko s.r.o. did not lead to any material cash outflows or inflows. Perm Motor GmbH was acquired by the purchase of shares. The value of the acquired net assets amounted to EUR 127 thousand. The net assets at the date of acquisition comprised noncurrent assets of EUR 376 thousand and current assets of EUR 320 thousand less provisions and liabilities of EUR 569 thousand. Other assets included acquired cash and cash-equivalents totaling EUR 24 thousand, which were deducted from the cost of acquisition of EUR 101 thousand. The net assets were paid from the proceeds of a new bank loan.

The Group's stock of instruments of payment rose by € 524 thousand.

7. Segment reporting

In accordance with IAS 14, segment reporting is primarily based on product-related lines of business. Accordingly, the Masterflex Group is now divided into the following four segments or lines of business:

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

The oldest line of business (HTS) focuses on producing high-tech hose systems made of high-quality special materials such as polyurethane. Applications for these hose systems can be found in a range of industrial sectors (e.g. the chemical and automotive industries, environmental protection, the food sector etc.). The 'HTS – High-Tech Hose Systems' segment also includes operations in the Fuel Cell Technology sector, which – in material terms – is currently only of subordinate significance.

In 1996, the company was the first to use polyurethane in the medical technology sector. At the beginning of 2000, the Medical Technology line of business (MZT) was strategically expanded to include a holding in Angiokard Medizintechnik GmbH & Co. KG. In addition to individual medical components, this segment also produces and distributes complete treatment sets for the radiology, cardiology and anaesthesiology sectors. During the 2004 fiscal year, the value-added chain in the medical technology segment was expanded and enhanced by the acquisition of Fleima Plastic GmbH.

The segment Advanced Material Design (AMD) comprises the Group's latest fields of operation. It offers expertise especially in surface machining for the technology sector and electroplating for functional coatings.

The segment Mobile Office Systems (MOS) comprises mainly DICOTA GmbH, Bietigheim-Bissingen and its subsidiaries. The business activities of the DICOTA group extend primarily to the distribution of computer bags and cases for transporting notebooks and office systems.

Segment information by business unit

	HTS High- Tech-Hose- Systems	MT Medical Techno- logy	AMD Advanced Material Design	MOS Mobile Office Systems	Segment- aggregate	Recon- ciliation	Group
2006	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.
Revenue	41,372	17,886	18,584	37,864	115,706	0	115,706
Earnings (EBIT)	9,175	-4,031	2,115	3,978	11,237	-1,094	10,143
Assets	42,477	17,969	15,883	26,818	103,147	9,572	112,719
Liabilities	11,254	2,218	3,917	8,659	26,048	55,152	81,200
Investments in property, plant and equipment and intangible assets	5,543	735	729	739	7,746	0	7,273
Depreciation and amortization	1,696	546	547	252	3,041	0	3,041
Unscheduled good will amortization	0	4,055	0	0	4,055	0	4,055

2005	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.
Revenue	35,982	16,751	6,233	28,807	87,773	0	87,773
Earnings (EBIT)	8,558	5	1,396	3,148	13,107	-843	12,264
Assets	32,947	21,529	17,082	18,751	90,309	7,523	97,832
Liabilities	6,115	2,520	7,224	2,392	18,251	48,541	66,792
Investments in property, plant and equipment and intangible assets	4,670	510	573	102	5,855	0	5,855
Depreciation and amortization	1,492	510	234	85	2,321	0	2,321
Unscheduled good will amortization	0	0	0	0	0	0	0

The segment results are represented using the indicator EBIT (earnings before interest and taxes), adjusted for the segment expenses and segment income excluded in accordance with IAS 14. There were no material noncash expenditures.

Segment assets primarily comprise all operating assets, such as intangible assets including goodwill, property, plant and equipment, inventories, receivables, other current assets and prepaid expenses. In accordance with IAS 14, noncurrent financial assets, intersegment receivables, recoverable taxes and deferred tax assets are not included in the calculation. No write-downs were taken on either intangible assets or 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 reflects amounts arising from different definitions of the contents of the segment items compared to the corresponding Group items.

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

Earnings (EBIT)	EUR	10,143 thousand
Non-operative expenses	EUR	-731 thousand
Interest and similar income	EUR	351 thousand
Income from securities/holdings	EUR	1,526 thousand
Write-downs of current securities	EUR	0 thousand
Interest and similar expenses	EUR	-4,106 thousand
Net profit from ordinary activities	EUR	7,183 thousand

Total equity and liabilities break down as follows:

Liabilities	EUR	81,199 thousand
Book equity	EUR	30,875 thousand
Adjustment items for shares held by other partners	EUR	645 thousand
Total equity and liabilities	EUR	112,719 thousand

Segment information by region

	Germany EUR thou.	EU EUR thou.	Rest of world EUR thou.	Segment aggregate EUR thou.	Reconciliation EUR thou.	Group EUR thou.
2006						
Revenue	64,642	27,624	23,440	115,706	0	115,706
Segment assets	77,195	12,707	14,599	104,501	9,573	112,719
Investments	7,403	95	248	7,746	0	7,273
2005	T €	T €	T €	T €	T €	T €
Revenue	48,058	23,072	16,643	87,773	0	87,773
Segment assets	69,714	9,336	11,971	91,021	6,811	97,832
Investments	5,226	413	216	5,855	0	5,855

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

8. Revenue

	2006 EUR thou.	2005 EUR thou.
Aggregate (external and intragroup) revenue	118,231	90,880
Elimination of intragroup revenue	2,525	3,107
Total revenue	115,706	87,773

9. Other operating income

Other operating income for the Group totaled:

	2006 EUR thou.	2005 EUR thou.
	3,276	4,203

Other operating income breaks down as follows:

	2006 EUR thou.	2005 EUR thou.
Gains on the disposal of assets	51	244
Income from the reversal of provisions	219	512
Income from a reduction of specific allowances for losses	49	342
Insurance proceeds	69	35
Income from the reversal of derred income items	269	243
Currency translation gains	1,687	1,656
Income from the sale of securities	0	564
Commissions	0	72
Rental income	21	23
Non-cash remuneration	77	103
Other	833	409
Total	3,276	4,203

10. Cost of materials

The cost of materials breaks down as follows:

	2006 EUR thou.	2005 EUR thou.
Cost of raw materials and consumables used	52,188	38,072
Cost of purchased services	2,935	2,565
Total	55,123	40,637

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

Depreciation and amortization expense breaks down as follows:

	2006 EUR thou.	2005 EUR thou.
Goodwill from business combinations	4,055	0
Other intangible assets and property, plant and equipment	3,041	2,321
Total	7,096	2,321

Unscheduled goodwill amortization amounting to EUR 4,055 thousand was expensed.

12. Goodwill amortization

Goodwill Jan. 1, 2006	EUR thou.	27,262
Change in companies included in the consolidation	EUR thou.	12
Additions	EUR thou.	597
Disposals	EUR thou.	2,268
Amortization	EUR thou.	4,055
Exchange differences	EUR thou.	17
Goodwill Dec. 31, 2006	EUR thou.	21,565

The initial consolidation of Perm Motor GmbH gave rise to goodwill of € 12,000 which was entered on the assets side in the form of intangible assets.

The application of IFRS 3 meant that the scheduled goodwill amortization was replaced by a test of recoverability, known as an impairment test.

In this regard, goodwill is assessed annually to ascertain any possible value reduction. If events or changed circumstances should occur which indicate a possible value reduction, this impairment test must also be carried out more frequently.

When assessing the recoverability of goodwill, the procedure within the Masterflex Group is to compare the residual book values of each cash generating unit with its respective recoverable amounts; this corresponds to a comparison between the higher value represented by the net sale price, or the fair value less costs to sell, and the value in use.

In those cases where the book value of the cash generating unit exceeds its recoverable amount, the difference constitutes a so-called impairment loss.

The recoverable amount is determined by ascertaining the use value using the discounted cash flow method. The free cash flow used to ascertain use values is determined on the basis of the medium-term planning carried out by management. These plans, in turn, are based on historical experience as well as on predictions of future market developments, taking into account any strategic and operational measures which have already been initiated to direct the development of the line of business in question. Moderately constant growth is assumed for the period following the detailed planning horizon.

Capital costs are calculated in the form of a weighted average of own and borrowed capital costs (WACC = Weighted Average Cost of Capital). The discounting rate used for the free cashflow forecast is based on a base interest rate of 4.25 percent plus a risk supplement.

The goodwill associated with Angiokard Medizintechnik GmbH & Co. KG arose as a result of the acquisition of shares in the company on December 23, 1999.

When carrying out the impairment test for the goodwill of Angiokard Medizintechnik GmbH & Co. KG, the planned free cashflow was calculated on the basis of the company's five-year plan and those of its affiliated cashflow-generating subsidiaries. Free cashflows arising after the planning period were calculated using a growth rate of 0.0 percent. The pre-tax weighted pre-tax average capital cost rate (the so-called WACC) used to discount the free cashflows is 8 percent. The WACC takes account of data from the German financial market, long-term German government bonds and the group's effective financing.

In recent years, Angiokard Medizintechnik GmbH & Co. KG has continuously increased its sales, thus asserting its leading market position in Germany. New markets abroad have been penetrated. However, in the past it has failed to achieve its result targets. For that reason, the results predicted for the next few years have been revised downwards. In addition, the future consequences of the German health reforms, which are currently uncertain, have been assessed as depressing the result, while the measures initiated to improve the company's earning power have been assessed as boosting the result.

Based on the premises stated above, together with new insights and the measures initiated as a result thereof, the impairment test was no longer able to substantiate the recoverability of the

goodwill. As a result, it was necessary to amortise the goodwill of Angiokard Medizintechnik GmbH & Co. KG as of December 31, 2006; this amortization amounted to € 4,055 million.

In respect of the other subsidiaries, impairment tests did not result in any amortization being posted.

Goodwill changes continued to be primarily due to adjustments carried out in respect of DICOTA GmbH and the SURPRO Group:

On August 18, 2005, Masterflex AG – through SURPRO Verwaltungsgesellschaft mbH – acquired 100 percent of the registered capital in three companies: SURPRO Oberflächenbeschichtungs- und Beratungszentrum GmbH, and SURPRO Metalltechnik GmbH and TEKOV-SURPRO s.r.o. (Czech Republic). The purchase contract provides for a possible purchase price adjustment subject to these companies' earnings in 2005 and 2006. The business results for the 2005 and 2006 fiscal year will not give rise to such a purchase price adjustment. The goodwill was reduced accordingly. The goodwill was adjusted accordingly.

There were differences of opinion between Masterflex AG and DICOTA GmbH's former shareholder regarding the interpretation of the purchase price increase clause in the share purchase contract dated February 10, 2005. On February 6, 2007, an agreement was reached which primarily stipulates that the purchase price will be retrospectively increased by € 327,000. This retrospective purchase price increase was paid in cash. Furthermore, the tax audit found that goodwill amounting to € 83,000 had to be entered in the balance sheet. The goodwill was adjusted accordingly.

The acquisition of subsidiaries during the fiscal year and prior to that, and/or the successive acquisition of holdings, resulted in the following (amortized) goodwill carrying amounts:

	EUR thou.
Novoplast GmbH	462
Flexmaster Inc.	1,488
TechnoBochum GmbH	768
Angiokard GmbH & Co. KG	4,671
Fleima Plastic GmbH	601
DICOTA GmbH	7,996
DICOTA France SARL	684
Matzen & Timm GmbH	233
SURPRO GmbH	6,478
Perm Motor GmbH	12
Total	23,219

13. Other operating expenses

Other operating expenses for the Group totaled:

	2006 EUR thou.	2005 EUR thou.
	21,281	17,676

Other operating expenses break down as follows:

	2006 EUR thou.	2005 EUR thou.
Premises expenses	2,581	2,161
Insurances	555	408
Selling expenses	9,886	7,829
Administrative expenses	2,812	2,698
Operating costs	2,471	1,942
Exchange rate losses	1,451	1,337
Expenditure deriving from assets	61	0
Write-offs of receivables	201	595
Warranty expenses	55	22
Relocation expenses	186	0
Other	308	684
Total	21,281	17,676

14. Research and development costs

Development costs eligible for capitalization are recognized as Intangible assets. Research costs and non-capitalizable development costs are expensed as incurred. In fiscal year 2005, research and development costs in the amount of EUR 205 thousand (previous year: EUR 412 thousand) were incurred.

15. Non-operating expenses

This item includes expenditure which arose in connection with the assessment of a possible sale of DICOTA GmbH. For the sake of clarity, these expenses have been eliminated from the 'Other operating expenses' item and are now shown as a separate item in the profit-and-loss statement

	2006 EUR thou.	2005 EUR thou.
Non-operating expenses	731	0

16. Net finance costs

The net finance costs comprise the following items:

	2006 EUR thou.	2005 EUR thou.
Income from other securities/investments	1,526	14
Other interest and similar income	351	501
Write-downs of current financial instruments	0	-662
Interest and similar expenses	-4,106	-2,397
Total	-2,229	-2,544

Interest income primarily arises in the short-term segment. Interest expenses also includes interest on leases that must be recognized as finance leases in accordance with IAS 17.

In accordance with IAS 1.33, interest expenditure and earnings connected with derivatives (see Point 34 in the Notes) have been set off against each other in order to reflect the commercial content of the business transaction in question.

The financial result is largely influenced by the consequences of tax planning models in the form of loans on collateral securities. The resulting compensation payments and financing costs of € 1,633,000 are partially offset by earnings of € 1,510,000. Tax expenditure was reduced by € 380,000 as a result of these loans on collateral securities.

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 corresponding foreign income taxes. The income tax expense breaks down as follows:

	2006 EUR thou.	2005 EUR thou.
Income tax expense	3,500	3,655
Deferred tax liabilities/assets	-1,252	-340
Total income tax expense	2,248	3,315

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

	2006 EUR thou.	2005 EUR thou.
Net profit before taxes	6,971	9,280
Expected income tax expense 40 %	2,788	3,712
Non-tax-deductible goodwill amortization	0	138
Tax reductions due to differences in tax rates	-208	-206
Tax saving model	-380	0
Other	48	-329
Actual income tax expense	2,248	3,315

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. 1, 2005 EUR thou.	Tax income/ expense EUR thou.	Adjust- ments directly in equity EUR thou.	Balance at Dec. 31, 2005 EUR thou.	Tax income/ -expense EUR thou.	Adjust- ments directly in equity EUR thou.	Balance at Dec. 31, 2006 EUR thou.
Deferred tax assets from loss carryforward	394	315	0	709	1,090	0	1,799
Deferred tax liabilities from temporary differences	-1,588	35	-891	-2,444	162	-1	-2,283
Total		340			1,252		
Reported in income statement		340			1,252		

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 profits will be generated by the Group companies concerned. EUR 1,799 thousand of the deferred tax assets relate to Group companies that recorded a loss in the fiscal year or in prior years.

18. Earnings per share

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

		2006	2005
Earnings per share	EUR	1.03	1.37
Consolidated net profit	EUR thou.	4,478	5,965
Weighted average number of shares		4,365,030	4,365,030

19. Dividend

The Board of Masterflex AG is proposing a dividend of EUR 0.80 per share. The appropriation of the unappropriated surplus of the parent company for fiscal year 2006 will be resolved by the General Meeting on June 5, 2007.

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 EUR 5,249 thousand (previous year: EUR 2.156 thousand) and liens on production equipment and assignments of receivables in the amount of EUR 426 thousand (previous year: EUR 1.448 thousand) serve as collateral for bank loans and overdrafts.

Assets held by foreign companies

The assets held by foreign companies are translated into euros (EUR) 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 break down as follows:

	2006 EUR thou.	2005 EUR thou.
Internally generated intangible assets	4,143	3,225
Purchased intangible assets	2,635	2,229
Goodwill	21,565	27,262

Costs, additions and disposals are as follows:

	Balance at Jan. 1, 2005 EUR thou.	Additions EUR thou.	Disposals EUR thou.	Balance at Dec. 31, 2005 EUR thou.	Additions EUR thou.	Disposals EUR thou.	Balance at Dec. 31, 2006 EUR thou.
Internally generated intangible assets	2,620	812	0	3,432	920	0	4,352
Purchased intangible assets	1,754	1,238	0	2,992	888	59	3,821
Goodwill	24,818	7,624	0	32,442	626	2,268	30,800

Amortization expense and cumulative totals break down as follows:

	Balance at Jan. 1, 2005 EUR thou.	Annual amortization EUR thou.	Balance at Dec. 31, 2005 EUR thou.	Annual amortization EUR thou.	Balance at Dec. 31, 2006 EUR thou.
Internally generated intangible assets	186	21	207	2	209
Purchased intangible assets	572	191	763	423	1,186
Goodwill	5,176	0	5,180	4,055	9,235

b) Property, plant and equipment

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

	Historical cost EUR thou.	Useful lives	Carrying amount 2006 EUR thou.	Carrying amount 2005 EUR thou.
Buildings	4,505	30 years	2,859	3,012
Land	587	-	587	587
Total	5,092		3,446	3,599

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

	2006 EUR thou.	2005 EUR thou.
Interest paid	177	201

c) Noncurrent financial assets

Noncurrent financial assets break down as follows:

	2006 EUR thou.	2005 EUR thou.
Noncurrent financial instruments	1,212	1,188
Other loans	3	127
Total noncurrent financial assets	1,215	1,315

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

	EUR thou.
Equity instruments	937
Debt instruments	275
Total	1,212

The cost, unrealized gains and losses and fair value of the available-for-sale securities as of December 31, 2006 areas follows:

Historical cost	Unrealized gains/loss	Fair value
EUR thou.	EUR thou.	EUR thou.
1,809	-597	1,212

Income from these assets totaled € 17 thousand.

21. Inventories

Inventories break down as follows:

	2006 EUR thou.	2005 EUR thou.
Raw materials and consumables	7,388	6,791
Work in progress	3,704	3,513
Finished goods and goods purchased and held for resale	12,541	10,151
Advanced payments	138	118
Total inventories	23,771	20,573

22. Receivables and other assets

Receivables and other assets break down as follows:

	2006 EUR thou.	2005 EUR thou.
Trade receivables	18,237	10,947
Other receivables and assets	6,230	1,576
Market value of derivatives	0	142
Total receivables and other assets	24,467	12,665

Other current assets break down as follows:

	2006 EUR thou.	2005 EUR thou.
Receivables from shareholders	238	255
Claims under reinsurance policies	673	662
Receivables from employees	42	40
Bonus claims	102	112
Reimbursement claims in connection with derivatives	4,596	115
Security deposits	0	212
Receivables from investment grants, subsidies	30	39
Other	549	140
Total other current assets	6,230	1,576

As of the balance sheet date, there were no items with a remaining maturity of more than one year.

23. Equity

For explanations concerning the development of [shareholders'] equity, reference is made here to the statement of changes to equity.

Issued capital

The total issued capital of Masterflex AG comprises 4,500,000 ordinary bearer shares in the form of no-par value bearer shares with a notional pro-rata share of issued capital of EUR 1.00 per share. The issued capital is fully paid in.

By resolution of the General Meeting of June 14, 2007, the company was authorized for the period from June 15, 2006 up until December 14, 2007, to purchase treasury shares for a maximum pro-rata amount of share capital of EUR 450,000.00 to be allocated to such shares. This represents 10% of the company's share capital of EUR 4,500,000.00 at the time of the General Meeting. The purchased shares – together with other treasury shares in possession of the company or to be allocated to the company according to §§ 71a ff, AktG – may not, at any time, exceed 10 percent of the company's share capital. This authorization replaces the authorization to purchase treasury shares granted at the General Meeting of June 9, 2005, which was limited to December 9, 2006 and which is hereby rescinded.

The authorization may not be used for the purpose of trading in treasury shares.

The purchase shall be transacted on the open market or by means of a public tender offer extended to all of the company's shareholders.

If treasury shares are purchased on the open market the purchase price per share (excluding incidental expenses) may not exceed or fall short of the quoted price of the company's shares by more than 5 percent. The relevant market price within the meaning of the authorization shall be the average price of the shares of the company established as the final auction price in Xetra trading (or in a functionally comparable successor system to the Xetra system) on the Frankfurt Securities Exchange for the last three trading days prior to the purchase of the shares.

If the treasury shares are purchased by means of a public tender offer to the shareholders of the company, the purchase price offered, or the maximum or minimum values of the offering price range per share (excluding incidental expenses) may not exceed or fall short of the market price of the company's shares by more than 20 percent. The relevant market price within the meaning of the authorization shall be the average price of the shares of the company established as the final auction price in Xetra trading (or in a functionally comparable successor system to the Xetra system) on the Frankfurt Securities Exchange from the sixth to the third trading day prior to the day of the publication of the offer. The volume of the tender offer may be limited. To the extent that the total volume of the offer is over-subscribed, the shares tendered must in each case be accepted on a pro-rata basis. The tender offer may provide for priority to be given to the acceptance of tenders of company shares in small lots of up to 100 shares per shareholder.

The provisions of the Wertpapiererwerbs- und Übernahmegesetz [German Securities Acquisition and Takeover Act] shall be complied with as applicable.

The Board shall further be authorized, with the approval of the Supervisory Board, to dispose of the purchased treasury shares to third parties – subject to the exclusion of shareholders' subscription rights – for non-cash considerations, especially also in connection with company mergers as well as the acquisition of companies, parts of companies and/or equity positions in companies. In this context, the value of the non-cash capital contribution, when considered as a whole, must be appropriate within the meaning of § 255 subsection 2 of the German Stock Corporation Act. In the case referred to under letter f), the shares may only be disposed of to a third party at a price (excluding incidental expenses) that is not materially lower – or at most lower by 5 percent – than the market price of company shares with the same features at the time of disposal. The relevant market price

within the meaning of the authorization shall be the average price of the shares of the company established as the final auction price in Xetra trading (or in a functionally comparable successor system to the Xetra system) on the Frankfurt Securities Exchange for the last five trading days prior to the disposal of the treasury shares.

The Board shall further be authorized, with the approval of the Supervisory Board, to dispose of the purchased treasury shares – subject to the exclusion of the shareholders' subscription rights – for a cash consideration by means other than the open market or a tender offer to all shareholders. The authorization to exclude shareholders' subscription rights shall further be effective subject to the proviso that the treasury shares disposed of subject to the exclusion of subscription rights may not – in aggregate and in combination with other shares issued subject to the exclusion of subscription rights according to § 186 subsection 3 sentence 4 AktG in connection with a capital increase or authorized capital – exceed 10 percent of share capital at the time of disposal.

The Board shall further be authorized to cancel the purchased treasury shares without additional resolutions by the General Meeting. As part of the cancellation, it is further authorized to execute the cancellation of no-par shares as part of a reduction in capital or without a reduction in capital. If the cancellation of no-par shares is executed without a reduction in capital, the pro-rata share of issued capital of the remaining shares shall be increased in accordance with § 8 subsection 3 AktG. In that event, the Board is additionally authorized to adjust the number of shares of the company as specified in the articles of incorporation (§ 237 subsection 3, No. 3 AktG).

The above authorizations may be exercised on one or several occasions, individually or in combination.

When acquiring treasury shares, the Board shall properly comply with the statutory provisions for the recognition of reserves for treasury shares (§ 71 subsection 2 sentence 1 AktG, § 272 subsection 4 HGB).

In the course of fiscal year 2006, no treasury shares were sold or newly acquired. As of the balance sheet date, Masterflex AG held 134,126 treasury shares (prior year: 134,126).

Authorized capital

By resolution of the AGM held on June 8, 2005, the Executive Board was authorized, with the approval of the Supervisory Board, to increase the company's share capital by up to € 2,225,000 by June 7, 2010 through one or more issues of ordinary bearer shares against cash and/or non-cash contributions (authorized capital). With the approval of the Supervisory Board,

the Executive Board is empowered to lay down the terms and conditions governing the share issue and any additional rights vested in the shares. The new shares are to be offered to the shareholders for subscription. However, the Executive Board is empowered, with the approval of the Supervisory Board, to preclude shareholders' subscription rights in the following cases:

- To settle fractions;
- In the case of capital increases against non-cash contributions designed to grant shares for the purpose of acquiring companies, parts of companies or holdings in companies;
- In the case of cash contributions, up to an amount which does not exceed 10 percent of the authorized capital at the time this authorisation is availed of, as long as the amount gained from the share issue is not significantly less than the stock exchange price of those company shares already quoted at the time of final determination of the issue price. In this regard, the above-mentioned 10 percent limit shall be calculated to include treasury shares that are issued or disposed of within the fiscal year of the share issue from authorized capital and subject to the subscription right preclusion pursuant to § 186 Paragraph 3 Clause 4 of the German Corporation Act (AktG).

After the full or partial execution of the share capital increase in accordance with the respective use of authorized capital – and in the event that the authorized capital is not fully used by June 7, 2010 – the Supervisory Board is authorized to adjust § 4 of the Articles of Incorporation as last amended after the period of authorization has expired.

24. Share premium

The share premium at the balance sheet date amounted to EUR 17.521 thousand (previous year: EUR 17.521 thousand). This mainly consists of the issue proceeds of the IPO in 2000, after the deduction of IPO costs. Moreover, in accordance with SIC-16, the purchase and disposal of treasury shares are netted after adjustment for related income tax effects.

25. Revaluation reserve

In accordance with IAS 39, securities held as noncurrent assets were classified as available-for-sale. These securities were measured at fair value as of the balance sheet date. Resulting unrealized losses net of income tax effects were recognized directly in equity under "Revaluation reserve for financial instruments."

26. Exchange differences

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

	Exchange differences from the translation of foreign financial statements EUR thou.	Exchange differences in accordance with IAS 21.17 EUR thou.	Exchange differences in accordance with IAS 21.19 EUR thou.	Total EUR thou.
Balance at Dec. 31, 2004	-1,408	-267	95	-1,580
Change in 2005	1,013	-5	0	1,008
Balance at Dec. 31, 2005	-395	-272	95	-572
Change in 2006	-802	1	0	-801
Balance at Dec. 31, 2006	-1,197	-271	95	-1,373

In accordance with IAS 12.61, taxes relating to items recognized directly in equity are also debited or credited directly to equity and included in the Changes to exchange differences reported above. Please refer also to Note 23.

In accordance with IAS 21.17/21.19 in conjunction with IAS 21.37, the changes to fair value of EUR -177 thousand recognized in equity are fixed upon retirement of the foreign currency obligation. The exchange differences recognized in equity are not reversed to the income statement until the disposal of the economically independent foreign entity.

27. Minority interests

Since the parent company does not hold a 100 percent stake in all subsidiaries, the minority interest in the capital of the companies included in consolidation was presented as a separate Minority interest item under from Group equity.

The amount reported for this item is:

2006 EUR thou.	2005 EUR thou.
645	434

28. Provisions

Provisions break down as follows:

	Balance at Jan. 1, 2006 EUR thou.	Changes to the consolidated Group EUR thou.	Utilization EUR thou.	Additions EUR thou.	Balance at Dec. 31, 2006 EUR thou.
Noncurrent provisions					
Pensions	1,218	0	22	53	1,249
Onerous contracts	71	0	0	0	71
Total	1,289	0	22	53	1,320
Current provisions					
Year-end closing costs	283	280	2	313	314
Compensated absences	367	367	0	482	482
Bonuses to customers	348	332	16	604	604
Premiums, severance payments, commissions	861	735	106	1,345	1,365
Warranties	121	78	24	89	108
Employers' Liability Insurance Association	351	320	31	355	355
Outstanding invoices	442	439	3	299	299
Miscellaneous	336	279	7	256	306
Total	3,109	2,830	189	3,743	3,833

a) Noncurrent provisions

Pension accruals are recognized for liabilities arising from vested benefits and from current benefits paid to vested active and former employees of the member companies of the Masterflex Group as well as their surviving dependents. There are various forms of retirement benefit schemes, which are generally based on the employees' term of employment and level of compensation.

With respect to company pension plans, a principle distinction is made between Defined Contribution and Defined Benefit retirement schemes. Under defined contribution plans, the company assumes no commitments beyond the payment of contributions to the fund. Expenditures are recognized as current personnel expenses and no provisions are set aside. The expenditures for

such plans total EUR 153 thousand (prior year: EUR 83 thousand); employer contributions to statutory retirement benefit insurance schemes are not included in these payments.

Under defined benefit plans, the company incurs an obligation to provide the benefits promised by the plan to current and former employees. The measurement of provisions for defined benefit plans is based on the projected unit credit method in accordance with IAS 19. The amount of the defined benefit obligations was calculated by using actuarial methods based on estimates of the relevant factors. In addition to assumptions with respect to life expectancy, the following assumptions were made concerning the parameters to be used for the actuarial calculations in the expert reports:

	Dec. 31, 2006
Discount rate	4.50 %
Rate of salary increases	0.00 %
Cost of living increases	2.00 %
Rate of statutory retirement benefit increases	2.00 %

Wage trends encompass future increases in wages and salaries that are estimated annually by reference to inflation and tenure at the company. Since the pension commitments entered into with respect to subsidiaries are not contingent on future wage and salary increases, no salary increases were taken into consideration when calculating the relevant provisions for pensions.

Provisions for pensions as of December 31, 2006, are calculated as follows:

	Dec. 31, 2006 EUR thou.
Amount recognized on the balance sheet as of Jan. 1, 2006	1,218
Reversals	22
Additions	11
Interest expense	42
Amount recognized on the balance sheet as of Dec. 31, 2006	1,249

b) Current provisions

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

Provisions for accrued vacations are determined on the basis of the day's 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 calculated as a proportion of the revenue generated in the reporting period.

Provisions for contributions to the Employers' Liability Insurance Association are calculated on the basis of the corresponding payroll records, using the premium rates for the previous year.

29. Financial liabilities

In September 2005, the Company received a EUR 23 million borrower's note loan with maturities of five and seven years from IKB Deutsche Industriebank AG. Bank loans and overdrafts break down by original maturity as follows:

	2006 EUR thou.	2005 EUR thou.
Loans with a remaining maturity of up to 1 year	18,901	14,327
Loans with a remaining maturity of between 1 and 5 years	24,014	14,497
Loans with a remaining maturity of more than 5 years	4,177	11,286
Total bank loans and overdrafts	47,092	40,110

The following table provides an overview of the terms and conditions of the main items due to banks.

Interest rate in %	Fixed-interest until... *)	Carrying amount as of Dec. 31, 2006 EUR thou.
2.72 %	2009	-20
3.00 %	2012	-305
3.00 %	2016	-3,200
3.55 %	2011	-29
4.02 %	2007	-700
4.09 %	2015	-700
4.25 %	2007	-100
4.25 %	2009	-219
4.30 %	2007	-300
4.44 %	2007	-7,624
4.47 %	2007	-1,500
4.50 %	2007	-8
4.50 %	2007	-13
4.50 %	2009	-2,038
4.50 %	2009	-10,188
4.75 %	2008	-204
4.90 %	2007	-275
5.00 %	2011	-4,083
5.00 %	2011	-7,146
5.25 %	2010	-841
5.75 %	2007	-212
6.71 %	2008	-56
8.50 %	2007	-151
10.95 %	2011	-32

*) = In some cases, the terms of the contracts substantially exceed the fixed-interest periods shown above.

30. Other liabilities

The details of other liabilities are shown in the following table:

	2006 EUR thou.	2005 EUR thou.
Liabilities due to shareholders	94	0
Down-payments on orders received in respect orders	65	18
Trade payables	10,668	4,895
Other liabilities	6,702	10,363
Market value of derivatives	4,596	320
Total other liabilities	22,125	15,596

All trade payables are due within one year.

Other liabilities include the following items:

	2006 EUR thou.	2005 EUR thou.
Tax liabilities	871	907
Lease liabilities	3,474	3,700
Social security payments	165	582
Liabilities to minority interests in subsidiaries	0	1,322
Liabilities from acquisition activities	0	2,704
Salaries	117	0
Pension fund liabilities	0	716
Miscellaneous	2,076	432
Total	6,702	10,363

The reported leasing obligations are related to a property in Gelsenkirchen leased under a finance lease

	Up to 1 year EUR thou.	2–5 years EUR thou.	More than 5 EUR thou.
Future financial obligations (including interest)	356	1,298	1,509
Present value of future financial obligations (redemption portion)	279	1,129	1,456

The remaining maturities are as follows:

	2006 EUR thou.	2005 EUR thou.
Liabilities with a remaining maturity of up to 1 Year	3,908	7,347
Liabilities with a remaining maturity of between 1 and 5 years	1,216	1,133
Liabilities with a remaining maturity of more than 5 years	1,578	1,883
Total other liabilities	6,702	10,363

31. Deferred income

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

The following amounts were recognized as liabilities as of December 31.

	2006 EUR thou.	2005 EUR thou.
Subsidies	2,319	2,060
Grants	716	788
Other	0	1
Total	3,035	2,849

The following amounts were reversed to income in the individual years

	2006 EUR thou.	2005 EUR thou.
Reversal of subsidies	133	115
Reversal of grants	102	128
Total	235	243

The subsidies received relate mainly to subsidies for the expansion of operating facilities and for technical equipment and machinery in the years 1995 to 2006. The grants were awarded for the purchase of machinery and office and operating equipment. The necessary evidence that the funds were employed as intended has been provided in full.

32. Related party disclosures

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

MODICA Grundstücks-Vermietungsges.mbH & Co., Objekt Masterflex KG, Gelsenkirchen Masterflex AG, has been using the production, warehousing and administrative buildings of the abovementioned 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 payments amounted to approximately EUR 27 thousand in fiscal year 2006.

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

b) Supervisory Board

The Supervisory Board received remuneration totaling EUR 32 thousand, which breaks down as follows:

	2006 EUR thou.	2005 EUR thou.
Chairman of the Supervisory Board Friedrich-Wilhelm Bischooping	14	14
Deputy Chairman of the Supervisory Board Prof. Dr. Detlef Stolten	11	11
Supervisory Board member Prof. Dr. Paulus Cornelis Maria van den Berg	7	7
Total	32	32

33. Remuneration of executive bodies

a) Board

The members of the Board receive annual remuneration consisting of a fixed and variable component. In calendar year 2006, total remuneration of the Board amounted to EUR 525 thousand (previous year: EUR 501 thousand), which breaks down as follows:

	Fixed 2006 EUR thou.	Performance- related remun- eration 2006 EUR thou.	Total 2006 EUR thou.
Chairman of the Board, Mr. Detlef Herzog	270	0	270
Executive Board Member, Mr. Ulrich Wantia	191	0	191
Executive Board Member, Mr. Dr. Andreas Bastin (since Dec. 1, 2006)	11	0	11
Executive Board Member, Mrs. Hiltrud Mütterich (until Dec. 8, 2004)	53	0	53
Gesamt	525	0	525

No performance-related remuneration was paid in respect of the 2006 fiscal year.

Due to a post-contractual restraint on competition, the former Executive Board member Ms. Hiltrud Mütterich received a waiting allowance of € 53,000 up to April 30, 2006.

34. Other financial obligations and contingent liabilities

a) Lease liabilities

With regard to the financial obligations deriving from a financing lease relationship, please see the explanations in Section 32.

Other financial liabilities for future years arising from operating leases are as follows:

	2007 EUR thou.	2008–2011 EUR thou.	2012 EUR thou.
Notional amount of future minimum lease payments	390	359	0

The operating lease agreements relate to the financing of the vehicle fleet as well as office and operating equipment.

b) Other obligations

The offices and operating facilities of Angiokard Medizintechnik GmbH & Co. KG have been rented from the former shareholder until December 31, 2009. There are no extraordinary rights of termination, nor is there a purchase option. When the lease expires, Angiokard has the option of renewing it. The total rental obligation is € 772,000, of which € 257,000 will fall due within one year and € 515,000 within a period of between one and five years.

The Company has entered into a license agreement with Material Design GmbH (licensor) concerning the use of a coating process for hollow objects with interior coatings. This agreement, which is indefinite in terms of period of validity, is restricted to Europe. The license agreement envisages performance-related license fees.

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

35. Derivatives

In 2006, Masterflex AG concluded a derivatives (interest rate swap) contract with a financial institution. The contract took effect on February 17, 2006 and will run until February 17, 2010. The notional principal is € 15 million. Over the term of the contract, Masterflex AG will receive interest at a fixed rate of 3 percent, in return for which the Company will pay interest at a variable rate, calculated subject to the development of the interest rate differential between the 10-year EURIBOR swap rate and the 2-year EURIBOR swap rate. In the absence of a hedging relationship, pursuant to IAS 39.9, this financial instrument must be classified as a financial investment held for trading, and measured using the 'fair value' principle. Based on the forecast data provided by the financial institution, the 'fair value' on the recording date was € -3,665 thousand. Given the fact that Masterflex AG may terminate the contract at any time, while the financial institution may terminate it as of each interest due date, the instrument is shown under liabilities.

In 2006, Masterflex AG concluded another derivatives (interest rate swap) contract with a financial institution. This contract took effect on September 1, 2006 and will run until September 1, 2010. The notional principal is € 15 million. Over the term of the contract, Masterflex AG will receive interest at a fixed rate of 3 percent, in return for which the company will pay a fixed interest rate of 2.4 percent. The agreement also stipulates payment of an interest equalisation payment at the end of the contract term, which will be calculated subject to the interest rate differential between the 30-year EURO swap rate and the 2-year EURO swap rate. In the absence of a hedging relationship, pursuant to IAS 39.9, this financial instrument must be classified as a financial investment held for trading, and measured using the 'fair value' principle. Based on the forecast data provided by the financial institution, the 'fair value' on the recording date was € -931 thousand. In view of the fact that Masterflex AG may terminate the agreement at any time, the instrument is shown under current liabilities.

The company is commercially indemnified from all liabilities accrued by the previous shareholder deriving from the above-mentioned legal transactions up to a maximum risk of the above-mentioned short-term debts. This receivable is shown under 'Other assets' (Section 21).

36. Risk management policy and hedging measures

The Masterflex Group's operating activities, as well as its financial transactions, are subject to financial risks. Such risks are due, in particular, to exchange rate fluctuations. In addition to the identification, analysis and assessment of these risks, the group-wide risk management system of Masterflex AG also uses derivatives for risk mitigation. The use of such derivatives for speculative purposes is prohibited. Derivatives transactions are only entered into with foreign and domestic banks which demonstrate unimpeachable creditworthiness.

Given the Masterflex Group's international orientation, its operating activities generate currency risks arising from fluctuations in the exchange rates between the euro and other currencies. On principle, open underlying positions subject to currency risks are hedged using derivatives. Currency options are used for this purpose. This function is performed by the operating subsidiaries.

No hedging transactions were in effect as of December 31, 2006. The notional volumes shown in the table are without netting, thus reflecting the sum of the principle amounts involved in all transactions. The market values of the derivatives correspond (as of the reporting date) to the price at which a third party would assume the rights and/or obligations entailed by these contracts in an arms-length transaction.

EUR thou.	Notional volumes		Market values		Residual term (in months)
	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	
Currency option transactions	1,690	0	0	0	0

The foreign exchange options contracts shown as exchange rate hedges are, in each case, related to a single underlying transaction, and have primarily been entered into as a hedge for future transactions not yet included in the balance sheet, such as orders received from clients or placed with suppliers. The Masterflex Group's hedging policy is to hedge currency risks using appropriate derivatives immediately after they arise, e.g. upon signature of a contract.

37. Other disclosures

	Dec. 31, 2006	Dec. 31, 2005
Group employees	778	656

38. Auditor's fee

The expenses the financial auditor, MBT Wirtschaftstreuhand GmbH, Wirtschaftsprüfungsgesellschaft, [recorded] in the 2005 fiscal year were EUR 131 thousand, which included the fees for the audit of the consolidated financial statements as well as the audit of the statutory financial statements of Masterflex AG and its domestic subsidiaries. An additional EUR 26 thousand were recorded as expenses for tax advisory and other services.

39. Exemption from the disclosure obligation

Pursuant to § 264 Paragraph 3 of the German Commercial Code, the following consolidated companies are exempted from the obligation to disclose their annual financial statements:

- DICOTA GmbH
- SURPRO Verwaltungsgesellschaft mbH (subject to the proviso that the AGM due to be held on 5 June 2007 agrees to conclude a profit transfer agreement)

40. Events after the balance sheet date

By the day of submission to the Supervisory Board there had been no material events after the balance sheet date.

41. Publication of the consolidated financial statements

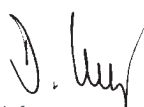
The financial statements have been published on April 2, 2006 at the Company's annual earnings press conference in Düsseldorf.

42. Information on the German Corporate Governance Code

In December 2006, the Board and the Supervisory Board of Masterflex AG again issued a declaration of conformity in accordance with section 161 of the AktG and made it permanently accessible to shareholders on the Company's website. The declaration of conformity is also reproduced in the Corporate Governance section of the annual report.

Masterflex AG
Willy-Brandt-Allee 300
45891 Gelsenkirchen

Gelsenkirchen, dated March 22, 2007


Detlef Herzog
(Chairman of the Board)


Ulrich Wantia
(Member of the Executive Board)


Dr. Andreas Bastin
(Member of the Executive Board)

Consolidated Statement of Changes in Noncurrent Assets

	Historical cost Jan. 1, 2006 EUR thou.	Changes to the consoli- dated Group EUR thou.	Additions EUR thou.	Disposals EUR thou.	Reclassifi- cations EUR thou.	Currency translation differences EUR thou.	Historical cost Dec. 31, 2006 EUR thou.
Intangible assets							
Concessions, industrial and similar rights and assets, licenses	2,988	324	372	59	407	3	4,035
Development costs	3,198	0	920	0	0	0	4,118
Goodwill	32,442	12	597	2,268	0	17	30,800
Advance payments	238	0	188	0	-407	1	20
Total	38,866	336	2,077	2,327	0	21	38,973
Property, plant, and equipment							
Land, land rights and buildings on third-party land	11,090	0	2,699	12	279	-96	13,960
Plant and machinery	16,550	35	1,089	99	381	150	18,106
Plant and machinery operating and office equipment	8,180	6	1,212	551	37	-55	8,829
Advance payments and assets under develop- ment	817	0	292	31	-697	0	381
Total	36,637	41	5,292	693	0	-1	41,276
Noncurrent financial assets							
Noncurrent financial instruments	1,869	0	0	60	0	0	1,809
Other loans	127	0	0	124	0	0	3
Total	1,996	0	0	184	0	0	1,812
	77,499	377	7,369	3,204	0	20	82,061

	Cumulative de- preciation and amortization Jan, 1, 2006 EUR thou.	Depreciation and amor- tization for fiscal year EUR thou.	Disposals EUR thou.	Fair value changes recog- nized directly in equity EUR thou.	Currency translation differences EUR thou.	Cumulative de- preciation and amortization Dec. 31, 2006 EUR thou.	Balance at Dec. 31, 2006 EUR thou.	Balance at Dec. 31, 2005 EUR thou.
Intangible assets								
Concessions, industrial and similar rights and assets, licenses	961	420	0	0	3	1,384	2,651	2,027
Development costs	9	2	0	0	0	11	4,107	3,189
Goodwill	5,180	4,055	0	0	0	9,235	21,565	27,262
Advance payments	0	0	0	0	0	0	20	238
Total	6,150	4,477	0	0	3	10,630	28,343	32,716
Property, plant, and equipment								
Land, land rights and build- ings on third-party land	3,022	354	3	0	-40	3,333	10,627	8,068
Plant and machinery	6,788	1,324	85	0	156	8,183	9,923	9,762
Plant and machinery oper- ating and office equipment	3,606	910	469	0	-33	4,014	4,815	4,574
Advance payments and as- sets under development	0	31	31	0	0	0	381	817
Total	13,416	2,619	588	0	83	15,530	25,746	23,221
Noncurrent financial assets								
Noncurrent financial instru- ments	681	0	0	-84	0	597	1,212	1,188
Other loans	0	0	0	0	0	0	3	127
Total	681	0	0	-84	0	597	1,215	1,315
	20,247	7,096	588	-84	86	26,757	55,304	57,252

Auditor's Report

"We audited the consolidated financial statements prepared by Masterflex AG – comprising the balance sheet, income statement, equity report, cash flow account and the notes to the financial statement – and the consolidated report for the fiscal year from 1 January to 31 December 2006. The preparation of the consolidated financial statements and the group management report in accordance with the IFRS, as required by the EU, and in compliance with the supplementary statutory regulations applicable pursuant to § 315a, Paragraph 1 of the German Commercial Code (HGB), is the responsibility of the Company's legal representatives. Our task is to provide an assessment, based on our audit, of the consolidated financial statements and group management report.

We conducted our audit of the consolidated financial statements in accordance with § 317 of the German Commercial Code and taking account of the German auditing requirements and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). According to these principles, the audit must be planned and implemented so as to ensure that errors and infringements that significantly affect the presentation of the company's net worth, financial position and operating results, as required by the applicable accounting rules, in the consolidated financial statements and the group management report can be identified with relative certainty. The definition of the audit process takes into account the knowledge of the group's business activity and the economic and legal environment, in addition to expectations regarding potential errors.

Within the context of the audit, the effectiveness of internal accounting-related controls and records supporting the information in the consolidated financial statements and the group management report are assessed primarily on the basis of spot checks. The audit includes an assessment of the financial statements issued by the companies included in the consolidated financial statement, the delimitation of the consolidation group, the accounting and consolidation principles applied, and the main assessments made by the legal representatives, as well as an assessment of the overall presentation of the financial statements and the management report. We are of the opinion that our audit provides a sufficiently reliable basis for our assessment.

Our audit has not resulted in any objections.

In our opinion, based on the information obtained during the audit, the consolidated financial statements comply with the IFRS as applied in the EU, and with the supplementary statutory requirements pursuant to § 315a Paragraph 1 of the German Commercial Code (HGB), and – taking into account these requirements – convey an accurate impression of the group's net assets, financial position, and operating results. The group management report is consistent with the consolidated financial statement, conveying as a whole an accurate picture of the group's situation, and correctly describing the opportunities and risks associated with future development."

MBT WIRTSCHAFTSTREUHAND GmbH
Auditors

Taphorn
CPA

Nietfeld-Yasar
CPA

Lohne, March 23, 2007

Report of the Supervisory Board

Dear Shareholders,

During the 2006 fiscal year, the Supervisory Board of Masterflex AG carried out in full the tasks with which it was entrusted pursuant to the German Companies Act and the company's Articles of Association.

During the past fiscal year, the Executive Board regularly provided the Supervisory Board with written and oral information regarding all planning, business development, risk situation and risk management issues of relevance to the company and the Group. In particular, the Executive Board informed the Supervisory Board regarding intended business policy and fundamental issues of enterprise planning, the latter referring primarily to financial, investment and personnel planning. The Supervisory Board was regularly informed regarding the turnover and result developments, as well as balance sheet and personnel developments.

The Supervisory Board has reviewed Masterflex AG's planning documentation, risk situation and risk management system. Areas of risk detected by the Executive and Supervisory Boards were discussed. The auditors subjected the risk management system to an intensive review. They confirmed that the measures required pursuant to § 91 Paragraph 2 of the German Companies Act (AktG), especially those pertaining to the establishment of a monitoring system, were implemented by the company's Executive Board in an appropriate fashion, and that the monitoring system is fundamentally suited to facilitate early detection of developments which could endanger the continuation of the enterprise.

During the fiscal year, the Chairman of the Supervisory Board maintained regular contact with the Executive Board, even outside meetings, and was informed regarding all significant developments and pending decisions.

The Supervisory Board of Masterflex AG met four times during the 2006 fiscal year. In this regard, the Supervisory Board dealt extensively with Masterflex AG's commercial situation and further strategic development. In the course of these meetings, the Executive Board regularly provided the Supervisory Board with comprehensive information on the business, financial and personnel situation, business and investment developments, and the current status of enterprise planning. The Executive Board's reports and proposed resolutions were fully elucidated and assessed following extensive review and consultation.

During the reporting year, the Supervisory Board's work focused, in particular, on extending the management team to include a member of the Executive Board with responsibility for technology, the possible sale of DICOTA GmbH, the expansion of activities in the High-Tech Hose Systems line of business, and the advances in the Fuel Cell Technology sector. In addition, the Executive Board informed the Supervisory Board regarding the progress made in integrating the SURPRO Group, acquired in August 2005, as well as the first joint development projects.

During the meeting of the Supervisory Board held on March 16, 2006 to review the balance sheet, the Supervisory Board extensively discussed the consolidated financial statements for the 2005 fiscal year. It was also decided to propose that the AGM, held on June 14, 2006, again appoint MBT Wirtschaftstreuhand GmbH Wirtschaftsprüfungsgesellschaft, Lohne, to audit the annual financial statements.

During the meeting held on June 14, 2006, the gratifying company development during the current fiscal year was extensively discussed. The Supervisory Board was also updated regarding the possible sale of DICOTA GmbH.

The Supervisory Board meeting held on September 19, 2006 again focused extensively on the status of negotiations regarding the sale of DICOTA GmbH. In addition, the meeting was informed that the position of Section Manager for the High-Tech Hose Systems line of business had been successfully filled.

Corporate Governance

One of the fixed items on Masterflex AG's Supervisory Board meeting agendas is the implementation of Germany's Corporate Governance Code. Pursuant to Item 5.6 of the Code, the Supervisory Board also continuously assessed the efficiency of its own work. In December 2006, the Executive and Supervisory Boards issued an updated Declaration of Compliance as required by § 161 of the German Companies Act, taking into account the amended version of the German Corporate Governance Code issued on June 12, 2006, and the amended recommendations contained therein, and made the updated Declaration of Compliance permanently available to shareholders online. The Declaration of Compliance is also reproduced in the Corporate Governance Report which forms part of the Annual Report. In accordance with Clause 3.10 of the German Corporate Governance Code, the Executive Board of Masterflex AG has also reported on company's corporate governance; this report was also issued on behalf of the Supervisory Board.

Other topics of focus for the Supervisory Board's meeting on December 4, 2006 included a look forward to the end of the current fiscal year and projects planned for 2007.

Supervisory Board's sub-committees

With three members, the Supervisory Board of Masterflex AG has been kept deliberately small to ensure that – as in the Group as a whole – decisions can be taken efficiently, quickly and flexibly thanks to lean structures. Therefore, no separate sub-committees have been formed.

Approval and determination of annual financial statements / consolidated financial statements

The annual financial statements and management report for Masterflex AG submitted by the Executive Board, as well as the consolidated financial statements and group management report for 2006, were reviewed by the auditors MBT Wirtschaftstreuhand GmbH Wirtschaftsprüfungsgesellschaft, Lohne, appointed to audit the annual financial statements by the AGM on June 14, 2006, and were awarded an unrestricted audit certificate. Both the

documentation to be audited and the auditor's audit reports were made available to all Supervisory Board members during the meeting held to discuss the balance sheet on March 16, 2007. The auditor was involved in the discussions regarding the annual financial statements and consolidated financial statements. In this regard, the auditor reported on the main audit findings, and was available to provide supplementary information.

The Supervisory Board took note of and approved the auditor's reports. The final result of the Board's own audit corresponded fully to the result of the annual audit. The Supervisory Board saw no reason to raise objections to the annual financial statements and consolidated financial statements prepared by the Executive Board. The Supervisory Board consequently approved the annual financial statements and consolidated financial statements submitted by the Executive Board for the year ended December 31, 2006. The annual financial statements have thus been adopted. The Supervisory Board also concurs with the Executive Board's proposal regarding the appropriation of the unappropriated surplus.

There were no conflicts of interest on the part of Supervisory Board members during the reporting period, nor did they hold any other positions on executive bodies.

German Act implementing the EU Takeover Directive

Each of the 4,500,000 notional no-par-value shares in MASTERFLEX AG carries one vote at the AGM. The Articles of Association do not include any restrictions regarding voting rights or share transfers. There are no shares with privileges granting powers of control. In accordance with law, the Supervisory Board is responsible for appointing and dismissing Executive Board members. The Supervisory Board availed of this power.

The Articles of Association may be amended by resolution of the AGM. The Supervisory Board may adopt non-substantive amendments to the Articles of Association. No such resolutions were adopted during the fiscal year.

Masterflex AG has not concluded any agreements subject to a change of control following a takeover offer. Neither has Masterflex AG concluded any compensation agreements with members of the Executive Board or with employees for the event of a takeover offer.

Changes to the Supervisory and Executive Boards

There were no personnel changes to the Supervisory Board during the reporting year. The Supervisory Board of Masterflex AG appointed the engineer Dr. Andreas Mastin as an ordinary member of Masterflex AG's Executive Board with effect from December 1, 2006. Dr. Bastin will be responsible for the newly-created Technical Section.

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 2005.

Gelsenkirchen, March 2007
The Supervisory Board
Friedrich-Wilhelm Bischooping
Chairman

The current members of the Supervisory Board are:

Mr. Friedrich-Wilhelm Bischooping (Chairman)

After graduating from university, Mr. Bischooping founded an industrial 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. Bischooping 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. Bischooping resigned from the senior management team and became Chairman of the Supervisory Board.

Prof. Dr.-Ing. Detlef Stolten (Vice-chairman since June 9, 2004)

After graduating with a degree in metallurgy/geology, Prof. Stolten joined the research unit of Robert Bosch GmbH in 1986 where he also wrote his doctoral thesis. Following positions at Daimler-Benz/Dornier research and Dornier Satellitensysteme GmbH, he became Director of the Institute for Materials and Processes in Energy Systems at the Forschungszentrum Jülich GmbH (Research Center Jülich) in 1998. His research projects focus on energy systems process technology for PEFC and SOFC fuel cells, i.e. the areas of electrochemistry, stack technology, process and system technology, as well as systems analysis. In 2000, he joined RWTH Aachen as Professor for Fuel Cell Technology. Among other posts, Prof. Stolten serves as a member of the EU's Advisory Council Hydrogen and Fuel Cell Technology Platform, where he chairs the Strategic Research Agenda steering panel.

Prof. Dr. Paulus Cornelis Maria van den Berg (member of the Supervisory Board since June 9, 2004)

After completing his medical studies and receiving his PhD from the University of Amsterdam, Prof. van den Berg continued his education at several institutions including the Harvard School of Clinical Health, Boston. Currently, he is the Director of Intensive Care at the University of Leiden, the Netherlands. In addition to intensive care, his research focuses on anesthesia. Prof. van den Berg organized the 10th European Congress on Intensive Care, among other achievements. He is a member of organizations including the Nederlandse Vereniging voor Intensive Care (the Dutch Intensive Care Association), the European Society of Intensive Care, and the Society of Critical Care Medicine.

Glossary

Angiography	An X-ray examination in which the blood vessels can be seen via the use of an X-ray contrast medium.
Balance on current account	That part of a country's balance of payments encompassing the trade, services and transfer balance.
Break-even	The point at which revenues equal expenses.
Catalysis	Change in the reaction speed of a chemical reaction through the use of a catalyst.
CAPEX	Capital expenditures are expenditures used by a company to acquire or upgrade physical assets such as equipment, property and industrial buildings.
Cardiology	The science, i.e. the diagnosis and treatment, of heart disease, or, more broadly, cardiovascular disease.
Cash flow	The cash flows generated in a particular period, adjusted for significant non-cash expenses and income. This demonstrates a company's ability to finance itself, i.e. its earnings power.
Corporate governance	Corporate governance refers to responsible corporate management and supervision aimed at creating long-term enterprise value.
Cupping process	Stamping process in which a small metal plate is pulled across a die within a mould, thus creating a casing.
Currency swap	The exchange of capital sums in different currencies, including the associated interest payments.
Customer procedure tray	A customer procedure tray comprises disposable medical components for a single surgical procedure all contained in one convenient kit.
Derivative interest rate contract	Derivative based on an interest rate or a parameter related to an interest rate. A derivative is a financial product whose market value is derived from conventional base instruments such as shares, bonds or gold.
DRG	Diagnosis Related Groups or fee per case payments in medical technology.
EBITDA	Earnings before interest, taxes, depreciation and amortization.
EBIT	Earnings before interest and taxes.
EBT	Earnings before taxes.

Extrusion	A process used in plastics manufacture. The raw materials (in granulated form) are broken down and heated in an extruder until they are plasticized, i.e. mouldable, and can be processed further.
Free Cash Flow	Measures a company's net increase in cash from operations, less the dividends paid to preferred shareholders, less expenditures necessary to maintain assets.
Free Float	Refers to the percentage of share capital which is freely available for trading on the stock market. The opposite of this is the non-free float, in which the total shares held by one shareholder account for five percent or more of the share capital.
Fuel cell	A device that transforms chemical energy directly into electrical energy. The principle is based on a discovery by Sir William Robert Grove in 1839.
Gross domestic product	The total value of all goods and services produced by an economy for the market within a reporting period.
Hydrolysis	The splitting of a chemical compound through a reaction with water.
IASs	International Accounting Standards.
IFRSs	International Financial Reporting Standards; the EU accounting standards for listed companies.
IPO	Initial Public Offering, the stock market flotation of a company.
Joint Venture	Joint ventures (collaborations between companies) resulting in the establishment of a new, legally independent business unit.
Kits/surgery kits	Medical instruments are assembled into a complete set to suit physicians' individual requirements.
LaryVent respiratory mask	A medical respiratory device that is specially designed to prevent the risk of vocal cord damage, which is common in operations, and asphyxiation from vomiting.
Market capitalization	The share price multiplied by the number of shares in free float.
Medical Devices	Medical components/parts such as infusion tubes, catheters, etc.
Minimum-invasive surgery	The umbrella term used to describe operations involving minimum trauma (inflicting minimum injury to the skin and soft tissues).
Mobile computing equipment	Carrying systems designed to facilitate the mobile use of communications technology (printers, notebooks, etc.).
Mobile office systems	see Mobile computing equipment.
Multi-lumen tubing	Medical hose with multiple chambers.
Nanotechnology	Research and technological development at the atom level, focusing on a range of between one and a hundred nanometers.
Net dividend yield	Dividend per share divided by the share price.

Net margin	Also net turnover yield: the percentage share of the net profit in an enterprise's turnover during a specific period.
Ophthalmological surgery	Surgery conducted in the field of ophthalmology.
Pedelec	Derived from "pedal electric"; this is an electric bike with a force or motion sensor that automatically couples the power of the motor with the muscle.
Pellet heating Pellet heating	Heating which uses small pellets made of untreated wood chips and sawdust – so-called wood pellets – as the firing fuel.
PEM	Proton exchange membrane.
Plating (deep drawing process)	Electro-chemical depositing of metallic precipitations (coatings) on objects.
Polyurethane (PUR)	Highly versatile special polymer.
Product portfolio	'Portfolio' is a management and marketing term used to denote a collection of products, services, projects or brands offered by a particular company.
Stack	Several individual fuel cells are combined to form a stack. In a bipolar stack, electrical contact between individual cells is ensured by a bipolar plate sandwiched between them.

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