



**Creating an Atmosphere for Success**

Our Report on the Year 2006

# Short profile of the Messer Group

Messer is the largest owner-managed industrial gases specialist and has more than 60 companies operating in over 30 countries in Europe, as well as companies in China, Vietnam, Algeria and Peru. The international activities are directed from Sulzbach near Frankfurt am Main, while the central technical functions of Logistics, Engineering and Production as well as Technology Management are controlled from Krefeld, Germany.

From acetylene to xenon, the Messer Group has one of the largest product portfolios on the market – the company produces industrial gases such as oxygen, nitrogen, argon, carbon dioxide, hydrogen, helium, shielding gases for welding, specialty gases, medical gases and many different gas mixtures.

The Messer Group has state-of-the-art research and competence centers in which it develops application technologies for the use of gases in almost every sector of industry, in food technology, medicine as well as research and science.

[www.messergroup.com](http://www.messergroup.com)

*Can there be a happier moment than hearing the magic word "yes"? Adam Otrzonsek experienced such a moment in November 2006 after he proposed to his girlfriend Natalia.*

**Adam Otrzonsek, Logistics Specialty Gases, Messer Polska**



**Dr. Christoph Erdmann, Head of Sales On Site Europe, Messer Group**

*For Dr. Christoph Erdmann, the opening game of the football World Cup and his son Phillip's ninth birthday were two good reasons to celebrate.*

*On holiday in the Sahara, José Enrique Alonso experienced how diverse, alive and fascinating an apparently barren desert can be.*

**José Enrique Alonso, Salesman Cylinder Gases, Messer Carburos**



**Friedrich Moser, Technology Manager Food, Messer Group**

*25 years at Messer – Friedrich Moser was able to look back proudly at his impressive period of service in 2006. He gave a speech to mark the event and hugely enjoyed his special day.*

# 2006

## Creating an atmosphere for success

Atmosphere has a dual significance for Messer: for one thing we obtain our products from it, that is to say gases like oxygen, nitrogen, helium or argon. For another, we attach great importance to a working atmosphere that enables each and every one of us to fully realize our potential.

Messer employees are people who appreciate this special atmosphere and who have the same committed and active approach both in their careers and their leisure time. We are proud of this and have therefore asked all our staff to tell us their own personal highlights of 2006.

The response was impressive. It ranged from atmospheric snapshots taken during the football World Cup, to holidays and business trips, through to anniversaries and births. It also showed how much the people who work for Messer identify with their company. We therefore regard it as our obligation to continue creating an atmosphere for success at Messer in the future – both for our employees and our customers.



*Wang Jianjiang found his seven-month-old daughter's first attempts at standing up an unforgettable experience.*

**Wang Jianjiang, Sales Department, Messer China**

**Julio Olaechea, Human Resources and Administration Manager, Messer Gases del Peru**



*One of the best moments of 2006 for Julio Olaechea was congratulating his eldest daughter Lucia on passing her exams.*

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# Foreword

## Dear Business Partners, Customers and Employees,

Another eventful year in the history of Messer has come to an end. Once again we have shown strength, courage and confidence and developed our business in a profitable and value-enhancing way.



Whether in the pharmaceutical, chemical, paper or electronics industry, in medicine, environmental protection or the food industry – gases are used as a process material in every sector. Only a few people know that this volatile product accompanies us in virtually every situation in life. Our customers use our gases in almost 300 applications. Our gas production processes ensure efficiency, environmental protection and short construction times for production facilities. As a family company, we can concentrate fully on our core markets and draw on our 100-years plus experience to open up and develop new markets.

The successful takeover of the BOC Group by Linde AG was the biggest event of 2006 in the industrial gases industry. We have been able to reap the first fruit of this spectacular transaction by putting our helium supply on a sound and independent footing thanks to the takeover of a Linde contract with Cryor in Russia, a condition imposed by the European Monopolies and Mergers Commission. The strategy of the Messer Group envisages the introduction of further measures that will ensure the long-term independence of the company. This includes focusing on long-term contracts with our customers and partners as well as systematically expanding our production facilities.

In January, Messer Group and our Chinese partner Hangzhou HangYang established Cryogenic Engineering GmbH in Frankfurt. The purpose of this joint venture is to deal with the planning and distribution of air separation plants in Europe and the Middle East. The first installations delivered to Europe by HangYang have already been successfully commissioned: a nitrogen generator for Bosch in Hungary, another generator for Julon in Slovenia as well as the twin-column air separation plant for U.S.Steel in Smederevo, Serbia. Further projects will be completed in 2007.

In China, too, plants have been commissioned in the current year: a nitrogen generator in Leshan, Sichuan Province, a second air separation plant in Foshan, plus a hydrogen PSA plant and an air separation plant in Zhangjiagang. The construction of the fifth air separation plant in Xiangtan is making good progress. We successfully renewed our supply contract with Chengdu Iron & Steel. In addition to taking over an existing air separation plant, we will augment the gas supply to the steelworks by building a further new plant in 2007. We have signed a contract with the chip manufacturer Intel in Chengdu. Supplies in 2007 will be made from an existing plant, which is to be moved to Chengdu. In the current year we will receive compensation for the site in Shanghai that was compulsorily purchased for EXPO 2010. We have acquired some of the equipment in operation there, which we plan to use at other locations.

In Peru, our main customer SiderPeru has been taken over by the Brazilian steel manufacturer Gerdau. Gerdau operates several steel mills in Latin America as well as in the USA and Spain, and is ranked in 13<sup>th</sup> place worldwide. The announced investment in Chimbote also means that the gas demand will increase. We are therefore hoping that we will soon be able to switch our air separation plant to continuous operation.

In the Specialty Gases division, we have upgraded our plants in Lenzburg, Mitry-Mory, Gumpoldskirchen and Machelen. New filling plants for technical gases are under construction in Denmark and France.

The IT divisions of both Corporate groups of the Messer family – Messer Group and Messer Eutectic Castolin Group (MEC) – have been merged to form the new company Messer Information Services GmbH. The relocation to the newly built computer center in Groß-Umstadt took place in the summer. At Messer Group, the SAP Harmonization project was relaunched while at MEC the Baan IT system was rolled out to other countries.

We have expanded our medical business through the acquisition of the home care provider OxysphAir in Belgium. We also took over the industrial cylinder business of ACP in Belgium.

We would like to thank our customers and partners and especially our employees throughout the Messer group. You are all helping us to achieve our vision.



Stefan Messer, CEO



Dr. Hans-Gerd Wienands, CFO

**Stefan Messer**  
CEO of Messer Group,  
Sulzbach/Krefeld, Germany



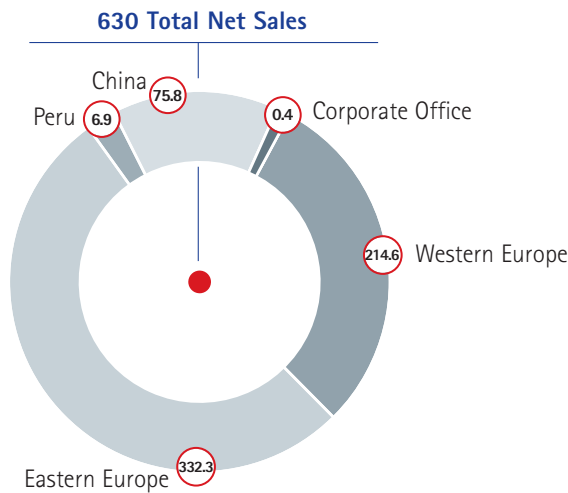
In Saas-Fee, surrounded by the 4000-meter peaks of the Swiss Alps, Stefan Messer was able to enjoy his vacation. The challenge to act slowly couldn't have been easy for him as an entrepreneur.

*“The skiing vacation with my family was a wonderful change.”*

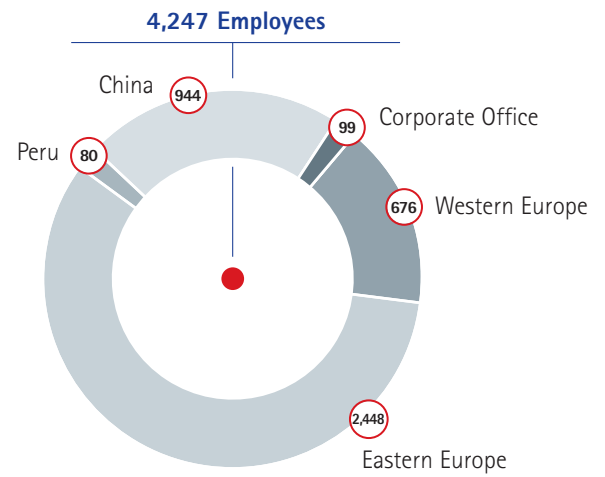
## Key Messer group figures at a glance

Net sales	630 million €
EBITDA	144 million €
EBITDA margin	23 %
Investments	153 million €
Employees	4,247

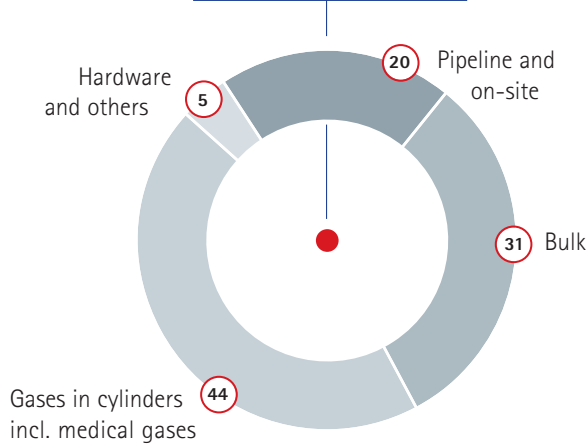
Net Sales (consolidated) 2006  
in million € by region



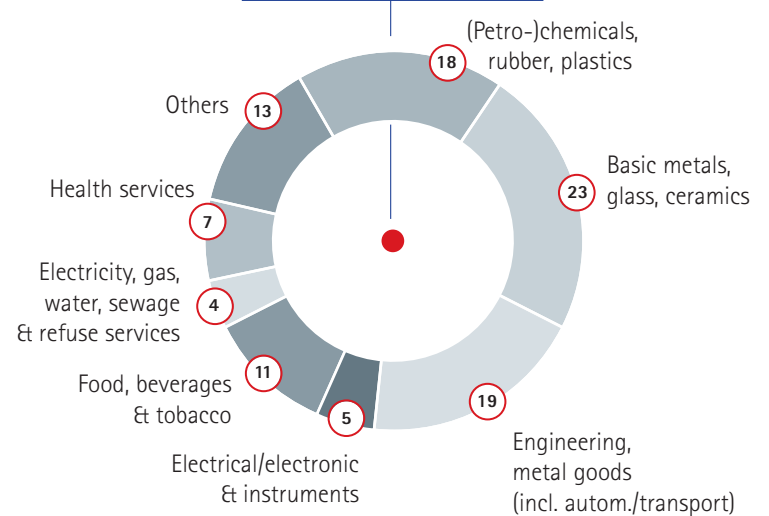
Number of employees 2006  
by region



Net Sales 2006  
in % by product groups



Net Sales 2006  
by industry segments in %



# Supervisory Board's report



## Supervisory Board of Messer Group GmbH:

Dr. Jürgen Heraeus  
Chairman

Dr. Bodo Lüttge  
Deputy Chairman

Dr. Alexander Dibelius  
(since August 31, 2006)

Dr. Jürgen Großmann  
(from September 1, 2006)

Dr. Karl-Gerhard Seifert

Peter Wilhelm  
Storm van's Gravesande

## Company performance and projects

During the reporting period, the Supervisory Board has performed the tasks incumbent on it in accordance with the law and the articles of association by providing support and advice to the Management Board. Within the framework of the rotational meetings on February 21, April 26, September 9, 2006 and January 11, 2007 the Management Board has reported to the Supervisory Board, both verbally and in writing, about the performance and situation of the company.

Furthermore, the Supervisory Board was informed about important business transactions and decisions. Legal transactions requiring the Board's approval were submitted to the Board for it to decide on.

The Supervisory Board has satisfied itself in the plenum that the bookkeeping, the annual financial statement and the Group accounts for the year ending December 31, 2006, as well as the business report of Messer Group GmbH have been audited and certified by the auditing company KPMG Deutsche Treuhand-Gesellschaft AG, Frankfurt am Main. The audit reports were discussed at the Supervisory Board meeting on May 2, 2007 with the assistance of the auditors. The Supervisory Board had no objections and agrees with the auditor's results.

The Supervisory Board would like to thank the Management Board as well as all employees of the Messer group for their efforts and successful work in the 2006 financial year.

Sulzbach, May 2, 2007

Supervisory Board

A handwritten signature in black ink, appearing to read 'Jürgen Heraeus'.

Dr. Jürgen Heraeus  
Chairman



# Creating an atmosphere for success

## Strategy for achieving our vision

In 2006 we started to fulfill our mission statement with vitality. The mission statement, consisting of a vision, a mission and our corporate values, was formulated at our 2005 corporate conference in Croatia and was subsequently accepted and signed as the "Commitment of Dubrovnik" by all the executives and managers of the central departments. At our annual corporate conference, which in 2006 was held in Tallinn, Estonia, a strategy was developed which was aimed at achieving our vision. This strategy will continue to form the basis for measures in the coming years, which will be stringently implemented by the Messer group. These measures will be relevant to the actions of every single employee while at the same time helping the workforces of all the group companies to identify with the group.

## Change in the Supervisory Board of Messer Group GmbH

Dr. Alexander C. Dibelius, Managing Director and Head of Goldman Sachs for Central and Eastern Europe, stepped down from the Supervisory Board on August 31. Up until the re-establishment of the Messer Group in May 2004, Alexander Dibelius was not only the spokesperson for the financial investors but also advisor to the Messer family. He was able to perform these roles in the interests of both parties. He was instrumental in the successful restructuring of Messer and in the return of the company into the ownership of the Messer family.

On September 1, Dr. Jürgen Großmann, sole shareholder and Managing Director of Georgsmarienhütte Holding GmbH (GMH) since 1997, was appointed to the Supervisory Board.

## Responsibility for qualifications and further training

Since 2006, Messer has been operating an international staff exchange scheme within the group as a special further training measure. In order for staff to further their development, both professionally and interculturally, they have the opportunity to work in their role for up to six months in another Messer company. The exchange not only helps to promote better international cooperation within the group, but also fosters mutual understanding.

## The Messer World – together we are even stronger

The year of the football World Cup has clearly left its mark: for four weeks, the eyes of the world were on Germany, which scored top marks by putting on a great tournament with excellent organization and entertaining matches. A wave of excitement rippled round the world – carried by sportsmanship and fairness.



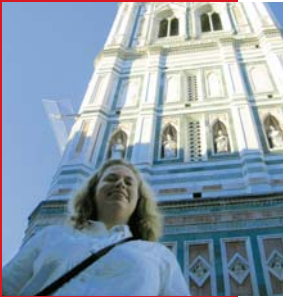
*Frank Hopfenbach's time in China was a whole new cultural experience for him.*

# Creating an atmosphere for success



László Kapás,  
Technology  
Manager Food,  
Messer Hungarogáz

*László Kapás and his daughter had a great out at the Messer family day in Budapest, with lots of fun and games.*



Monika Lammertz,  
Technology  
Manager Food,  
Messer Group

*Monika Lammertz was very impressed by her visit to Florence. She plans to visit the city on the Arno River, with its famous cathedral and the Medici Villa, again sometime in the future.*



Sun Yongning,  
Head of Marketing  
and Production,  
Messer China

*Sun Yongning is doing his bit to preserve the cultural heritage of his homeland by playing the "cucurbit" flute, the traditional instrument of the province of Yunnan.*

In this aspirational environment, we were able to continue to develop our activities successfully under the shared Messer World brand in 2006. With Messer Group and MEC posting sales growth of 10 percent and 20 percent respectively, we have for the first time exceeded the one billion euro mark in this financial year. The MEC Group is comprised of Castolin Eutectic, Messer Cutting & Welding as well as BIT Analytical Instruments. Castolin Eutectic is a partner for wear protection, repair and fusion technology. Messer Cutting & Welding offers the full range of thermal cutting and is a specialist in oxy-fuel technology and gas supply systems. BIT Analytical Instruments is a specialized contractor for precision medical instruments.

## Part of the Messer World

Castolin Eutectic celebrated its centenary this year. Castolin is a company with a tradition of success that was started by the Wassermann family back in 1906. The occasion was marked by customer and staff events at several of the group's overseas subsidiaries.

Our subsidiary BIT Analytical Instruments in Schwalbach celebrated its 30<sup>th</sup> anniversary this year. This division for precision medical instruments was founded in 1976. Today, BIT is an independent company which manufactures instruments for many diagnostics companies.



*Dressed in red: the team of Castolin Eutectic in 2006.*

Together with Messer Cutting & Welding (MCW), Groß-Umstadt, we participated in the EuroBlech 2006 trade show in Hanover under the slogans "Messer Gases – Competence that welds together" (Messer) and "Your Cutting World under control" (MCW). This was a continuation of what had been successfully started at the 2005 "Schweißen und Schneiden" trade show. Our collaboration is not only intended to benefit customers. It is also a reason why more and more Messer companies are opting to join forces when it comes to public appearances.

Messer is a strong brand that is increasing in value in Germany and many other countries. A healthy atmosphere is the guarantor of our success.



*Trade fairs are strengthening the Messer brand and are an important signal to the public.*

# The Mission Statement of the Messer Group



## Vision

### Our Vision

Messer is an important industrial gases group in its core markets of Europe and China.

Messer is and will continue to be a family-run business.

Together with our partners and associated companies in the field of wear, fusion, and cutting technologies as well as precision instrumentation we meet our customers' needs expertly, reliably and with a flair for innovation.

This is what makes us the first choice for our customers and employees.



## Mission

### Our Mission

As an owner-managed family business we are focused on the future in our core markets and apply our experience and expertise to building up our position in new markets.

Ranging from acetylene to xenon we offer our customers a product portfolio which is acknowledged as one of the most extensive in the market. Our company produces industrial gases such as oxygen, nitrogen, argon, carbon dioxide, hydrogen, helium, shielding gases for welding, medical gases and innumerable gas mixtures. Our product range is rounded off by excellent services and state-of-the-art technical equipment.

In our highly modern technology centers we work together with our customers to develop application technologies for the use of gases in almost every industry, in food technology, medicine, science and research.

The commitment shown by our employees, our flexibility and the closeness we feel to our customers in local markets makes us their preferred partner.

Through entrepreneurial flair, farsighted thinking and the continuous improvement of our processes, we create added value for our customers and so secure our mutual success in the long term.

Solid finances and fair profits guarantee our independence and support sustainable growth.

### Our Values

#### Customer orientation

We are focused on the individual requirements of our customers and help them to improve their competitiveness and their performance.

#### Employee orientation

We train, develop and promote motivated and efficient employees with integrity. We expect our employees to be resourceful and responsible team players.

#### Responsible behavior

We take our social responsibilities towards our employees and to society very seriously:

- Safety: we are committed to the safety of our staff and the safe production, handling and use of our products.
- Health: we set working standards that ensure sound health and well-being for every individual.
- Environment: as a member of the wider society, we are committed to protecting the environment.

#### Corporate responsibility

By responsibly managing our resources and applying the talents of our employees we are increasing the worth of our company in the long term.

#### Excellence

Our actions are based on technical expertise, innovation, flexibility and the ability to make quick decisions.

#### Mutual trust and respect

We believe that cooperation is based on trust, sincerity, transparency and frank communication. We respect and abide by the culture and social customs of the countries in which we work.



## Values

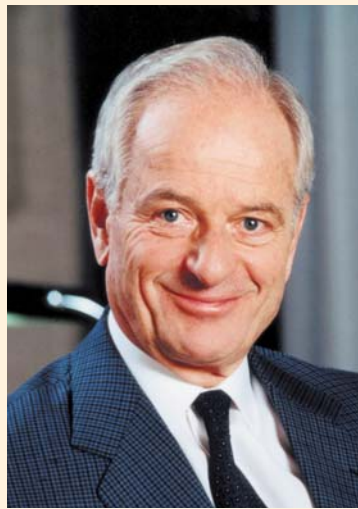
# Creating an atmosphere for success

## Corporate Social Responsibility

### Corporate social responsibility in the countries in which we operate



Adolf Messer



Dr. Hans Messer

For generations, the name Messer has stood for corporate social responsibility. This is also shown by the foundations that have been established by the Messer family. The Adolf Messer Foundation primarily supports education and science. The Dr. Hans Messer Social Foundation makes donations to help people worldwide who find themselves in need through no fault of their own. Their income is generated by revenue from the foundation endowment as well as from employee donations, for example through company anniversaries, birthdays or similar occasions.

#### **New vehicle for mobile nursing care for children**

The mobile nursing service for children, which is run by the "Diakonische Werke" (church social welfare service) for Frankfurt/Main, has been in existence since 1979. It specializes in

looking after acutely or chronically ill children. Home care for children encompasses the entire spectrum of pediatrics and is performed by children's nurses with many years experience and additional qualifications. Mobility is the most important factor for the nine children's nurses who provide the mobile nursing care for children in Frankfurt at weekends and on public holidays, too. Until recently, there had been seven vehicles available for the mobile service. In 2006, the Dr. Hans Messer Social Foundation provided the funds to boost that number to eight.



Ms. Erika Sivinski (l.), head of the "Mobile Kinderkrankenpflege" in Frankfurt and Ms. Petra Messer (r.) handing over the new vehicle.

**Child poverty in Germany – time for children** The term 'child poverty' has a different meaning in Germany than it does in developing or newly industrializing countries. The German families concerned do not lack the most basic things such as food and drink, and they all have a roof over their heads. Child poverty in Germany has more to do with lack of care, poor education and an unbalanced diet. Every tenth child in this country lives in relative poverty. 40 percent of children in single-parent households in Germany are poor. The Dr. Hans Messer Social Foundation supports the Petra Lustenberger Foundation in Frankfurt/Main. The latter has created a meeting place where children from disadvantaged families meet every week and are looked after by qualified staff.

**Dr. Hans Messer Social Foundation donates paperless EEG machine** In September 2006, the Dr. Hans Messer Social Foundation donated a paperless EEG machine worth around 26,000 euros to the Neurology Department at the Sankt Katharinen Hospital in Frankfurt/Main. The machine records the measured brainwaves electronically rather than on paper, as was the norm before. This allows each treating physician to evaluate the results on their computer, if necessary even at the same time. The doctor can vary the settings, i.e. he or she can look at different combinations in order to arrive at



*Petra Messer (m.) handed over a paperless EEG machine to the Sankt Katharinen Hospital in Frankfurt, Main.*

a swift and conclusive diagnosis. This is necessary in the case of neurological conditions such as seizures, epilepsy, disturbances of the blood supply, headaches and dizziness or following a stroke. Dr. Hans Messer was chairman of the advisory committee of the "Gesellschaft der Katharinenschwestern" society from 1993 until his death in 1997. The Friends of Sankt Katharinen Hospital, an organization that was set up in 1996 and whose medical lectures, exhibitions and concerts are very popular with patients and friends, also owes its existence to the initiative and support of Dr. Hans Messer.

**Microparticle researcher Martin Ebert receives the Adolf-Messer-Prize** There is a general awareness now that aerosols such as fine dust particles, diesel exhaust particulates and cigarette smoke are harmful to health. However, aerosol particles in the air also affect the climate. Yet their physical and chemical properties are still insufficiently researched. In 2006, Dr. Martin Ebert from the Institute for Applied Geosciences at Darmstadt University of Technology (TU Darmstadt) was recognized for his vital research

work in this area with the science prize, worth 50,000 euros, from the Adolf Messer Foundation. Ebert, who was born in 1970, studied chemistry at TU Darmstadt, did his doctorate in materials science and, after a longer spell of scientific work in the USA, is currently working on his post-doctoral lecturing qualification. He deserves particular credit for his comprehensive chemical and mineralogical characterization of atmospheric aerosol particles, tiny microparticles that are found everywhere in the air. His work in connection with global climate change as well as in relation to the negative health effects of atmospheric aerosol particles is of international significance. The results of his work have been applied directly to the area of environmental policy and form the basis for measures aimed at reducing air pollution.



*Stefan Messer (l.) presents the Adolf-Messer-Prize 2006, awarded by the Darmstadt University of Technology, Germany, to Martin Ebert.*

**Adolf-Messer-Foundation-Prize awarded to Astrid Stobbe in Frankfurt** In 2006, the archaeobotanist Dr. Astrid Stobbe was awarded the Johann-Wolfgang-Goethe University prize for her "studies into climate-related changes in land use over the past 3,000 years based on the example of the Wetterau basin". The scientist, who works in the Department of Pre- and Early History at the Institute for Archaeological Sciences, studies fossil pollen, whose composition reveals the dynamics of past climate conditions on the one hand and the interrelationships between prehistoric man and his environment on the other. The Adolf-Messer-Foundation-Prize is funding her research project "Climate-Man-Environment/Studies into climate-related changes in land use over the past 3,000 years based on the example of the Wetterau basin". The aim of the project is to develop a model that enables the impact of climatic influences on changes in the landscape and its utilization potential to be quantified. This will allow both anthropogenic influences on the climate and social reactions to changes in the climate to be determined. Every year, funding is provided for projects in interdisciplinary basic research which can be carried out with prize money of 25,000 euros. The prize is aimed at junior postdoctoral scientists from the natural sciences.

# Creating an atmosphere for success

## Commitment to humanitarian and social causes in Europe and China

**Social partnerships in Eastern Europe** The Bulgarian company **Messer Chimco Gas** donated second-hand computers and printers to public authorities in Bulgaria, such as the Office for Technical Safety. Many of the authorities are located in structurally weak areas, so money for office equipment is very tight. In Bosnia-Herzegovina, **Messer Sarajevo Plin** raised around 1,200 euros for humanitarian causes through numerous smaller campaigns – for example for the "Svejtlo" aid organization for disabled people in Sarajevo and for clinical equipment for the Clinical Center in Tuzla. In Greece, **Messer Hellas** donated 1,650 euros for research purposes, including a donation to the National Research Center for the Development of Medicines for the Cure of Parasitic Diseases.



*Dr. Tamás Sült (r.), head physician at the Children's Surgical Unit of the Hungarian Madarász Children's Clinic in Budapest, explains the function of the microsurgical instrument to György Habsburg (m.), Chairman of the Hungarian Red Cross and of the Supervisory Board of Messer in Hungary, and Johann Ringhofer, CEO of Messer Hungarogáz.*

In Hungary, **Messer Hungarogáz** supported charitable and humanitarian causes with a total of around 67,000 euros in 2006. To mark the centenary of industrial gases in Hungary, the Hungarian Messer subsidiary donated over 18,000 euros to the Madarász Children's Clinic in Budapest. This enabled the hospital to buy equipment which allows it to carry out microsurgery on craniofacial trauma in children. This allows broken bones to be reconstructed. The Budapest Children's Hospital has operated on more than 23,000 children with serious craniofacial injuries in the last ten years. The Hungarian Patient Association received a donation of more than 1,000 euros for oxygen therapy to support patient care. The patient association is also an important partner in the Home Care division of Messer in Hungary. The hospital in Mosdós received around 400 euros towards the purchase of medical equipment. Messer supported the "Édes gyermekünk" charity and the diabetes center of the "Pál"-hospital with a 600 euros donation to help diabetic children. Messer

Hungarogáz also supported the "Menedék" charity, which looks after homeless people and asylum seekers and carries out improvements to children's homes. The "Disaster Protection" charity, a partner of Messer Hungarogáz, received a donation of approximately 300 euros. The charity used this money to fund a youth competition for disaster protection. Messer Hungarogáz donated around 1,300 euros to the municipal authorities of Egar for public utility use, for example for the construction of a sewer.

**Messer Romania Gaz** sponsored the "Second Chance" organization in Romania to the tune of 5,000 euros. "Second Chance" organized a Christmas party for the families of the Romanian community of Berceni. Since families in this region have to get by on an average income of less than 30 US dollars, everyone was extremely happy about the Christmas dinner and presents for the children. In addition, Messer Romania Gaz donated a further 11,000 euros to "Second Chance" for sanitary facilities for a nursery in Corlatesti.

In Serbia, **Messer Tehnogas** carried out 37 campaigns in 2006, raising around 24,000 euros for public institutions such as hospitals, schools and universities, as well as for sports clubs and humanitarian organizations. Messer Tehnogas made its largest donation – 6,500 euros – towards helping Serbian doctors to take part in this year's International Surgical Congress in Singapore. The World Congress on Infectious Diseases received around 1,400 euros from Messer Tehnogas.



*The "Second Chance" Christmas party was hugely enjoyed by the children in the Romanian community of Berceni.*

The Clinical Center in Podgorica was supported with 2,500 euros. Smaller donations went to, among others, the Cerebral Palsy Society, the Red Cross, the Children's Health Institute, the Disabled Ex-Servicemen's Association, the children's village in Kraljevo and the "Milan Skendžić" music school. In the Czech Republic, **Messer Technogas** donated around 10,700 euros towards supporting schools and sports clubs in the Vratimov region.

**Activities in Asia characterized by social responsibility** As an international company and investor, **Messer China**, in collaboration with the local "Yunnan Youth Development Foundation", donated 256,000 rinminbi to Foshan Village for the new construction of a primary school with boarding facilities. The "Yunnan Hope School Project" is designed to give children from the rural communities the opportunity to attend school. In collaboration with the Dr. Hans Messer Social Foundation, **Messer Vietnam Industrial Gases** twice donated approximately 17,000 euros for the purchase of oxygen equipment for the Binh Duong Hospital and for a hospital in the capital Hanoi. In both hospitals, the oxygen equipment is being used in the premature baby units.



"Victory!" – for the children, thanks especially, in this case, to the support of Dr. Werner Hickel (top, 2nd from left) and Li Yun (far right) from Messer China, who supported the school project in Yunnan.

# Creating an atmosphere for success

## Corporate Communications

**Bringing the new mission statement to life** One of the priorities at the start of 2006 was to communicate Messer's new corporate mission statement. The vision, mission and values were published in 27 languages on posters, in brochures as well as on the website and intranet of the Messer group. The international staff magazine Messenger featured special reports from the subsidiaries which served as "proof" that the company's values were understood and are being lived out in all the countries where Messer operates.

**Image campaign with new advertisements** The Messer advertising campaign was further expanded with newly developed trade adverts. Delicious rolls thanks to chilling with CO<sub>2</sub>, perfect soldering of electronic components under N<sub>2</sub>, crystal-clear drinking water with CO<sub>2</sub> ... the trade adverts emphasize the applications of industrial gases. The new trade advertising campaign uses unusual and eye-catching compositions. It is a continuation of our outdoor advertising concept of linking product names and applications. It can be understood internationally and allows the images and the text to blend together.

**New design for corporate intranet** The successful revision of the intranet has given the communication platform for the employees of the Messer group a fresher design as well as new and newly structured content.



**Creating synergies with communication** Around 30 press officers from 26 companies of the Messer group used the annual Corporate Communications meeting to strengthen cooperation and synergies. The focal point was a joint seminar on crisis communication, which looked at the content of the new international crisis plan.

**Customers well informed via "on air"** The first issue of "on air", Messer's new international customer magazine, was published in December 2006. It comes out four times a year in German, English and Hungarian and covers topics in all areas of industrial gas applications.

**We are one group on the World Wide Web** The redesign of the websites of all our companies in Europe and Asia, aimed at bringing them into line with the web presence of Messer group, was successfully completed at the end of 2006. All the websites of the Messer companies from 20 countries have been harmonized for the first time.





## Safety, Health, Environment and Quality (SHEQ)

### Wide range of tasks tackled

A key event was the SHEQ meeting, which looked at the main tasks for 2006 as well as an initial vision for work organization in the future. Other SHEQ activities included SAP harmonization, a risk analysis for Messer Suomi, participation in the EIGA meeting and the corporate conference in Tallinn as well as the execution of the first two SHE audits. In the area of communication, the SHEQ intranet pages were updated and the first Safety Newsletter published.

### Slight increase in industrial accidents, but below level of competitors

In the first three quarters of 2006, there were 13 industrial accidents, resulting in 286 lost working days. This equates to an accident rate of 2.2 accidents per million hours worked, a slightly worse figure than in the previous year (2.0). At the same time, however, there was a drastic reduction in the number of lost working days caused by accidents. It can therefore be concluded that there was an increase in the number of less serious accidents reported in 2006.

At an industry level, Messer continues to be in a good position: for the first three quarters of 2006, the EIGA cited an accident rate of 3.2 for all gas companies; for the five largest gas companies the figure was 2.4.

For the first time, a statistic was calculated for near-accidents as well. There were 14 of these in 2006, with human error being the main cause.

A worrying development is the number of road traffic accidents involving transport vehicles for liquid gases or cylinders. The majority of these accidents happened in China, with another one each in Romania and Serbia. There was one fatality.

### EIGA confirms "excellent safety"

At the EIGA Summer Meeting 2006 in Bergen, Norway, Messer companies won a total of nine safety awards: two "Gold Safety Awards" (for Messer Croatia Plin, Dugi Rat and Messer Croatia Plin, Kutina), three "Silver Safety Awards" (for Messer Polska, Police; Messer Aligaz Sanayi Gazları, Manisa and Messer Odra Gas, Vratimov) as well as four "Bronze Safety Awards" (for Messer Croatia Plin, Slavoski Brod; Messer Technogas, Kladno; Messer Sarajevo Plin, Rajlovac and Messer Aligaz Sanayi Gazları, Yakacik).

# Creating an atmosphere for success



Silvana Fontanesi,  
Customer Support,  
Messer Italia

*Silvana Fontanesi and her colleagues from Messer Italia in Brugine really enjoyed their Christmas celebrations.*

## The work of the SHEQ Committee and prospects for 2007

The newly formed SHEQ Committee's primary task is to shape the work of Corporate SHEQ on an international level. A key objective in this is to integrate Messer specialists. Over and above this, the SHEQ Committee also performs an advisory function.

The SHEQ department has set itself clear targets for 2007. They range from revising the SHE handbook to simplifying the use of the SHEQ intranet pages and developing a system for SHEQ performance measurement through to carrying out a total of ten SHE audits, primarily in the new plants.

## Technology Development

### Targeted investments for company-wide innovations

In 2006, the level of activity among Messer employees surrounding innovation remained high: there were 22 new inventions in gas applications. Many of these originated in France and Austria, reflecting the successful work of the development centers in Gumpoldskirchen and Mitry-Mory. Overall, the Messer Group has submitted 69 patent applications – in Germany, Europe and China – since its launch in 2004.



Harald Windhövel,  
Head of Engineering,  
Messer Group

*For Harald Windhövel, 2006 was a milestone in his career: he celebrated 25 years of service with the company and was delighted to receive so many congratulations.*

### Infrastructure expanded again

In the past year, the technical centers that had gone into operation in 2005, were further expanded.

The technical center in Gumpoldskirchen, Austria, which focuses on metallurgy, received an enhanced burner test stand, enabling it to carry out additional analyses for the definition of burner specifications as well as further customer tests and development work.

The technical center in Mitry-Mory, France, which specializes in food technology, had a new freeze-drying system installed. It makes customer testing of CryoDry processes possible under production-like conditions.



*The technical center in Gumpoldskirchen received an enhanced burner test stand.*



Silvia Argilaga,  
Invoicing - Bulk and  
Cylinder Customers,  
Messer Carburos

*The highlight of 2006 for Silvia Argilaga was her vacation in Sicily, which included a visit to the fishing village of Cefalú on the north coast of the island.*



*CryoDry-Pellets*

## Applications and processes

**Oxygen/air mixed burner "Oxipyr Air" for NO<sub>x</sub> reduction** All combustion processes are required to satisfy ever tighter limits on NO<sub>x</sub> emissions. The newly developed "Oxipyr Air" mixed burner, which has a patent pending, satisfies this requirement: it facilitates flameless combustion with air and oxygen as well as the continuous adjustment of O<sub>2</sub> content between 21 and 100 percent. This makes it particularly suitable for the melting of non-ferrous metals (T < 1500 °C) in rotary and open-hearth furnaces. Background: At furnace temperatures of 1100 °C, the NO<sub>x</sub> values for combustion with pure air and pure oxygen, as well as air that has been oxygen enriched by between 21 and 50 percent, are between 10 and 120 ppm and therefore well below the required limits.

**Simulations make combustion conversion more economical** When converting glass tanks from combustion with air to combustion with oxygen, this is usually done on the basis of previous tests. Messer is trying something new: the use of simulations beforehand to help determine important parameters such as temperature profiles, exhaust gas quantities and exhaust gas composition, in order to be able to evaluate the conversion result in terms of fuel saved and increased production. Such a simulation on a 25-ton glass tank yielded a fuel saving of 20 percent and an increase in production of 26 percent. Comparisons of simulation results and real measurements on a furnace system have also yielded good results.

**Snow Center for dry ice snow improved further** Consistent filling of containers, controlled exhaust gas routing and quick automated filling cycles make the CO<sub>2</sub> coolant even easier for our customers to handle. The new "Oto2Snow" technology is therefore particularly suitable for customers in industry, medicine/pharmaceuticals and food technology, because reliable and cost-effective cooling of heat-sensitive, high-quality products is often required in these sectors.

**New generation of Siber technology for transport refrigeration** Further improvements were made to the long-established and successful Siber transport refrigeration technology. The filling system for filling the transport containers with dry ice snow has been automated and made even more user-friendly. Filling with closed container doors is another substantial improvement. This ensures shorter filling times and easier handling, which means even greater efficiency and profitability for the user.



# Creating an atmosphere for success



*DuoCondex is a process for recycling refrigerators.*



*Many substances can be micronized with the cryogenic grinding process from Messer.*

**DuoCondex for cryogenic waste gas cleaning** The newly developed DuoCondex System has now also proven itself in practice. The first unit was integrated into a refrigeration recycling plant built by MeWa (Germany), which was successfully commissioned at ElektroRecycling in Slovenská L'upca (Slovakia) in December.

**Soil freezing with "lost" lances** Soil freezing is a tried and tested method of stabilizing the ground for building operations. The freezing is often carried out with liquid nitrogen, which is injected into the soil via lances. A new method now also allows so-called "lost" lances to be used. These are designed in such a way that they can be left in the ground after it has been frozen without hindering the drilling and driving operations or damaging the machinery.

The procedure, for which a patent is pending, has already been used successfully by the firm Porr on a building site in Austria and won the innovation prize at the Austrian Tunnel Conference 2006.

**Fine powders for high-quality instrument panels** Car instrument panels are often coated with fine powders consisting of thermoplastic polyurethane (TPU). Extensive tests were carried out in Messer's cold grinding center in order to optimize the production of these powders. The aim was to test different cold grinding methods and process parameters with regard to product quality and cost-effectiveness and compare them with each other. The result was a powder with a defined particle size distribution that does not need any plasticizers and – unlike the common PVC – does not diffuse onto the windscreen. Based on the process parameters that had been worked out, a large-scale cold grinding plant was built for the firm Geba (Austria).

## Production and Engineering

### Successful start-ups through teamwork

2006 was marked above all by successful start-ups: in Smederevo, Serbia, large air separation plants and a condensation cycle came on stream; in Hungary and Slovenia, two generator systems for on-site supply were commissioned for Bosch and Julon.

Simultaneously, it was possible to make a start on detailed planning as well as the procurement of components for new projects. These included the Messer group's largest nitrogen generator to date for Zoltek in Hungary, a generator to supply the Austrian company MIBA, a new air separation plant with condenser in El Morell, Spain, and several plants in the non-cryo sector.



*A nitrogen generator was commissioned at Bosch.*



*Brennand Hall, Project Manager Engineering and Production, during installation work in Slovenia.*

These projects had one thing in common – huge technical and organizational challenges that had to be overcome in order to complete the installations on schedule and in an energy- and cost-optimized way. This was only possible with the expertise and enthusiasm of the engineers from the central departments and the respective national subsidiaries. International cooperation, a highly developed intercultural understanding and the willingness to explore new avenues were key to the success of these projects and an important guarantor of the continued growth of the Messer group.

## Medical

### New market opportunities developed and utilized



*The Croatian health minister Neven Ljubičić visited the Messer stand at the Zagreb trade fair.*

In spring 2006, the Messer group presented for the first time its diverse product range for the medical sector at the "Medicine & Technology" fair in Zagreb, Croatia. From medical gases to the oxygen concentrator all the way to relevant storage and rehabilitation products, those interested were able to inform themselves about the services and know-how of Messer. Even the Croatian health minister Neven Ljubičić paid a visit to the Messer stand. Another pleasant success worth mentioning is that Messer won a prize for the most attractive and interesting stand.

The successful trade fair participation and the resulting demand led to Messer Croatia Plin having to appoint their own salesperson for medical gases by the middle of the year. In addition to Croatia, he will also cover neighboring countries such as Bosnia-Herzegovina and Macedonia.

### Increased involvement in home care sector

Midway through the year, the Belgian home care provider "OxysphAir" was approached with a view to discussing closer cooperation. This project was successfully completed in the last quarter with Messer Belgium acquiring 51 percent of "OxysphAir". This will enable us to strengthen our presence in the home care sector considerably and it may even be possible to develop it further into neighboring countries.

The fact that the home care sector was to be pursued more intensively within the Messer group was also emphasized at the corporate conference in Tallinn. Several working groups arrived at the conclusion independently of one another that home care was an important aspect for the future strategy of the Messer group. It is necessary that we use the opportunity to develop from a component provider to a system provider who not only offers medical gases, but also the necessary hardware.

# Creating an atmosphere for success



Diana Buss,  
Head of Corporate  
Communications,  
Messer Group

Her holiday in the Camargue was the highlight of 2006 for Diana Buss. She traveled to the South of France with her whole family.



Petra Zöllner,  
Personal Assistant  
to Stefan Messer,  
Messer Group

The World Cup song by Herbert Grönemeyer was never far from Petra Zöllner's mind during this summer of football. Her best moment as a fan: knowing that Germany was in the semi-final.



Alicia Vilchez,  
Assistant Logistics,  
Messer Gases del Peru

On May 1, 2006, a festival in honor of the Virgin of Chapi took place in Peru. Alicia Vilchez celebrated her son's birthday at the same time.

## Logistics and Supply

### "Bottlenecks" in cylinder sourcing overcome

Messer GasPack GmbH (MGP), which was only formed in 2005 and which is responsible for the stock management, sourcing and standardization of cylinder fleets as well as tanks, has "picked up speed" in 2006. The number of MGP members rose to 17 when the Romanian subsidiary joined on March 1, 2006. The processes now follow a set routine, with the main focus on supplying cylinders and tanks to the subsidiaries on schedule.

Compared to 2005, there was a marked easing of the supply situation, particularly in the second half of 2006. At the same time, the procurement of cylinders proved a real challenge as this area continued to experience a worldwide bottleneck. In order to meet the great demand for cylinders, additional purchases were made in the USA for the first time. A newly created database (CYDIS) for cylinder stock management is optimizing the Europe-wide supply of cylinders. All the subsidiaries now have direct access to the system, which is making cooperation between the countries and the central function more easy and transparent.

MGP has a main objective for 2007: to equip the new filling plants in Denmark and France with sufficient assets.

### Promising prospects for tanks, bulks and transports

The group's Europe-wide requirement for over 430 cryogenic tanks was met on schedule. Framework contracts with principal suppliers helped to make the supply flow even more smoothly. Also, a new supply contract was signed, with two further contracts due to be signed at the beginning of 2007.



Messer GasPack supplies all the Messer group companies with gas cylinders and tanks.



In Bulk Logistics, the renewal of the tanker fleet was continued at the end of 2006. The enlarged fleet is designed to further optimize supplies to customers, in addition to which an improvement of the route planning for bulk transports is planned for 2007. Messer will introduce a new Bulk software program for this in several countries.

The costly and time-consuming transports of process equipment from China and Europe to Smederevo in Serbia were successfully completed, and the new air separators are already in operation. Plans for further transports to Tarragona, Spain, where Messer is also building an air separator, are in full swing.

## Long-term helium supplies for customers guaranteed

In 2006, it was possible to conclude a long-term supply contract for liquid helium with the Russian supplier Cryor. This contract, which the European Competition Commission had to approve, gives Messer direct access to one of the most reliable helium sources in the world. Messer regards helium as a core business area and aims to expand the business further.

The helium, which is extracted from natural gas, is mainly used for cooling of superconductive magnets for magnetic resonance imaging and rocket engines. It is cryogenically liquefied in Orenburg in the Urals and pumped into Messer-owned containers, which are then transported by truck to the helium filling plants in France, Switzerland and Austria. In 2007, Messer is going to commission a 115,000 liter storage tank in Austria to further safeguard customer supplies.

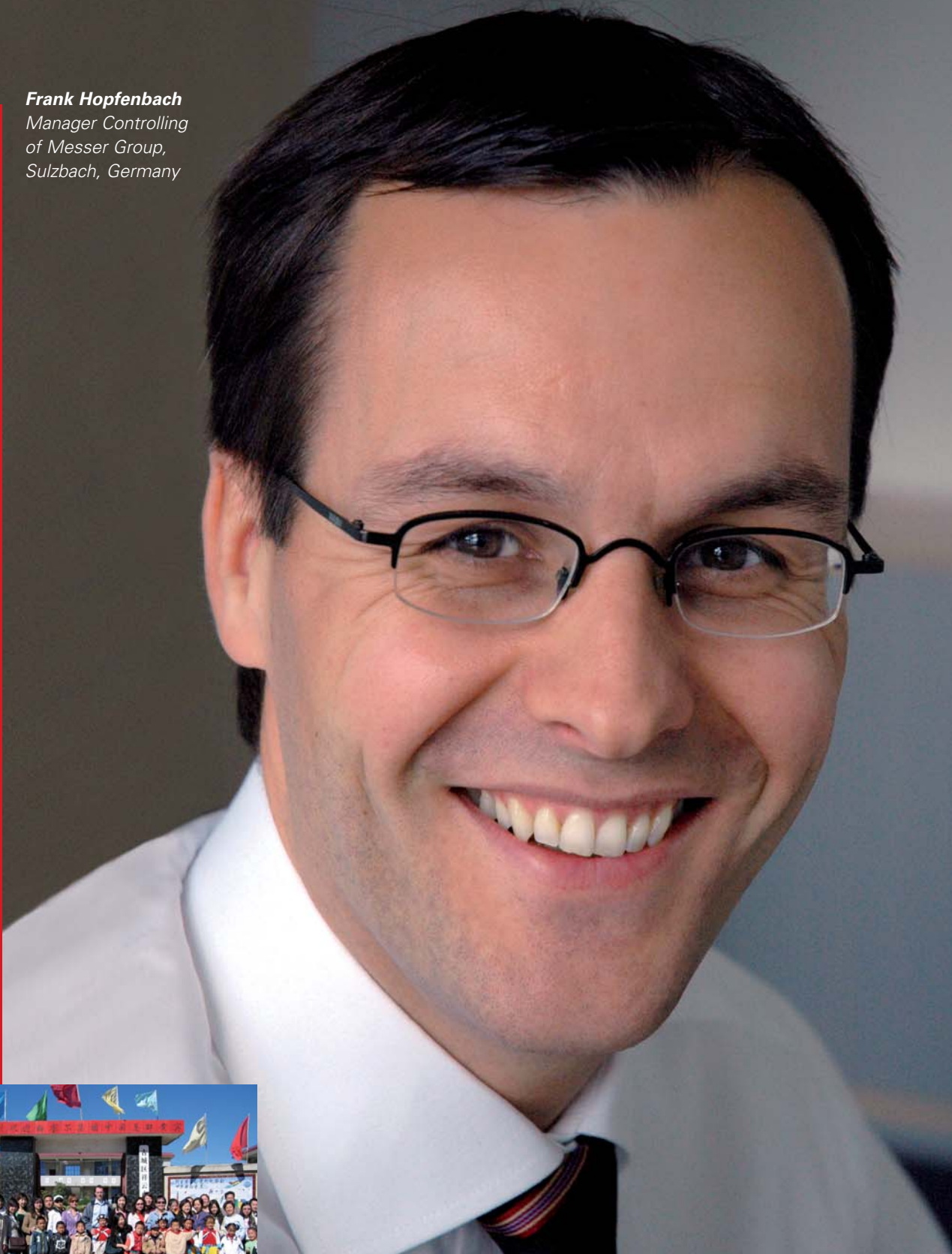
## Law and Insurance

### Supporting important strategic objectives

As in previous years, the Group Legal Department provided support in all relevant legal matters to the Supervisory Board meetings and the various central departments in Sulzbach and Krefeld as well as the management teams of the Messer Group and Messer's national subsidiaries. It was able to make a substantial contribution to the success of several major projects (e.g. Limes, the joint production venture with Linde).

Pending cases were able to be resolved in favor of Messer. Substantial progress was made with the final implementation of the restructuring process. It looks set to be completed in 2007.

**Frank Hopfenbach**  
Manager Controlling  
of Messer Group,  
Sulzbach, Germany



Frank Hopfenbach spent four months in China in 2006, and had many interesting experiences. His absolute highlight – apart from eating a deep-fried goose’s foot – was the visit to a primary school, where he tried to give the children an understanding of Western eating etiquette.

*“The several-month-long staff exchange with my colleague Xu Qing was a great experience, not just from a professional point of view.”*



## Pooled expertise, enhanced savings

A new development is the implementation of a knowledge management system that is organized as a database and which facilitates the provision of optimized legal support to the central and operational departments. Also worth highlighting is the electronic company holdings administration which gives different departments electronic access to important information relating to the Messer companies.

In November, the first company-wide lawyers conference took place in Sulzbach – an ideal forum for lawyers from the different Messer subsidiaries to exchange experiences and discuss legal issues. Presentations on antitrust legislation and international corporate law rounded off the program.

After the insurance programs for 2006 and 2007 had been laid down in 2005, savings have now also been achieved in areas that had previously not been included. At the same time, an optimized procedure for calculating insurance amounts was developed in connection with the setting of premiums.

## Auditing

### Positive experiences in all companies

In 2006, audits took place at Messer France, Messer Tatragas, Messer Austria, Messer Schweiz, Messer Italia, Messer Slovnaft and Messer Romania Gaz. This involved checking compliance with the Corporate Guidelines as well as carrying out random checks within the various processes. A triggered audit took place at Messer Slovenija.

The audited countries were very cooperative, often developing new ideas in collaboration with the audit team. The audit recommendations were graded and implemented according to priority. Switzerland turned out to be the best SAP organization, impressing the auditors with superbly implemented processes. The best non-SAP organization was Messer Romania Gaz, where all the staff are constantly engaged in optimizing the organization. Standard audits will also be carried out at at least four companies in 2007.



# Creating an atmosphere for success



Dr. Leonardo Galli,  
Head of Application  
Technology,  
Messer Italia

■ *Dr. Leonardo Galli likes to put his foot to the floor. No wonder, then, that he won his karting club's annual race.*



Sándor Návay,  
Service Engineer,  
Messer Hungarogáz

■ *It doesn't have to be that dream holiday or a wedding – Sándor Návay enjoyed life's little pleasures in 2006.*



Christoph Launer,  
Head of Process  
Optimization,  
Messer Group

■ *The Greek island of Crete has a wealth of attractions, both above and below the water, as Christoph Launer discovered when he went diving.*

## Information Technologies

### Systematic SAP harmonization continued

In September 2006, the SAP harmonization project was resumed within the Messer Group. The project, which had begun in May 2005, was put on hold for a year due to the strategic reorganization of IT and the associated construction of a computer center in Groß-Umstadt, Germany.

### The strategy: one system for all

The requirements for the harmonized SAP system were clearly defined: it was to be based on the latest SAP release "MySAP ERP 2005 (ECC 6.0)", with one client and several company codes, and have a Europe-wide authorization concept. The basis for this was a defined, newly created standard template that applies to the whole Messer group and can be used at every location. In addition, the project envisaged the harmonization of the structures and processes of all the existing SAP systems. This will benefit the 23 Messer group companies in Europe that are already using SAP.

### Teamwork for "functional design" and "customizing"

International project teams were involved in the continuation of SAP harmonization. Each team consisted of around 50 employees of the Messer group who work in Finance/Controlling, Sales, Logistics, Purchasing, SHEQ, Production, Filling Installations and Plant Maintenance. The project teams met at five European Messer locations for the relaunch of the project. The aim was to create a detailed model of the business processes that had been developed in first phase of the project. This was necessary in order to be able to represent all the business processes of the Messer group in the harmonized SAP system in a transparent way. In the next step, the results served as the basis for developing the "functional design" – documentation for integrating the business processes into the system. Customizing – the modeling of the business processes in SAP – will take place at the beginning of 2007. The new SAP system will then be rolled out to the first Messer group companies.

## Messer Information Services, Germany

**Messer Computer Center up and running** Messer Information Services has been providing its services and IT applications to the employees of the two sister companies Messer Eutectic Castolin Group and Messer Group since May 2006. The creation of a shared computer center at Groß-Umstadt in Germany, started in September 2005, was completed in less than ten months.

**Continuation of strategic IT projects** Particularly successful was the centralization of the SAP servers from 23 Messer group subsidiaries to Messer Information Services. Since then, around 1,000 SAP users in 17 European countries have been taking advantage of the benefits of a central platform, such as greater system stability and quicker provision of updates.

The "SAP Harmonization" project, which had been put on hold in the previous year due to the construction of the computer center, was relaunched in September 2006. The business processes that have been defined and represented are currently being incorporated into the SAP prototype that is being set up.

As part of the server-based computing rollout, the integration – planned for 2006 – of the server and IT applications of Laborex-Sanescos medizinische technische Geräte GmbH, Austria, and various Messer national subsidiaries into the shared server farm was successfully completed in December 2006.

**High trainee quota** Messer has a tradition of social responsibility. For example, in 2006 Messer Information Services took on three young people to be trained as information technology specialists and IT support specialists. With a trainee quota of ten percent, the IT company is exceeding the target set out in the Messer initiative aimed at furthering the careers of young people.



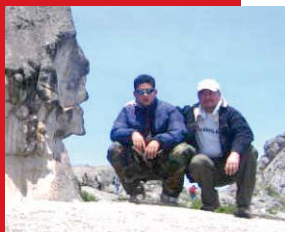
*Train at Messer Information Services:  
(f.l.) David Krause, Sebastian Ohl and Marc Strohbach.*

# Creating an atmosphere for success



Rita Bai,  
Senior Financial Analyst,  
Messer China

The protected climb down a wall on "Long Wang" mountain took a lot of courage and stamina.



Carlos Chacate,  
Sales and Marketing  
Assistant,  
Messer Gases del Peru

Carlos Chacate and his 19-year-old son Bruno visited the "Face Stones" of Marcahuasi, located at an altitude of around 4,000 meters.



Vincent Boyet,  
Member of staff at the  
St. Georges Laboratory,  
Messer France

Sailing on a catamaran is a great experience. Vincent Boyet and his wife managed to combine it with dolphin watching.

## Cryogenic Engineering

**Know-how and economic efficiency in plant engineering** On January 23, 2006, Cryogenic Engineering was set up as a joint venture between Messer Group and the Chinese plant engineering firm Hangzhou Hangyang, which specializes in cryogenic air separation plants. The aim of this joint venture is to market turnkey cryogenic air separation plants. Cryogenic Engineering's plants combine Messer's many years of design and operating experience with the economical production costs and extensive production capacity of Hangyang, which is in the region of 50 plants per year.

Cryogenic Engineering plans and builds air separation plants, oxygen and nitrogen generators as well as components for increasing the efficiency of existing plants.

In its first year after formation, the company's main focus was on marketing the company name and its product portfolio. At the same time, contacts were developed with potential buyers of air separation plants in Western and Eastern Europe, the Middle East and the former CIS countries. As a result, the company was able to prepare

*Drinking to the success of the joint venture in January: (l. to r.) Dr. Frank Ruhland, Messer; Mao ShaoRong, Zhy Shuoyan, both HangYang; Markus Müller, Messer; Gerfried Schmidt, Hui Wang, Cryogenic Engineering; and Stefan Messer.*



more than 30 quotes for air separators with an oxygen capacity of between 1,000 and 30,000 standard cubic meters per hour, mainly for plants that are still in operation. The prospective buyers and customers are primarily operators of so-called minimills, which melt steel scrap in arc furnaces to produce new steel. However, small gas companies that want to expand or modernize their production capacity have also displayed an interest in the services of Cryogenic Engineering.

The largest investment potential is in the markets of the CIS countries and the Middle East, where economic growth is above average. There are good existing contacts here, with the potential for development into full collaborations; several negotiations about the sale of air separators are in the final stages.



**Herbert Herzog**  
Head of Marketing and  
Communication at Messer Austria,  
Gumpoldskirchen, Austria



When the next generation first sees the light of day, daughters become mothers and fathers become grandfathers. Herbert Herzog is a newly qualified grandfather and appropriately proud of his daughter Anne and grandson Ben.

*“Grandpa? Time to grow up!”*

# Country reports – Eastern Europe

## Messer Austria, Austria

**Positive development in spite of intensified competition** Against the background of increased competition and price pressure, the 2006 financial year, with its three percent increase in turnover on the previous year, can be viewed positively. The market share of Messer Austria remained constant in spite of generally muted demand, increases occurred in the food, aerospace and automotive supply industries.

**New technology ensures greater independence** Most of the work on the residual gas recovery plant in Gumpoldskirchen was completed by the end of the year. In order to ensure product availability, a helium storage tank with a capacity of 115,000 liters was installed. The construction work will be completed in spring 2007. Both projects are further major steps towards the independence of the Messer group.

**Success with numerous projects** The "soil freezing" project for the Viennese subway construction, which was successfully completed in 2005, led to further follow-on projects in 2006. In addition, Messer Austria benefited from the upturn in the aerospace industry: FACC Fischer Advanced Composite Components AG will also be supplied with nitrogen at its newly built plant through an on-site facility from Messer.

In the automotive sector, the existing on-site supply at the premises of a major customer was secured for another ten years and a contract signed for a second nitrogen generator for new production lines. Follow-on orders have also been placed by food wholesaler C+C Pfeiffer. The Siber-System for food transport refrigeration that had been installed the previous last year led to retrofits at another four plants in 2006.

Close collaboration with the Application Department led to a new cement-cooling method being developed. The process was used for two Austrian customers and enables the temperature of the concrete to be controlled more reliably while using less coolant.

Coca-Cola, too, was convinced by Messer Austria's capabilities: as from January 2007, the three plants Markusquelle, Römerquelle and Coca-Cola will be supplied with 4,900 tons of carbon dioxide annually.

Gas applications have ensured greater quality in the production department of synthetic resin manufacturer CYTEC since 2006. Instead of compressed air, nitrogen is now used in the pipe systems for conveying the products. Messer Austria supplies the nitrogen directly from a membrane plant.



*Independence thanks to a new helium source – the storage tank is in Austria.*



*Good partners: Manfred Neuböck (r.), Chief Operating Officer FACC and Uwe Rosenow, Sales Manager of Messer Austria.*



*Nitrogen is used for cement cooling.*



# Country reports – Eastern Europe



Marcin Ruprecht,  
Engineer,  
Messer Polska

Marcin Ruprecht realized one of his biggest dreams in 2006 by going on a 5-day diving course in the Red Sea.



Krisztina Fehér,  
Sales Assistant,  
Messer Hungarogáz

As a big Schumi fan, Krisztina Fehér had always wanted to have her picture taken with her idol. In 2006 she finally got it – well kind of, at least.



Florin Popilian,  
Network Administrator,  
Messer Romania

Florin Popilian and his fiancée traveled to the Carpathian Mountains in the summer of 2006. They even encountered snow at the Balea Sea.

**Development advantage consolidated** The main areas in terms of development were the completion of the technical center in Gumpoldskirchen, which received an open-air burner test area and another burner test chamber, as well as the burner development for NO<sub>x</sub> reduction. The expanded testing facilities have already borne fruit in the shape of two innovative, flameless burner systems.

Other research activities included the collaboration with the University of Leoben on a project on oxy-fuel burner development and the creation of simulations for combustion processes with the Gas and Heating Institute in Essen, Germany. Furthermore, our partnership with RHI AG, a leading manufacturer of refractory material in the metal industry, enabled us to make new contacts in this segment.

## Messer Polska, Poland

**Facilities at Police upgraded** In 2006, Messer Polska was able to install several new filling points for ArMix as well as N<sub>2</sub> and N<sub>2</sub> Mix at its Police site near Szczecin. This has improved both the product quality and the working conditions, while also leading to increased productivity at the site.

**Analytical laboratories modernized** The two quality control laboratories in Chorzów and Police were extensively modernized. Some of the facilities were completely rebuilt and equipped with modern analytical instruments. Both laboratories now facilitate the withdrawal and analysis of air gases of a purity from 5.0, carbon dioxide up to 4.5 and of gas mixtures. Analysis of medical gases can now be carried out in accordance with the requirements of the European Pharmacopoeia, while the analysis of food gases complies with Directive 96/77/EC.



New filling points are making the plant at Police more productive.



Extensive analyses are possible in the laboratories in Chorzów and Police.





*A Team with the customer: (standing f.l.): Mariusz Skóra (Manager Ziehwerk, Śrubex S.A.), Roman Blachecki (Messer Polska), Günter Wagendorfer (Messer Austria), Dariusz Okas (representative of Ebner in Poland), cowering: Peter Stelzhammer (Ebner Österreich).*

**Gases optimize manufacturing processes** Messer Polska was able to optimize the heat treatment process at Śrubex in Łańcut by implementing a synthetic protective atmosphere. At the same time, a five-year contract was signed for the supply of hydrogen in trailers as well as liquid nitrogen. An order was also won from HCMŚ in Miasteczko Śląskie for the supply of oxygen for a shaft furnace.

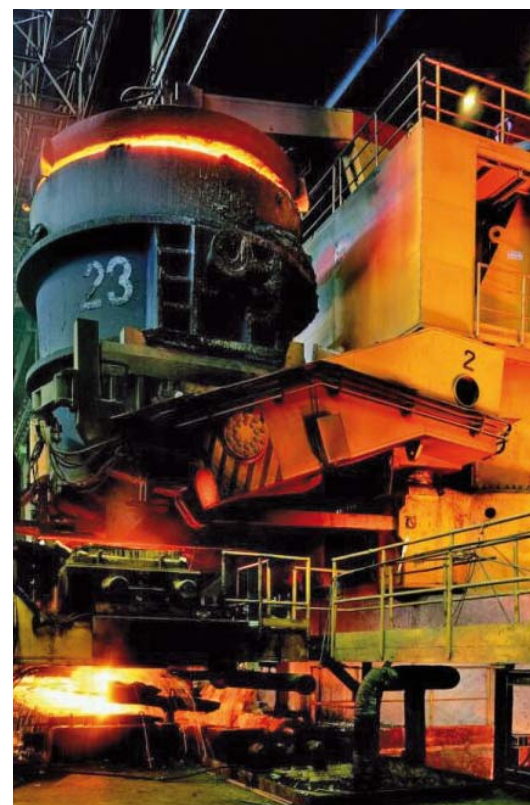
A contract was signed with the Toruń waterworks for the supply of liquid oxygen for ozone production. Tests with ozone for water treatment also took place in two other waterworks.

Messer Polska was also successful in the Food Technology sector: 14 new orders, including for liquid nitrogen for freezing, underline the growth in this sector.

**Full speed for the automotive industry** A contract for the supply of liquid nitrogen was signed with Delphi Polska, an internationally leading system technology provider of components for automobiles and mobile electronics. Delphi Polska uses the nitrogen primarily in heat treatment.

**Excellent safety** Messer Polska received two awards from the European Industrial Gases Association EIGA: a gold award for 1,500,000 accident-free hours at their Chorzów plant and a bronze award for their Środa Śląska plant, which has been accident-free for five years. Messer Polska also received the Road Safety Award.

**Contract won for all cylinder gas supplies** Mittal Steel Poland, by far the largest steel producer in Poland, has been a Messer customer for some time. For example, its Huta Cedler plant has been supplied with liquid nitrogen and hydrogen since 2001. The Huta Sendzimira steelworks have been supplied with cylinder gases since 2005. At the start of 2006, this collaboration was significantly expanded: Messer Polska won the contract to supply cylinder gases for all the Polish steelworks of Mittal Steel Poland. The relevant deliveries commenced on January 16, 2006. The collaboration was so successful that the supply contract was extended in December 2006. It now runs until the end of 2007 and also encompasses supplies for another Mittal Steel Poland company, the Królewska Huta works in Chorzów.



**Tibor Mészáros**  
Engineer at Messer Tatragas,  
Šala, Slovakia



The 5<sup>th</sup> September 2006 was a life-changing day for Tibor Mészáros: his son Peter was born. The proud father was at his wife's side during the birth and cut the umbilical cord following delivery.

*“The birth of our second son was without doubt my highlight of 2006.”*

## Messer Tatragas, Slovakia



*Messer Tatragas was awarded the contract to supply U.S. Steel with hydrogen.*

**Successes in metallurgy and glass-making** Messer Tatragas was awarded the contract to supply the hydrogen for a new sheet metal production facility commissioned by U.S. Steel, and also provided an appropriate supply system. The hydrogen, which is needed to produce the right furnace atmosphere during the annealing process, will be supplied by Messer Tatragas until 2009. In addition, a complete pressure station was delivered and installed. A further contract for the supply of 1,200,000 cubic meters of liquid nitrogen was awarded by Bekaert Hlohovec for its wire heat treatment system. The glass manufacturer RONA Lednicke Rovne, on the other hand, required 1,200,000 cubic meters of liquid oxygen for the implementation of new glass polishing technology.



*Refrigerators are recycled with nitrogen.*

**Fine meat products from the tunnel freezer** The company SMP Weisenhorn produces fine meat and sausage products. A tunnel freezer supplied by Messer Tatragas has further optimized production at the company's Matuskovo plant. After being browned slightly, the pieces of pork fillet are rapidly frozen with nitrogen to ensure that they stay fresh and appetizing for a long time. In total, Messer Tatragas supplied 624,000 cubic meters of liquid nitrogen for this project.

**Proven quality in the food sector** In the last quarter of 2007, Messer Tatragas was awarded the HACCP certificate and thus meets the quality requirements for technical gases in the food industry according to EU Directive 177/2002, the food codex of the Slovak Republic and the principles of HACCP. The certification is further proof of the high quality of the technical gases for the food industry.

**Modern and ecological processing of waste from electrical and electronic equipment** At the end of 2006, the company Electrorecycling in Slovenska Ľupča commissioned a new plant for the recycling of old refrigerators. Thanks to the DuoCondex technology, the recycling company is able to keep the Freon values well below the prescribed limits. In addition, Messer Tatragas also supplied liquid nitrogen, which is needed for freeze separation of the refrigerators and inerting of the entire processing facility.

## Messer Croatia Plin, Croatia

**Successful gas supplies with other companies in the group** Both in its domestic market and in the neighboring markets, Messer Croatia Plin was able to ensure optimum gas supplies. An example of this was the successful supply of liquid oxygen to the Zenica steelworks in Bosnia and Herzegovina, which was achieved realized in collaboration with the sister companies in Serbia and Hungary. Further gas supplies were made to medium-sized enterprises in the area of laser cutting as well as to various new customers who required high-grade shielding gases for their production processes.



# Country reports – Eastern Europe



Beáta Gerstmár,  
Administrative  
Assistant, IT,  
Messer Hungarogáz

*Is there anything cooler than partying long into the night? Not for Beáta Gerstmár, who partied with friends from Budapest and Rome.*



Laura Lucanu,  
Personnel  
Development Officer,  
Messer Romania

*Laura Lucanu experienced a completely different culture when she went to Istanbul for a Psychology conference.*



Dario Cazuola,  
Assistant in the  
Logistics Department,  
Messer Italia

*Off the coast of Sharm el Sheik, Dario Cazuola enjoyed a perfect diving holiday in June 2006.*

**Licenses for medical gases issued** A particularly important event for Messer Croatia Plin was the issuing of production and sales licenses for medical gases. This involved the Croatian health ministry and the licensing authority for medicines carrying out an inspection of the production of medical nitrous oxide and oxygen, which also included the air separation plant at Dugi Rat. In addition, Messer Croatia Plin received a sales license for medical oxygen and nitrous oxide which is valid for five years.



*Messer Croatia was licensed to produce medical gases.*

**Geared towards the high standards of the food industry** In order to be able to offer gases and know-how in the food sector as well, Messer Croatia Plin worked flat out on the introduction of the HACCP system in 2006. In December, a pre-certification audit was carried out by the certification body BVQI, so that certification according to HACCP should be completed in the first quarter of 2007.

**Oxyfuel technology heats glass furnace** The glass manufacturer Vetropack was looking for an efficient heating alternative while carrying out repairs on the hearth of its glass furnace. The solution was oxy-fuel burners and Messer's Oxyfuel technology. Messer Croatia Plin supplied and installed all the hardware for this project and kept the plant supplied for 37 days with a total of 2,100 tons of liquid oxygen.



*Messer Croatia Plin installed a new oxygen tank at Vetropack.*

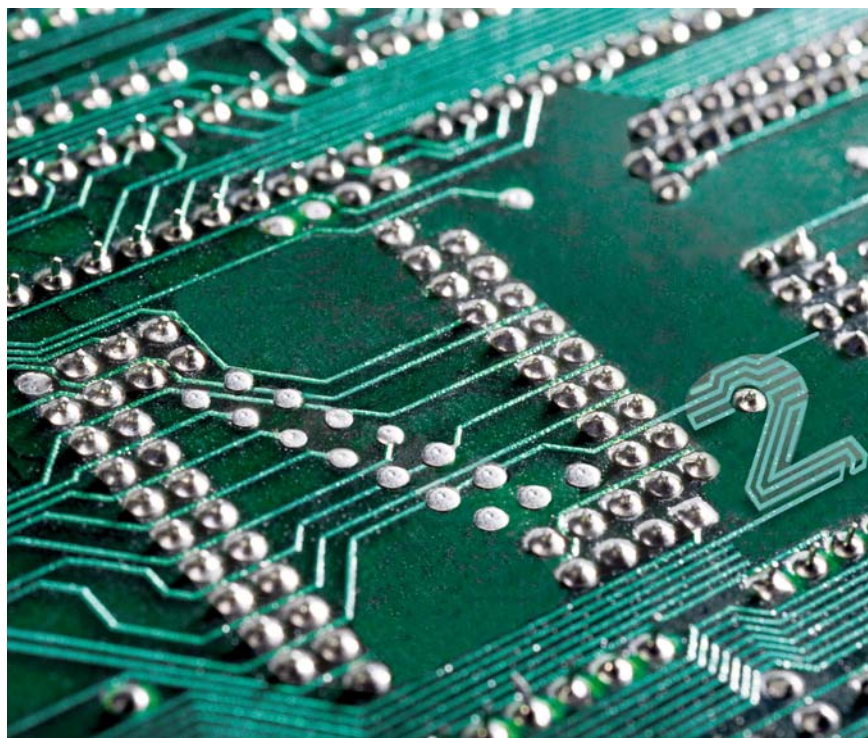
## Messer Slovenija, Slovenia

**Small air separator for Julon** The investment in the on-site facility at Julon was completed and trial operation commenced in July.

**First customer for refrigeration of food shipments** 2006 was a very successful year for application technology, with gas supplies to customers in all sectors of industry up by a quarter. Messer Slovenija supplies dry ice in thermally insulated containers for



*The Messer Group's smallest air separator was installed at Julon.*



PCB assembly with nitrogen.

the refrigeration of the food shipments of Engrotuš Celje. The project is particularly important because it is the first of its kind in Eastern Europe and can therefore serve as a reference project.

**PCB soldering under nitrogen** In industry, the demand of the previous year was exceeded by 41 percent. Soldering under nitrogen is still in demand, with three new projects being won at SG Automotive, Altel and Elrad International in spite of strong competition.

**Response in metallurgy** Heat treatments were carried out at Impol Valjarna and Noži Ravne. Both these projects met with the greatest response in the metallurgical industry.

**Further progress in cutting and welding** In cutting and welding, the trend for plasma cutting and welding continued in 2006. Laser

supply projects were carried out for the following companies: WV Term, Sirius Maribor, Metalia Trbovlje and Arsed. Plasma cutting projects were won at MDM Ljubljana, KAL Mežica and ITAS-CAS.

**Environmental certificate** The environmental standard ISO 14000 is to be introduced in the near future, which will guarantee that our products meet the environmental protection standards demanded by our customers.

## Messer Aligaz, Turkey

**Positive business development** Messer Aligaz was able to increase its sales of bulk and cylinder gases in 2006 thanks to the positive economic climate and industrial development in Turkey.

**In first place for safety** Messer Aligaz received the Gold and Silver Safety Award from the European Industrial Gases Association (EIGA).

**Natalia Vinogradova**  
Secretary and ComManager  
at Elme Messer Gaas,  
Tallinn, Estonia



In 2006, Natalia Vinogradova visited Paris for the first time in her life. This was an opportunity to get to know not only this fascinating city but also many of her colleagues from all over the world who had come to Paris for the communication meeting of the Messer Group.

*“My highlight of the year?  
It has to be the ComMeeting  
in Paris.”*

## Elme Messer Gaas, Estonia, Latvia, Lithuania, Ukraine, Russia (Kaliningrad)

**Very good business development thanks to economic situation in the Baltic states:** In 2006, the total sales of the Messer Group's companies in the Baltic region were increased by more than 20 percent compared with the previous year. The same applies to earnings after tax. The Messer Group's market share increased to approximately 35 percent.

One of the reasons for this development was the positive economic development taking place in the Baltic countries – economic growth was between five and nine percent. Furthermore, the individual governments, partly helped by the EU, endeavored to implement infrastructure measures aimed at ensuring the long-term stability of this development. Nevertheless, entry to the Euro zone will not take place until 2009 due to the existing inflation rates.

**Utilizing the potential of the market, shortening product routes** Elme Messer Gaas focused its market development activities on Ukraine in particular, as this country offers huge potential. The activities in the Ukrainian market are directed from Kharkov. The gas applications most in demand in the Baltic region included wave soldering with nitrogen and wastewater neutralization with carbon dioxide.

The economic efficiency of Elme Messer Gaas was again affected by extensive imports and long transport routes in 2006. This is only expected to change fundamentally when an air separation plant is commissioned at Elme Messer Metalurgs in 2009.

**Market development and investment** All the Elme Messer Gaas companies are now ISO 9001 certified. At the moment, energy costs are still a little lower than in Western Europe, although there is a noticeable trend towards harmonizing these costs.

Total sales have grown considerably, mainly as a result of application technology. This area will see further changes in the future through the progressive conversion from carbon dioxide to mixed gas welding, successful nitrogen processes and the increased use of carbon dioxide for wastewater neutralization.

In 2006, Elme Messer Gaas invested around 2.3 million euros in tankers, gas cylinders and cylinder bundles in order to make a lasting improvement to the supply logistics for liquid and gaseous products.



*Waste water neutralization with carbon dioxide.*



*Elme Messer Gaas invested in hardware to improve the supply of industrial gases.*



# Country reports – Eastern Europe



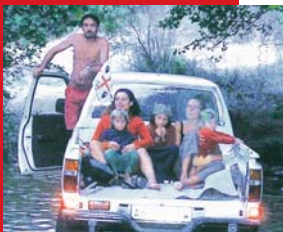
Tamás Bándy,  
On Site Works Manager,  
Messer Hungarogáz

Near the Rudolfshütte roughly 3,000 m above sea level, Tamás Bándy and his son would just love to have "taken off".



Wolfgang Pöschl,  
Managing Director,  
Messer Schweiz

As part of his 25<sup>th</sup> anniversary with the company, Wolfgang Pöschl was particularly pleased by the personal and moving speech that Stefan Messer gave in his honor.



Frederico Mautino,  
Sales Manager  
Medical Gases,  
Messer Italia

Frederico Mautino likes adventure and challenges. He and his family crossed many a waterhole on their 2006 summer vacation.

## Messer Technogas and MG Odra Gas, Czech Republic

**Full service for Spolchemie** Messer Technogas supplies liquid nitrogen and oxygen to Spolchemie in Usti nad Labem. Spolchemie also takes nitrogen from a Messer PSA plant for inerting. In 2006, the Czech subsidiary augmented the biological sewage treatment plant with oxygen, which involved the delivery and commissioning of three injection systems.

**Nitrogen in heat treatment** Grazziano Cervený Kostelec used 1.3 million cubic meters of liquid nitrogen in its heat treatment shop.

### Increased sales in on-site and pipeline business of MG Odra Gas

In accordance with the contractual provisions, the nitrogen supplies to the on-site customer OKD, DPB a.s. were increased by 1,500 standard cubic meters per hour in 2006. Mittal Steel in Ostrava also showed sustained high demand for gas, especially for pipeline gases such as oxygen.

Supply contract extensions were signed with OKD, DPB a.s. and Biocel Paskov.

**Guidelines successfully implemented and checked** The EU sets high production and distribution standards, especially for medical and food gases. These requirements have been taken into account at MG Odra Gas, including through a validation of the processes and control systems at air separation plants and the SF filling plant.

With regard to quality assurance, two parallel successes were achieved: the audits according to ISO 9001 and ISO 14001 were successfully completed.



Waste water treatment plant Spolchemie in Usti nad Labem.



Membrane plant – nitrogen delivery for on-site customers OKD, DPB.



MG Odra Gas received ISO 9001 and ISO 14001 certification.



## Messer Chimco Gas, Bulgaria



*The new headquarters of Messer Chimco Gas has its own filling facility.*



*Ferromix is part of the cutting and welding product range.*

**New location in the capital** The new headquarters of Messer Chimco Gas in Sofia is not only a distribution and administrative center, but also has its own filling plant and logistics systems. Activities have therefore been concentrated at one location while creating seven new jobs at the same time. Messer Chimco Gas has also invested in tanks, tankers and supply equipment.

**Focus on products and performance** In the area of welding gas activities, Messer Chimco Gas stabilized its position by producing the gas mixtures Ferromix X4 as well as liquid argon and CO<sub>2</sub> directly at the customer's premises. The company gained three cryobank customers for liquid nitrogen. 90,000 euros worth of hardware was sold to Melexis, to be followed in 2007 by supplies of liquid argon.

**Industrial gases association formed** Together with its competitors in the industry, Messer Chimco Gas has set up the Bulgarian Industrial Gases Association (BIGA).

**Successful certifications** Messer Chimco Gas was able to register its medical gases as a medicine for a further five years. In addition, the internal audit for the ISO 9001:2000 certification was successfully completed.

## Messer Hungarogáz, Hungary



*Messer Hungarogáz celebrated 100 years of industrial gases.*

**Hungary celebrates 100 years of industrial gases** Industrial gas production in Hungary celebrated its centenary in 2006. To mark the occasion, Messer Hungarogáz organized numerous events for its customers, partners and employees as well as for interested members of the public. Symposia, customer meetings and staff events looked at important areas of applied technology, products and services while also presenting the values of the Messer Group. One of the highlights of the centenary was the official centenary party, which was attended by more than 300 important customers and partners.



**New nitrogen generators for Zoltek and Bosch** Zoltek is one of the biggest carbon fiber manufacturers in Hungary and is also one of the largest on-site customers of Messer Hungarogáz. In 2006, Zoltek signed a contract for a second nitrogen generator which has an hourly capacity of 4,500 cubic meters of nitrogen and 1,500 cubic meters of instrument air (dry compressed air) and is due to go into operation in June 2007.



*A second nitrogen generator was commissioned at Zoltek.*

The new nitrogen generator at Bosch in Hatvan also went into operation on schedule in 2006. The system, which is designed for nitrogen production of 1,000 standard cubic meters per hour, was successfully upgraded within the planned investment costs. The system, built by Cryogenic Engineering, is working to the complete satisfaction of Bosch.

**Géza Gremesberger**  
Project and Service Engineer  
at Messer Hungarogáz,  
Budapest, Hungary



Sun, snow and socializing – that’s what a winter vacation is all about for Géza Gremesberger and his family of seven. And as this picture impressively shows, you don’t have to have skis to get down the hill quickly.

*“Hurtling down a mountainside in a cloud of snow – that’s my idea of fun.”*



*Hankook, the Korean tire manufacturer, selected Messer Hungarogáz as a partner.*



*Ibiden, the Japanese manufacturer of diesel particulate filters, is supplied with nitrogen.*



*Checking the temperature of precooked dishes.*



*A natural gas-oxygen burner for LightTech.*

**Nitrogen for tire manufacturing** Hankook, a well-known Korean tire manufacturer, chose Messer Hungarogáz as its partner to supply gas to its first European production plant. The new facility is located in the Hungarian city of Dunaújváros and requires around five million cubic meters of nitrogen for its annual production of approximately ten million tires. For the time being, Messer Hungarogáz will supply this quantity in liquid form until the new 1,250 standard cubic meters per hour capacity nitrogen generator is put into operation.

**Second PSA plant for Ibiden commissioned** Messer Hungarogáz signed another supply contract with the Japanese company Ibiden in November 2005. Ibiden is a global leader in the development of diesel particulate filters and received 4.8 million standard cubic meters of nitrogen a year under the first contract. In June 2006, a second PSA plant was commissioned, increasing the total value of supplies to Ibiden to 3.1 million euros a year.

**Gentle cleaning with snow blasting** The Japanese company Shinwa uses dry ice for the cleaning and degreasing of plastic components. In this process, the surfaces to be cleaned are treated with carbon dioxide from an automatic snow pistol. This process, known as gentle snow blasting, cleans without wearing the material down. Since 2006, Messer Hungarogáz has had a contract to supply 1,000 tons of liquid carbon dioxide for this application.

**Refrigeration method with liquid nitrogen convinced catering companies** Gasztro-Futár-Honet, a supplier of ready-to-serve dishes and a specialist in canteen operation, was won as a customer for liquid nitrogen supplies. This successful acquisition was clinched by a visit with the new customer to the factory of Slov-Gast in Bratislava, where nitrogen refrigeration methods were already being used successfully. Gasztro-Futár-Honet will receive around 600,000 cubic meters of liquid nitrogen a year.

**Welding workstations upgraded through complete gas supply system** The acquisition of Bombardier Transportation Hungary represents a major success for Messer Hungarogáz in the area of cutting and welding. Bombardier Transportation was already a Messer cylinder customer and has now been won for liquid gas supplies as well – against tough competition. In total, 100 welding workstations were equipped with a complete gas supply system.

**Natural gas/oxygen burner improves quality of glass** LightTech, a manufacturer of solarium and solarium tubes, was looking for a way of increasing the quality of its special germicidal lamp tubes. This had not been possible in the existing six square meters sized furnace using a natural gas/air burner and air preheating by means of a recuperator. Messer Hungarogáz supplied a natural gas/oxygen burner which not only improved the quality of the glass but also reduced natural gas consumption by approximately 50 percent.

**Melting test with natural gas/oxygen burners** In December 2006, Messer Hungarogáz conducted a three-week-long melting test with natural gas-oxygen burners together with General Electric in Zalaegerszeg. The burners were used in two smelting furnaces where Vitrite glass, the black glass found in bulb sockets, is produced. Messer Hungarogáz was able to fully convince the customer and



# Country reports – Eastern Europe



Monica Dobrin,  
Sales Assistant,  
Messer Romania

Bringing together the whole family for a celebration – Monica Dobrin experienced this happy event. The occasion was her mother's birthday and the birth of her niece a few days earlier.



Mesud Ramić,  
Mechanical Engineer  
Application Technology  
Messer Sarajevo Plin

Ensar Ali, the younger son of Mesud Ramić, took his first independent steps at a summer party.



László Bíró,  
Head of Application  
Technology,  
Messer Hungarogáz

László Bíró saw for himself how the jungle has recaptured the city of Ankor in present-day Cambodia. The film "Tomb Raider" was shot here too.

was awarded the practical testing contract for a further six months. The aim of the melting test was to improve the quality of the glass and at the same time reduce the energy requirement of the smelting furnace.

**Oxygen prevents unpleasant odors** Gödöllő, a town near Budapest, was having a problem with unpleasant odors in some areas, particularly in summer. The reason for this was putrefaction in the wastewater mains. Messer Hungarogáz enriched the wastewater of the sewage treatment plant with oxygen, which led to a marked improvement in the air quality within just one day. Oxygenation also proved to be an economically optimal solution.

**Removal of soil contamination** On the site of a former aluminum oxide plant, the soil had become contaminated with alkaline deposition. The required soil clean-up was supported by Messer Hungarogáz through, among other things, the supply and application of liquid carbon dioxide. During the soil clean-up, the groundwater that was pumped out of the ground was neutralized as far as possible with mineral acid, while lances were also used to inject gaseous carbon dioxide below the groundwater table. The carbon dioxide reduced the pH of the contaminated water in a particularly eco-friendly way.



Carbonic acid helps with soil clean-up.

**Research contract signed** Messer Hungarogáz signed research contracts with the Corvinus University and another technical university. The research will focus on the technological optimization of cryogenic freezing of food and the inhibition of potato sprouting through the use of ethylene, as well as focusing on the arc braze welding of coated thin metal plates.

## Messer Sarajevo Plin and Messer Mostar Plin, Bosnia-Herzegovina

**Messer Sarajevo Plin exceeds business plan** The business development of Messer Sarajevo Plin was very positive for 2006: the ambitious planning targets for the sale of liquid gases were not only met, but exceeded. The sale of cylinder gases, was also 15 percent above target. Against this background, Messer Sarajevo Plin was able to further stabilize its position on the domestic market.



Messer Sarajevo Plin consolidated its position in Bosnia-Herzegovina.

**Working for customers** 2006 saw the continuation of the supply of large quantities of oxygen and argon to Mittal Steel Zenica. In the space of ten months, Messer Sarajevo Plin supplied 12 million cubic meters of oxygen and 263,000 cubic meters of argon. A contract for the supply of 1200 tons of nitrogen was signed with Polihem Tuzla. In the cylinder gases sector, we were able to win many new customers, such as Strolit Odzak, the Kakanj coal mine and Novi Most B. Krupa.

**Messer Mostar Plin shows steady growth** Messer Mostar Plin suffered from the continuous fall in gas prices, which was further exacerbated by new competitors. In addition, there were also political problems in the country, which slowed down economic development. Turnover was slightly down on the previous year, but the overall business situation is more positive.

**Quality assurance and investment in hardware** Messer Mostar Plin has been using the ISO 9001:2000 quality management system for several years. In September 2006, a successful verification audit was carried out by an external auditor.

Overall investment in 2006 was about 170,000 euros, mostly for the purchase of new oxygen tanks and gas cylinders.

## Messer Romania Gaz, Romania (Messer Group Romania, Romania)

**Profitable growth in all areas** Messer Group Romania was able to grow profitably in all areas, increasing its turnover by about 25 percent. The market share of the Messer companies in Romania was around 12 percent, an improvement of one percent on 2005. This development was achieved through Romania's economic growth and from the acquisition of important customers in the carbon dioxide sector, for example the Heineken brewery.

### Smederevo air separation plant GMP-certified, transport fleet renewed

Thanks to the certification of the new air separation plant in Smederevo, Serbia, its products, such as food gases and medical gases, can now be used Europe-wide. This not only strengthens our Romanian operation but the Messer Group as a whole. Transport has been optimized by new storage tanks, steel cylinders and vehicles.

**Nitrogen generator for state-owned coal mines** Messer Romania Gaz was able to fulfill a major order for the state-owned coal mines, setting up a mobile nitrogen generator at Petrosani.

In 2007, Messer Group Romania will invest around 3.8 million euros in a new headquarters for the Romanian subsidiaries. A state-of-the-art filling plant for gas cylinders will enable high-purity cylinder gases to be added to the product range and ensure that there is sufficient capacity to meet the anticipated growth in demand. The new location will house the head office as well as a technical center and warehouse all under one roof.



*The brewer Heineken is supplied with carbon dioxide in Romania.*



*Mine workers benefit of a higher security standard thanks to nitrogen.*

**Paula Sterian**

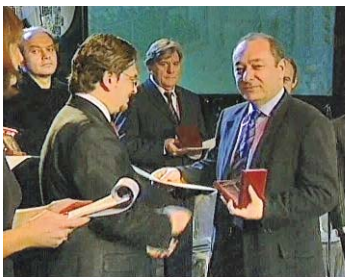
Management Assistant,  
Corporate Controlling & Communications  
at Messer Romania,  
Bucharest, Romania



When Paula Sterian goes on vacation, she almost always feels drawn to the mountains. As a nature lover, she is always fascinated by the wild and romantic landscape, the clear air and the wide range of leisure activities.

*“Unwinding in the mountains – it’s something I could never tire of.”*

## Messer Vardar Tehnogas, Macedonia



*Messer Vardar Tehnogas is a successful Macedonian company.*

**New customers in Macedonian metal industry** The Macedonian subsidiary achieved even better results in the 2006 financial year than in the previous year. The acquisition of new customers in the metal industry – Fiord in Kavadarci and Iskra DS Construction in Kunanovo – strengthens the position of Messer Vardar Tehnogas.

**Treating wine with gases** The largest winery in Macedonia – Tikves in Kavadarci – has been treating its products with Messer gases since 2006.

Messer Vardar Tehnogas was named as one of the best companies in Macedonia by the Macedonian Chamber of Commerce and honored with an award.

## Messer Tehnogas, Serbia



*The new production facility at Messer Tehnogas was officially opened.*

**Guaranteed supply of industrial gases for the Balkans** In March, the Messer Group and Hangzhou Hangyang, the Chinese specialist in the construction of large-scale production facilities for industrial gases, successfully commissioned their first jointly constructed air separation plant in the Serbian town of Smederevo. The plant supplies oxygen and nitrogen to the entire Balkans region, however its main customer is the steel producer U.S.Steel Serbia. As the first of a new generation of air separators, it is equipped with state-of-the-art technology and has very low operating costs. At the same time, the plant was built in a record time of just eleven months. Messer invested 44 million euros in the production facility.

**European requirements fulfilled in Serbia** Messer Tehnogas has been awarded the EU-mandatory HACCP certificate for the safe production of food gases by the Technical Control Board (TÜV) in Munich, Germany. Since Messer Tehnogas supplies its gases, such as CO<sub>2</sub>, nitrogen, argon and nitrous oxide, to the food industry and Messer companies in the neighboring EU, certification became necessary even though Serbia has not yet joined the EU. The HACCP system is audited annually.



MESSER

**Franky Ferreira**  
Maintenance Engineer  
at Messer France,  
Mitry-Mory, France

”



Franky Ferreira loves challenges and the feeling of freedom. He got both of these from a parachute jump over Laon. The free fall lasted all of 10 seconds, but Franky Ferreira's enthusiasm lasted a lot longer.

*“The parachute jump from 4000 meters lasted one minute – the best minute of the year.”*



## Country reports – Western Europe

### Messer France, France



Left: Cleaning with dry ice pellets is increasingly replacing conventional blasting methods.

Right: The DuoCondex system facilitates waste gas cleaning with nitrogen.



Babel is a tracking system for complete tracking of gas cylinders.



The joint venture contracts for Limes were signed in December.

**Good technology references** At Sanofi, Messer France was able to install a reference plant for Messer's DuoCondex process for waste gas cleaning with nitrogen. The cleaning of surfaces with dry ice pellets is also becoming more and more popular, and in response to this the French company has set up a production network for dry ice. The new Snowline Technology (previous name: Cook and Chill System) is being used in the CHR Hospital Centre in Grenoble. The system allows precooked meals to be chilled and reheated using the high-quality heatable and coolable special containers for the central kitchen supplied by our hardware partner Electrocalorique. Messer France supplied two filling stations for liquid carbon dioxide. The system was successfully commissioned at the end of September and serves as a first reference installation in this area.

**Expansion of production capacity** The expansion of the carbon dioxide production facility in Lavéra began in 2006. Messer France is also expanding its network of filling plants by building a facility in Folschviller in the east of France between Saarbrücken and Metz. The new plant is expected to come on stream in April 2007 using the newest technologies, for example Filtrac, the filling plant automation programme developed by Messer France, and Babel, a system for tracking cylinders and their contents. 20 new staff will fill up to 300,000 cylinders a year using the 300 bar technology that Messer France now has in place everywhere. This new filling plant will allow Messer France to guarantee supplies to its customers in Northern and Eastern France. In the long term, it will also be possible to supply customers in the neighbouring countries from Folschviller.

**Joint venture between Messer and Linde in France** Limes, a joint venture between the industrial gas producers Linde and Messer, will invest around 20 million euros in a production facility for air gases in Saint Herblain near Nantes. The plant is expected to be commissioned in the fourth quarter of 2008, creating around 20 new jobs in the Breton region.

The air separation plant will have a production capacity of 300 tons of nitrogen, oxygen and argon per day. The plant will be fitted with state-of-the-art technology. This will facilitate the production of high-purity oxygen for laser applications, of nitrogen that meets all the quality and legal requirements for use in the food industry, and of argon that is primarily required for welding. Many of the manufacturing enterprises based in the west of France will be able to benefit from this air gas source, which will significantly increase the security of supply of industrial gases in the region.



# Country reports – Western Europe



Benno Brinlinger,  
Salesperson,  
Messer Schweiz

Benno Brinlinger became a proud father in 2006. Soon after, he took his son Lennart on a winter vacation, where the little one "disguised" himself as a girl in a pink ski suit.



Attilio Mantrovani,  
Area Manager,  
Messer Italia

Attilio Mantrovani and his children are passionate about tennis. When they are not playing themselves, they love to go to tournaments, such as the Davis Cup on this occasion.



Antje Aubert,  
Management Assistant,  
Messer France

Choosing your wedding dress has to be a highlight for any woman. Antje Aubert experienced it at the end of 2006.

## Messer Carbuos, Spain

**On-site and pipeline contract extensions** The existing on-site contract with Carbuos Metálicos (Air Products) for the supply of 14,500 standard cubic meters of gaseous oxygen and 15,000 standard cubic meters of gaseous nitrogen per hour was extended by 15 years. Pipeline supply contracts were also renewed, for example with Terquimsa, Dow Chemical, Repsol Química and Bayer Polímeros. Messer Carbuos also won two new customers for gaseous nitrogen – namely the shipping companies Aarús Marítima and Transmar. Overall, sales of oxygen and nitrogen via pipeline grew by around six percent compared with 2005. Total sales of gaseous oxygen and nitrogen increased by approximately four percent.

**Successful acquisitions in the bulk business** Several new customers were won for gas supplies in the bulk sector: Colorrobia España, who use liquid oxygen for enrichment in ceramics production; Hochland, who are supplied with liquid nitrogen, oxygen and carbon dioxide for food freezing and wastewater treatment, and the NISA Group, who use medical oxygen in hospitals in Seville and Madrid, making them Messer's first major customer for medical gases in Spain.

Other new customers include Congelados Olot (liquid nitrogen for food freezing), Consorcio d'Aigües de Tarragona (liquid carbon dioxide for drinking water treatment at a waterworks) and Proma Hispania (liquid argon and carbon dioxide for welding in car manufacturing)

**Research project with the University of Tarragona** One of the focal points of research and development in 2006 was a food technology project, which examined the preservation of organic and chemical quality characteristics of cold-pressed olive oil under a controlled atmosphere. The research was carried out in close collaboration with the Organic Chemistry Section at the University of Tarragona.



Consorcio d'Aigües de Tarragona uses liquid carbon dioxide for water treatment.



Colorrobia Espana uses liquid oxygen in ceramics manufacturing.

## Messer Italia, Italia



*In Brugine near Padua, Messer Italia commissioned a 300 bar filling station.*

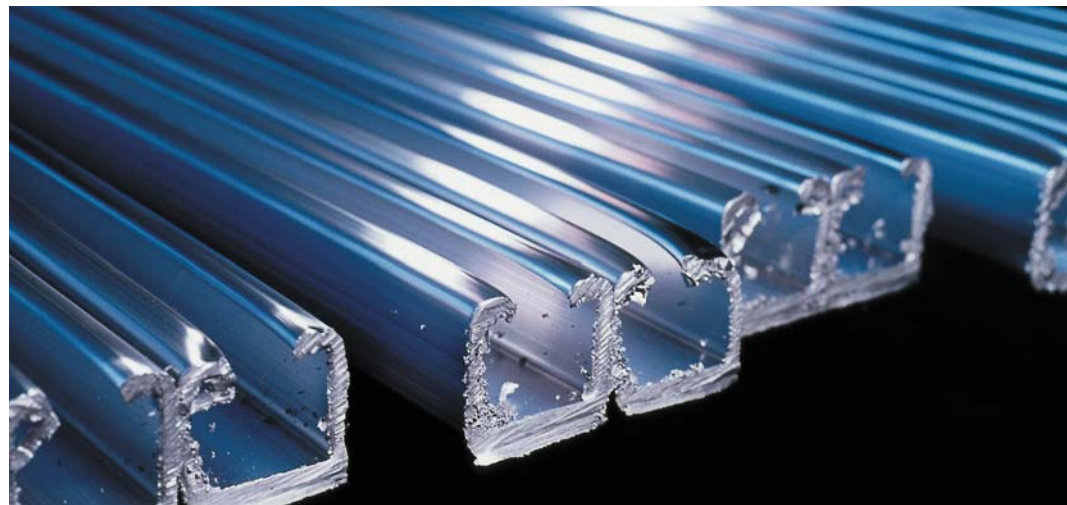
**Sales growth on a broad front** In 2006, Messer Italia managed to increase sales by 12 percent on the previous year. In the bulk business, it was possible to increase sales by two percent in spite of the difficulties on the procurement side. The development of the liquid gas business for oxygen, nitrogen and carbon dioxide was particularly positive. The cylinder business recorded a growth rate of nine percent, thanks in particular to the contribution of argon and argon mixtures as well as gases for the food industry.

The medical segment achieved a disproportionately high growth rate. Sales here were up 45 percent on the previous year.

**New 300 bar filling station** In December 2006, a new fully automated 300 bar filling station was commissioned in Brugine, near Padua. The installation was sourced from sister company Messer France and forms part of a plant that fills technical and medical gases. The gases are mainly supplied to customers in the north east of Italy. Expansion of the medical gases business continued according to plan in 2006, especially in supplies of small containers for liquid sanitary oxygen.

**Certified quality** In addition to ISO certification for the liquid carbon dioxide business, November 2006 also saw successful ISO 9001 certification for the filling and sale of medical gases, food gases and technical gases in cylinders and cryogenic vessels. Furthermore, certification for services in the area of oxygen therapy and associated equipment also took place. The certification was carried out by the Swiss firm Quality Service Schaffhausen AG.

**Successful market development** Key successes were achieved in application technology in 2006. Customers were particularly interested in "INCAL" aluminum extrusion moulding, refrigerated transports and food applications.



**Dr. Dorian Mazzini**

Office Manager at Messer Italia,  
Castelnuovo Berardenga,  
Italy



In April 2006, Dr. Dorian Mazzini received a doctorate in classical philology. The conferment of the title by the President of the Board of Examiners is something he is unlikely ever to forget.

*“Receiving a doctorate in classical philology was a great honor for me.”*

## Messer Schweiz, Switzerland



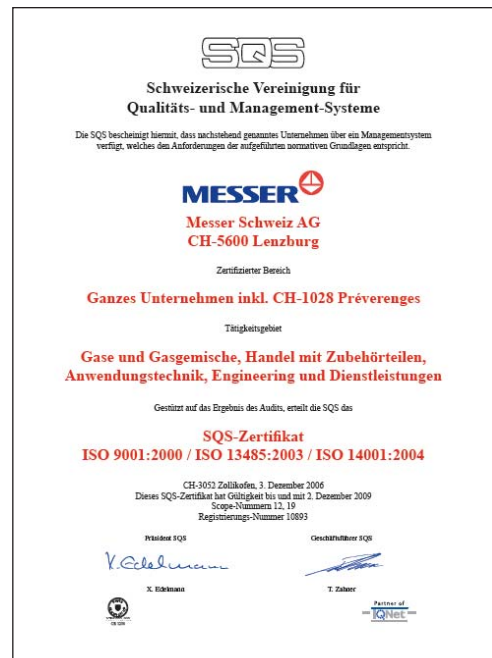
Messer Schweiz commissioned a filling station for 300 bar products.

**Market opportunities for sales growth utilized** The 2006 financial year was a very positive one for Messer Schweiz – sales were increased by eight percent, and the target profit was also exceeded. Competition has further intensified, especially where prices are concerned. There was a sharp increase in demand for medical and inert welding gases in particular.

**New filling plants bring independence** As part of the "Independence" project aimed at securing the independence of Messer, it was possible to commission a filling plant for 300 bar products as well as a filling plant for sulfur dioxide mixtures and PbB specialty gases. This allowed further development of the market for these products. The same applies to the activities in preventive fire protection as well as on-site installations in wine-growing.

**Good results in quality assurance and acquisition** In addition to the introduction of DIN and ISO quality assurance systems, the year 2006 also saw recertification by the SQS with regard to ISO 9001, 14001, 13485 and Annex II.3 of Directive 93/42/EEC. All were successfully completed.

The results of new customer acquisition were just as positive: in total, Messer Schweiz won ten new bulk customers and six orders for on-site installations.



All of the Swiss company's recertifications were successful.

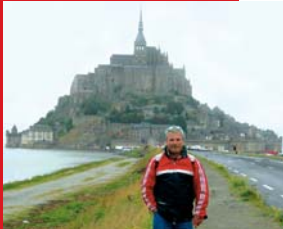


# Country reports – Western Europe



Son of Antonio Almansa, Engineer, Messer Carbueros

Antonio Almansa found his son Oupman's meeting with Snow White truly magical.



François Mas, Customer Service Engineer, Messer France

François Mas visited the French island of Mont-Saint-Michel with its famous Benedictine monastery, in which monks live to this day.



Stefano Cardinale, Salesperson, Messer Italia

Stefano Cardinale (l.) and two of his friends were pleased with their successful "foray" in the summer of 2006.

## Messer Benelux, Belgium and Netherlands

**Patients benefit from stronger Messer Benelux** Since October 1, 2006 the Belgian Messer subsidiary has been the majority shareholder in OxysphAir, the established Belgian home care specialist. OxysphAir has been supplying medical equipment to outpatients of lung treatment centers since 1999. Messer has been supplying medical oxygen in Belgium as a subcontractor since 2001. This acquisition further strengthens Messer Benelux's already excellent position in the home care sector.



Messer Benelux is the majority shareholder in OxysphAir.

**Carbon dioxide for greenhouses** In the Netherlands, the energy companies no longer just supply gas and electricity to the country's greenhouses, but are transforming themselves into full-service providers. The energy supplier Essent has selected Messer as a partner for CO<sub>2</sub> supplies. The supplies are estimated at around 5,000 tons and are due to start in May 2007.



A targeted use of carbon dioxide in greenhouses.

In Belgium, Typhoon has selected Messer as a partner to cultivate the horticultural market by offering alternative energy sources. The wood heating supplier would like to replace the primary fuels with environmentally sound combustion systems. Estimated potential per customer is 1,000 tons of CO<sub>2</sub>.

**For good paper** The paper industry is a completely new line of business. Already, three customers – Smurfit, Stora-Enso and Sappi – have been won for the application of CO<sub>2</sub> for process-water neutralization. This avoids the use of other additives and improves the paper quality.

**Nanotubes – small tubes for big applications** Nanocyl operates a research center for nanotubes in Wallonia and recently began production of the minute carbon tubes. Messer Benelux supplies Nanocyl with 200,000 standard cubic meters of liquid nitrogen for this purpose. The nanotubes are used, among other things, for strengthening many different materials.

## Messer Danmark, Denmark

**First provider of 300 bar cylinder gases** In December 2005, the decision was taken to invest in a new filling plant for 300 bar cylinder gases. At the end of 2006, the plant at the Kolding production site was almost finished and ready to go on stream. The greatest benefit for the consumer is the economical one, as the 300 bar technology offers more gas per bottle and therefore longer utilization times, without needing to increase cylinder size. At the same time, Messer is introducing a new cylinder valve that makes gas withdrawal simple and safe.

Between Jutland and Funen, Messer Danmark has established a network of distribution partners which was operational even before the opening of the new filling station.

*In December, the new filling plant in Kolding was just about to go into operation.*



**Jhon Escalante**

Customer Service Manager at  
Messer Gases del Peru,  
Callao, Peru



In order to inert the storage areas on an oil tanker in the Pacific with nitrogen, Jhon Escalante and his team had to shuttle back and forth between harbor and tanker – a major professional and private challenge for everyone involved in the operation.

*“It was a remarkable experience to see how everyone on board pulled together.”*



## Country report – Peru

### Messer Gases del Peru, Peru



*Messer Gases del Peru supplied nitrogen all the way to the Pacific Ocean.*

Following a restructuring of Sider Peru, Messer Gases del Peru's largest pipeline customer, the Brazilian company Gerdau, one of the world's biggest steel producers, became the main shareholder. This increased the demand for products from Messer's air separation plant in Chimbote.

**Nitrogen inerting for oil tankers in the Pacific Ocean** In addition to mining and various applications in industry, Messer Gases del Peru also operates in the oil sector. The Peruvian company has had a long-standing relationship with its customer Petro-Tech. Messer transported liquid nitrogen to a Petro-Tech oil tanker in the middle of the Pacific Ocean, which was used to successfully inert the storage tanks.

**Nitrogen for giant tires in gold mines** After working with Barrick Misquichilca in Huaraz for several years, this customer decided to lower the operating costs in the gold mines by filling the giant tires of the mining trucks with nitrogen. This not only prolongs the service life of the tires by 15 percent but also enhances safety.



*The huge tires of mining trucks are filled with nitrogen.*



**Jann Xu**

Financial Assistant in the  
Corporate Office of  
Messer China, Shanghai,  
China



Jann Xu's lifelong dream of one day becoming a schoolteacher was realized at "Hope Primary School", which is located in the Dequin district of the Province of Yunnan. The children quite obviously enjoyed their "lessons".

*"It was a wonderful experience to learn and have fun together with children."*

## Country reports – Asia

### Messer China, China



*A new hydrogen plant in Zhangjiagang.*

**Slight growth in Eastern China** In spite of the closure of the SMG production facility, local trading turnover grew slightly. Turnover in Wujiang even saw strong growth thanks to the helium filling station. In Zhangjiagang, a new hydrogen plant with a capacity of 4,000 standard cubic meters per hour and a new air separation unit were commissioned, which will ensure further growth in this region.

**High sales in Southern China** Due to the strong demand in Xianggang, the air separation units were operating at full capacity. This contributed to boosting sales to around 14 percent above target. Another production facility for the steelworks is under construction and is expected to go into operation in October 2007. The facility at Foshan continues to operate at full capacity, with a second air separation unit having been added at the end of 2006 to meet the growing demand in the local market.

**Expanded product supply in Sichuan** As a result of the strong gas demand from the major customer CSST, it was possible to complete the project negotiations regarding the expansion of the on-site collaboration at Chenggang. The contract with CSST provides for the construction of an additional air separation unit. At CSSC's site, the existing air separation unit was dismantled in accordance with the contract and moved to Chengdu, after a new pipeline customer had been acquired there.

**Yunnan achieves sales growth** The sales growth achieved in the region is primarily due to the completion of a new product facility in Yuxi, which went into operation in 2005. The pipeline business with Kungang in Anning remained stable, while pipeline supplies to the flat glass factory in Kunming declined due to the general overhaul of the old production line. The liquid production facilities were operating at full capacity and price growth was stable.



*An air separation plant also came on stream in Zhangjiagang.*



*The air separation unit in Yuxi is one of the "prettiest" in the Messer World.*



# Country reports – Asia



Wilmer Huertas Gilio,  
Operator,  
Messer Gases del Peru

■ Wilmer Huertas Gilio traversed the “Cordillera Blanca” not once but twice – in the summer and the winter. In doing so, he experienced two completely different landscapes.



Betsy Liu,  
Management Assistant,  
Messer China

■ Meeting an aborigine was the highlight of Betsy Liu’s vacation, which she spent in Australia with her husband.



Rosio Cifelli,  
Management Assistant,  
Messer Gases del Peru

■ It is easier to get through difficult periods with the support of colleagues and friends. Rosio Cifelli had this valuable experience in 2006.



Luo Cheng,  
Sales Department,  
Messer China

■ The view from the 5,270-meter-high summit of “Second Girl” in the province of Sichuan was an indescribable experience.

**Numerous new plants commissioned** In Foshan, the second 180 tons per day liquid plant was commissioned in September 2006, and three months later a 420 tons per day liquid plant was commissioned in Zhangjiagang to meet demand from the neighboring chemical park. New filling stations for specialty gases were built at the Wujiang and Chengdu sites. At YMG, enhancements were carried out on the compressor for argon and oxygen buffer systems to meet the increased demand for pipeline gas in Yuxi.

Current projects include the relocation of a 60 tons per day liquefier and the construction of a new cylinder filling plant, which are due to be completed by the middle of 2007.

**Contract success** In September, a contract for the pipeline supply of nitrogen and CDA was signed with Dow Corning. The contract negotiations with Vopak about the pipeline supply of nitrogen were also successful – the contract was signed in December 2006. In addition, a new customer in the electronics sector was acquired for gaseous argon supplies.



In Foshan, a second air separation plant was officially opened.



## Messer Vietnam and Messer HaiPhong, Vietnam

Messer has been operating in Vietnam since 1997. The company is asserting itself on the dynamic Vietnamese market with its innovations. »Messer HaiPhong Industrial Gases« (MHP) operates in the north while »Messer Vietnam Industrial Gases« (MVN) serves the south of the country, whose population of around 82 million is roughly the same as that of Germany.

Together, the two companies have already won more than 300 industrial customers and distribution partners. One particularly notable success is the fact that Messer is perceived as one of the safest and most reliable suppliers by Vietnamese customers. This is one of the reasons for the long-term supply contracts that MHP has been able to sign with international companies like Yamaha Motor, Honda Motor and Kyoei Manufacturing. In the south, too, one of the key areas of activity is the supply of argon and gas mixtures for metal processing. MVN also sells specialty gases and operates its own analytical laboratory for specialty gases and gas mixtures. Furthermore, in spring 2006, the new filling station covering an area of more than 14,000 square meters was commissioned in the Vietnam Singapore Industrial Park near Ho Chi Minh City.



# Group Management report

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The consolidated financial statements prepared by the Messer Group GmbH, Sulzbach, Germany, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the fiscal year from 1 January 2006 to 31 December 2006 were audited by the Wirtschaftsprüfungsgesellschaft KPMG Deutsche Treuhand-Gesellschaft AG. The consolidated financial statements and the group management report were prepared according to the international financial reporting standards (IFRS). Dated 2 March 2007 an unrestricted audit certificate was provided.

Below are shown excerpts from the consolidated financial statements 2006. The complete financial statements 2006 can be viewed at anytime in the Bundesanzeiger.

## 1. Organization of the Messer Group

Messer Group GmbH ("the Company") with its registered office in Sulzbach/Taunus, acts as the management holding company of the Messer Group ("the Messer Group" or "the Group"). Products, services and technologies are sold under the proprietary name of 'Messer'.

The Messer Group has its own operating facilities in each of the main European markets (with the exception of Germany and Great Britain) as well as in China, Vietnam, Algeria and Peru. We were able to expand our presence in Eastern and Western Europe during the financial year ended December 31, 2006 via a number of acquisitions. The Group has a network of Technical Centers of Expertise which was further expanded in 2006. In Germany, teams of experts are in place for the various gas technologies. One highly specialised technical center handles applications in areas such as cold grinding, recycling and cryogenics and another is responsible for developments in the area of welding and cutting. The Group's Technical Center for application processes used in the manufacturing, metallurgy, heat treatment and burner engineering sectors is located in Austria. The Technical Center in France specializes in processes used in the food-processing, pharmaceutical and biotechnology sectors.

The Messer Group can report that it has concluded its second full financial year as successfully as the first. Group net sales for the year ended December 31, 2006 rose by 10 % to K€ 629,973. The Messer Group has been able to maintain and expand its strong position in all of the countries and markets in which it operates.

## 2. Review of economic development

### Business environment

The high price of crude oil was considered to be main risk to the global economy in 2006, followed by dangers emanating from terrorism and military conflicts in key regions, such as the Middle East. The world economy nevertheless developed positively in 2006, with growth rates higher than in 2005.

The USA lived up to its role as the world's economic leader. At the same time, however, the economic progress made in the Asian region, and in particular China, was significant. It can be assumed that the Chinese economy will continue to be the driving force behind global economic growth. The economy of the Euro region experienced a cyclical upturn in 2006, mainly on the back of strong exports. The pace of growth here did, however, slow down somewhat during the course of the year as a result of the appreciation of the Euro. Eastern Europe again performed strongly.

## Significant developments

In the following section, we describe the main developments and trends affecting the financial year ended December 31, 2006.

### Change in net operating assets

Measures were implemented during the year aimed at reducing the Group's working capital (inventories, trade receivables and trade payables). Thus, although net sales (and therefore accounts receivables went up), working capital went down by 16 % to stand at K€ 56,942 at the end of the year (December 31, 2005: K€ 67,572).

### Refinancing

Net interest expense fell by K€ 4,313 in 2006, reflecting the impact of the refinancing measures undertaken by the Messer Group in the previous year. Repayments were made in line with schedule.

### Capital expenditure

Our capital expenditure policy is based on very clear principles, namely that we only invest in areas which will enhance the Group's supply capability and which create opportunities for profitable growth. Capital expenditure on property, plant and equipment in 2006 (excluding first-time consolidations) totalled € 153 million and was therefore equivalent to 24 % of total net sales. As in the previous year, a large proportion of capital expenditure was spent in the area of "on-site" business and on the construction of air separators. These investments serve to increase and safeguard the Messer Group's underlying earnings strength and competitiveness.

One air separation plant was successfully commissioned in Smederevo, Serbia. This plant primarily supplies oxygen and nitrogen to a local steel manufacturer and the rare gas, argon, to other customers in the Balkans. Pioneering the way for a new generation of air separators, the plant is equipped with leading-edge technology and can produce from a very low operating cost base. What is more, the plant was constructed in a record time of only eleven months. Energy consumption at the plant is extremely efficient, thus helping to reduce CO<sub>2</sub> emissions. Messer has therefore strengthened its position in the Balkan region, underpinning the Group's market leadership in Serbia.

# Group Management report

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Construction of a new air separator was also started at our subsidiary in Spain. In the long-term, this will boost growth potential within the existing pipeline system in Tarragona and within the local market for liquid gases. Construction of further air separator plants in China will help to meet the steadily increasing demand from our customers and joint venture partners, whilst at the same time enabling us to expand our market position here.

## Changes in the group reporting entity

The subsidiaries controlled by the Ukrainian holding company, Elme Messer Ukraine, were consolidated for the first time. Messer is a pioneer in this region where growth is expected to be generated in the future. Similarly, Progas AD in Montenegro, which was acquired towards the end of 2005, was consolidated for the first time in 2006.

With effect from September 30, 2006 we also acquired a majority shareholding in OxysphAir S.P.R.L., a Belgian home-care provider. This move has strengthened our position in the area of medical gases.

On January 23, 2006, Cryogenic Engineering GmbH was founded as a joint venture enterprise of Messer Group GmbH and Hangzhou Hangyang Co. Ltd., a Chinese company specializing in the construction of air separator plants. The joint venture's objective is to sell turn-key cryogenic air separator plants to the Messer Group but also to customers. The joint venture's products represent the symbiosis of Messer's longstanding design and operating know-how on the one hand and the production capacity (equivalent to more than 50 air separation plants per annum) that can be provided by Hangzhou Hangyang Co. Ltd. on the other. The range of products extends to air separation plants, oxygen and nitrogen generators as well as the modernization of older plants by integrating more efficient components. The focal point of these activities will be the markets in Western and Eastern Europe (excluding Germany and the United Kingdom, for which a non-competition clause is in place until May 2007).

Messer Tatragas spol s.r.o.'s 51 % investment in Progas spol s.r.o., Slovakia, was sold on February 10, 2006 to Progas – Lager und Abfüllgesellschaft mbH, Gelsenkirchen, Germany. At the beginning of 2006, Messer Schweiz AG sold its investment in Messer Schweißtechnik AG to an entity of the Messer Eutectic Castolin Group (MEC Group). Due to the lack of synergies with other national companies of the Messer Group, our business activities in Finland were sold to Oy AGA AB, a Linde AG entity, on October 31, 2006.

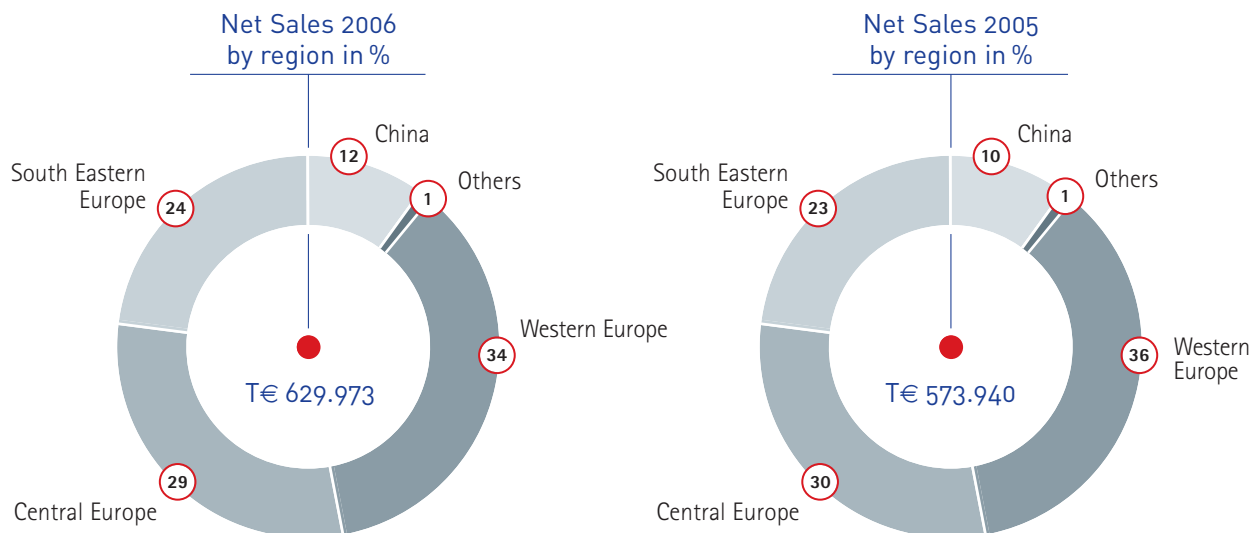
## 3. Review of overall economic position

The general upturn in the global economy, our strong market position in many countries and the boom in China were all positive factors affecting Messer Group's economic position. The currencies of most of the new EU member states stabilized during the year.



## Results from operations

Messer Group generated worldwide net sales of K€ 629,973 in 2006, which can be analysed by region as follows:



Earnings were negatively influenced in 2006 by steep rises in the prices of energy, raw materials and bought-in products. The Messer Group experienced some significant product bottlenecks in Europe in 2006, mainly as a consequence of the fact that production facilities were fully utilized. This problem we will counter by expanding production capacities accordingly. The market is characterized by stiff competition between the international gas suppliers and a considerable number of small and independent suppliers. Encouragingly, general administrative costs, which had been affected by a number of special factors in the previous year, were reduced during the year under report.

Net sales of K€ 214,607 were recorded in **Western Europe**. This represents 34 % of total net sales and corresponds to a 3 % increase over the previous year.

Business developed very differently from one country to the next.

Messer France S.A.S. suffered from product bottlenecks in 2006, particularly in the area of CO<sub>2</sub> and argon. Construction of a further 300 bar cylinder-filling plant was commenced at Folschviller.

# Group Management report

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Messer Italia S.p.A. profited in 2006 from above-average growth in its medical business, partly brought about by an increase in the average selling price of medical oxygen. This was the outcome of the compromise reached in February 2006 between gas providers and health-care authorities to end a legal dispute that had dragged on for several years. Supply capabilities improved in 2006 in North Eastern Italy after a fully automated 300 bar cylinder filling plant commenced operations. A similar facility was also brought on line by Messer Danmark A/S during the financial year 2006.

In Switzerland, Messer was able to strengthen its position as an expert supplier in the area of specialty gases.

In Spain, cylinder gas business in particular was again expanded and long-term contract extensions were agreed with major pipeline customers.

The focal point of activities in the Benelux countries in 2006 was the expansion of medical gas business. Home-care business in particular was expanded following the acquisition of the majority shareholding in Oxysphair S.P.R.L.

Net sales of K€ 183,832 were generated in [Central Europe](#), accounting for 29 % of the Messer Group's total net sales. Net sales in this region therefore increased by 9 %.

The financial year 2006 also progressed satisfactorily for Messer Austria. By the year-end, most of the work on the waste gas disposal unit at the Gumpoldskirchen site was completed. At the Technical Center there specializing in metallurgy, a new combustion chamber was added to the existing burner test-bed to enable additional analyses to be carried out to define burner specifications. In addition, burner facilities were expanded in order to conduct customer trials.

In the Czech Republic, the Messer Group was able to maintain its market position despite product bottlenecks and stiffer competition. New contracts were signed in both the Czech Republic and Slovakia, mainly with foreign investors who have set their sights on the growing markets of Central and Eastern Europe.

In Poland, production quality and performance were again raised thanks to new cylinder filling facilities. Investment in measuring equipment used for quality assurance purposes contributed to production efficiency improvements. This is particularly important for gases used for medical purposes and in the food-processing industry.

Our subsidiaries in the Baltic region and in the Ukraine are currently going through a process of organizational consolidation. The Group's entities in these regions are being merged in order to cut costs and to use available resources as efficiently as possible.

In the **Southern Europe** region, the Messer Group recorded net sales of K€ 148,491 in 2006, corresponding to 24 % of total group sales and thereby reaching an increase in net sales of 14 % compared with the previous year.

The successive entrance of Eastern European countries into the European Union also provides additional opportunities for the Messer Group. At the same time, the downward pressure on prices is intensifying in this region. Our companies in Eastern Europe are growing steadily, with the result that several of the operating entities are now classified as "large-sized" companies under local legislation. Nevertheless, tried and tested components of our business model have been retained, such as looking after customers on a regional basis, pursuing a policy of active market presence and maintaining regular contact with customers. All of these facets allow us to react quickly to changing market conditions.

In Croatia, technical monitoring institutions audited the quality management system at three plants in 2006 and certified them to DIN EN ISO 9001-2000 norm standard. Other plants were successfully recertified. In the area of medical business, the Ministry of Health and the Drug Approval Agency in Croatia issued numerous approvals for the production and sale of products.

In Serbia, the construction of a second air separator was completed successfully. This also enables the Messer Group to produce argon. The plant is already being used to full capacity. In order to secure the Group's position on the market, the Group acquired a majority shareholding in ProGas A.D., Montenegro and in a company in Kosovo.

The Group's operations in Hungary made good progress, with net sales increasing and on-site business performing particularly well. All facilities operated without significant interruption and two new nitrogen plants were commissioned during the course of the year. An agreement was reached with a long-time customer to take a second plant into operation, thus ensuring the continuation of long-term supply arrangements. In conjunction with the centenary of the production of industrial gases in Hungary, Messer Hungarogáz organized a series of events throughout 2006 for its customers, business partners and workforce as well as for the other interested parties in Hungary. Current developments taking place in the industrial gas sector, including the main applications, products and services were presented at various symposia, customer meetings and employee events. At the same time, the opportunity was also taken to present the values considered important by the Messer Group.

Although growth continued to be recorded in Eastern Europe, capital investment in this region is only increasing at a slow rate, with companies having to face higher administration costs and, in some countries, a higher level of state regulation. The employment position in this region is only making slow progress, thus holding down the potential growth in a number of countries. Year by year, competition in the region is becoming more intensive.

# Group Management report

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The **Chinese** economy continued to grow strongly in all sectors in 2006. On average, demand for industrial gases rose by 20 % compared with the previous year. This is also reflected in the figures reported by our Chinese subsidiaries. In total, the Messer Group has thirteen operating entities in the Chinese region. Messer is therefore comprehensively represented throughout all of China's core industrialized centers. The Group is investing here on a targeted basis in all growth sectors. Net sales of K€ 75,770 were generated in China in the financial year 2006, an increase of 27 % on a year-on-year basis. This strong performance was achieved primarily by taking full advantage of existing market potential. Alongside the steel industry, which is now facing an almost saturated market, the chemical and electronic industries continue to gain in significance.

The **Messer Group** recorded a net profit before minority interests of K€ 33,498 for the financial year 2006. The gross profit amounted to K€ 342,015 (54 % of net sales) and the operating profit amounted to K€ 51,071 (8 % of net sales). One-time impairment losses on goodwill totalling K€ 13,560 had a negative impact on the operating profit. The profit before tax and minority interests is stated after a net interest expense of K€ 12,851. This was partially offset by the net positive result from investments.

Taking into account all of the above factors, the profit attributable to the Group (i.e. after deduction of minority interests) totalled K€ 23,096 and was therefore at a similar level to the previous year.

## Net assets position

The balance sheet total (total assets/total equity and liabilities) as at December 31, 2006 amounted to K€ 1,447,051. Of this amount, 81 % related to non-current assets (as in the previous year), and 19 % to current assets. Fixed assets remained by far the largest item in the consolidated balance sheet, increasing during the financial year 2006 by 5 %. Within this figure, capital expenditure was partially offset by write-downs on goodwill. Cash at bank accounted for a further 5 % of the balance sheet total.

The equity ratio was unchanged at 60 %. As a result of repayments and the positive foreign exchange impact on the US\$ denominated USPP, gross debt decreased by K€ 29,251 compared to one year earlier, and represented 23 % of the balance sheet total at December 31, 2006. Net debt decreased by K€ 9,234 to K€ 254,015 (December 31, 2005: K€ 263,249). The negative fair value of cash flow hedges resulted in an increase in other liabilities compared with the end of the previous year.

## Financial position

The Messer Group's liquidity is adequately secured by stable cash flows, unused credit lines of € 128.9 million and high cash balances.

## Cash flow statement

(amounts in € thousands unless stated otherwise)

	<b>Jan.1 to Dec. 31, 2006</b>	<b>Jan.1 to Dec. 31, 2005 <sup>1)</sup></b>
<b>Profit before tax and minority interests</b>	<b>46,771</b>	<b>39,138</b>
Cash flow from operating activities	126,714	120,396
Cash Flow from investing activities	(123,230)	(98,122)
Cash Flow from financing activities	(24,584)	(58,826)
<b>Change in cash and cash equivalents</b>	<b>(21,100)</b>	<b>(36,552)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>92,332</b>	<b>129,361</b>
Impact of foreign exchange rates on cash and cash equivalents	1,083	(477)
<b>at the end of the period</b>	<b>72,315</b>	<b>92,332</b>

<sup>1)</sup> 2005 figures restated as a result of the first-time application of IFRIC 4.

The **cash flow from operating activities**, at K€ 126,714 was K€ 6,318 higher than in the previous year. The profit before tax rose by K€ 7,633. The increases in inventories, trade accounts receivable and trade accounts payable were all connected to the higher level of net sales.

The **cash outflow for investing activities** went up by K€ 25,108, reflecting mainly higher capital expenditure on property plant and equipment and on intangible assets totalling K€ 146,719 (2005: K€ 94,826). These outflows were offset by proceeds of K€ 22,371 from the sale of investments (2005: K€ 2,873).

The **cash outflow for financing activities** went down by K€ 34,242 to K€ 24,584, a significant decrease compared with the previous year (2005: cash outflow of K€ 58,826). In 2005, additional paid-in capital was reduced by K€ 51,300. The Messer Group raised funds in conjunction with refinancing measures undertaken in August 2005. In the financial year 2006, the net cash outflow from new debt and debt repayment totalled K€ 5,765.

In 2007, we will require capital to fund business operations and scheduled capital expenditure and to repay loans and interest as they fall due. These cash outflows can be financed out of cash flows from operating activities, existing cash funds and unutilized credit lines. The Messer Group's strong position in the various markets in which it already operates, combined with expansion into new markets, will enable it to continue to make robust financial progress.

## 4. Other disclosures

### Logistics and supplies

Messer GasPack GmbH, Krefeld ("GasPack")'s activities picked up momentum in 2006. This entity was founded in 2005 to perform inventory management functions, including responsibility for the purchase and standardisation of cylinders and tanks. Purchases were also made in the USA in order to ensure the timely supply of cylinders and tanks to the Group's subsidiaries and to meet the heavy demand for cylinders. The number of cylinders managed by GasPack increased to 1.5 million units. During 2006, the company introduced an inventory management database system for cylinders which enables it to optimize the supply of gas cylinders within Europe. The subsidiaries also have access to this system, thus simplifying cooperation and increasing transparency within the Group. The Group's requirement of more than 430 cryogenic tanks in 2006 was achieved in line with schedule. Framework agreements with the Group's principal suppliers also help to make the supply process smoother.

The Group continued to renew its fleet of tanks used for bulk logistics within Europe. A larger fleet enables the Messer Group to optimize the supply chain to its customers. Plans are in hand to make supply scheduling even more efficient in 2007. New software will be introduced to this end during the coming year.

In 2006, the Messer Group concluded a long-term supply contract for liquid helium with a Russian supplier. Helium extracted from natural gas is mainly used to cool magnetic resonance imaging. As an additional measure to safeguard the continuous supply of helium to customers, Messer Austria GmbH will commission a 115,000 liter storage tank in 2007.

### Corporate culture

A sustainable approach to running the business is the cornerstone of our corporate strategy and enables us to achieve success on a long-term basis. Our approach considers factors relating to the environment, people and society, as well as achieving success in business terms.

Last year, the Group adopted a set of principles in a contractual document signed by senior management which serves as a guideline to employees in all aspects of their work. This set of principles encompasses a vision, a mission and defined corporate values.

Based on these principles, the future strategy of the Messer Group was defined and further developed in conjunction with a corporate conference attended by senior management in 2006. This will be translated into specific measures at an operating level during the course of 2007.

Within the Messer Group, cooperation is based on reliability, honesty, transparency and open communication. We respect and value the different cultural and social customs of all the countries in which we are represented.

Running a business in line with the principles set by the Group also entails social commitment and responsibility. The Messer Group makes financial contributions to various social institutions and projects: for example, as part of the centenary celebrations of production of industrial gases in Hungary, a donation was made by Messer Hungarogáz, via a Hungarian children's foundation, to a children's hospital in Budapest. A Chinese subsidiary donated funds to finance the construction of an infants' school to serve a rural community. The primary objective of the Adolf Messer Foundation (which is related to the Messer Group) is to promote education and science by funding scientific projects and institutions. The Dr. Hans Messer Sozialstiftung (which is also related to the Messer Group) gives donations to people who are in need or sick.

## Other significant events during the financial year

Significant investment activities were carried out during the financial year to improve and develop application processes for gases. Capital expenditure in 2006 related principally to facilities for new products, investment to replace and maintain existing equipment and to expand capacities. The aim of the investment strategy is to create Messer's own independent product supply capability which will, in turn, enhance business value through profitable growth. Profitable operations and a forward-looking financing policy will provide the necessary financial leeway to make this possible.

Ever stricter environmental requirements call for new ideas and modifications to existing processes. Messer has developed new environmentally-compatible processes and technologies in a whole range of areas during the past financial year.

## Our employees

On average, the Group employed 4,246 members of staff worldwide, compared with 4,005 in 2005. The increase related primarily to the growth market China. The increase in Eastern Europe was mainly attributable to changes in the group reporting entity.

The success of the Messer Group relies to a large extent on the comprehensive know-how, long-standing experience, high motivation, desire to perform well and the sheer hard work of its employees. We endeavour to promote the necessary willingness of our employees with the aid of performance and results-related income components and remuneration systems, internal/ external training measures, career promotion systems and social facilities. This is considered the best way of encouraging qualified and talented employees to remain committed. We are fully aware that it is difficult to replace staff in key positions at short notice. The promotion of young talent, combined with career planning measures aimed at tying in motivated, talented and ambitious staff in the long-term, are core aspects of our human resources management.

Since we believe that it is a crucial element of the business to develop employee skills from an early stage, the Messer Group particularly focuses on the training of young people.

# Group Management report

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## Safety, environmental care and quality

Safety, environmental care and quality are firmly embedded within the Messer Group's corporate principles and have a very high priority. The Messer Group is committed to the protection of its employees and to the safe manufacture, use and handling of its products. The working standards employed are designed to ensure the health and well-being of each individual. The environment must always be protected. Work standards are continually being improved in order to avoid any danger for people or the environment. It will only be possible for us to achieve all of our work safety objectives in the future if we maintain a safe and healthy business environment, aimed at meeting the needs and requirements of our customers and employees and complying with all existing legislation.

Messer has won contracts in Slovakia and France with its new patented DuoCondex® process for exhaust air purification. Using this process, compliance with the EU clean air limits, which is influenced by implementation of the Kyoto Agreement, is not only easily achieved in recycling processes and in the chemicals industry, but the values attained are often well below the stipulated maximum limits. The process developed by Messer uses the extremely low temperature of liquid nitrogen to freeze and recover CFCs or solvents from exhaust gases.

In international terms, the accident rate of 2.2 working accidents per million hours worked is below the average of 3.3 for the gas-producing industry as a whole, but higher than in the previous year. The increase was mainly attributable to the greater incidence of minor accidents. Despite this development, the number of lost days was down on the previous year. The Messer Group won ten safety awards in 2006. Internal Safety, Health, Environment and Quality (SHEQ) audits were carried out, a European Directive implemented and a Safety Committee set up at two subsidiaries. Further internal SHEQ audits will be carried out in 2007 with the aim of reducing the accident rate again and strengthening the sense of responsibility of each and every employee. Existing application tools will be simplified and documentation improved. We are convinced that safety and environmental care will represent an even greater focal point of industrial activities in the coming years.

Messer's commitment to the environment is reflected in the fact that management systems are certified to ISO 9001, ISO 14000, ISO 14001 and ISO 17025 standards. These systems serve as tools which can be used to develop and enhance relationships with customers, employees and the environment itself.



## IT environment within the Messer Group

All IT support work for the Messer Group has been handled since mid-2006 by Messer Information Services GmbH, a joint venture set up together with the MEC Group. This IT provider covers the complete range of requirements of both groups. Following completion of the construction work at the computer center in Groß-Umstadt at the end of 2005, installation of the necessary technical equipment and the relocation of all servers and applications was carried out in stages from January 2006 onwards.

The Group's SAP harmonisation project, the largest IT project undertaken by Messer to date, was recommenced in September 2006. This project had been put on ice in May 2005 for a period of one year in light of the strategic realignment of the IT function within the Group and the related construction work at the computer center. The objective is to create a fully harmonized SAP environment with a single client and various accounting sub-units, using the latest SAP release version and a Europe-wide authorization concept. A standardized template, which will be defined for the Messer Group as a whole and which will be used at the European Group locations, will serve as the basis for the harmonized system. The project also involves harmonizing the various structures and processes of existing SAP sub-systems. This will benefit 23 European Messer Group entities which already use SAP. International project teams, comprising some 50 members of staff from various group entities covering the finance/controlling, selling, logistics, purchasing, SHEQ, production, cylinder-filling and fixed asset maintenance functions, assembled at five European Messer locations to restart the project. The purpose of these meetings was to flesh out the business processes identified in phase I of the project with the aim of incorporating all of the processes employed by the Messer Group within a seamless SAP system. The results of the meeting will be used as the starting point for the documentation of business processes and the software programming of these processes within SAP. Installation of the new SAP system will be commenced at the first Messer Group entities from April 2007 onwards.

## 5. Future developments

### Outlook

It is likely that general business conditions will not change significantly in 2007. The global economy is prognosticated to perform better in 2007 than was still being predicted up to mid-2006. The USA will remain the leader of the global economy in the foreseeable future, despite the fact that the growth rate of the US economy is expected to tail off in the near future. Europe will continue to provide momentum for the global economy, notwithstanding the need for reform in many aspects. The pace of growth will be held down by the higher interest rate level likely to be prescribed by the ECB. Given the improved earnings position and rising capacity utilization of many companies and the fact that financing terms and conditions are still favourable, the pace of growth in the Euro region is likely to pick up. The EU, with all of its advantages in terms of infrastructure and education, will therefore remain an attractive location. The convergence of countries within Europe facilitates cross-border transactions and reduces their cost.

# Group Management report

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The Chinese economy will continue to go through the process of turning into a "normal" economy; this will involve a change in direction, away from an export-dominated economy towards a strong domestic economy.

As a result of the prevailing general economic conditions, the Messer Group will be able to achieve growth in new markets and in those markets where it already operates and already has a strong market position. We intend to expand our presence in Western and Eastern Europe. We are also working flat out to gain market share, especially in China's growth regions. The Messer Group also intends to expand its home-care business operations. This is not restricted to the supply of medical gases; it will also cover the related hardware so that, in effect, Messer will make the move from being a component supplier to a system provider. In addition to the medical gas business, we also expect to achieve strong growth rates in the food-processing sector. We will continue to promote our industry mix and to "capture" new market sectors, thus reducing dependency on one single industry and on the economic cycle of one single industry.

The first year of operations of Cryogenic Engineering GmbH was primarily focused on introducing the new company name and its products to the market; tenders issued in 2006 should bear fruit in 2007. The markets in the former Commonwealth of Independent States (CIS) and in the Near East point to above-average growth rates and a willingness for new investment. Cryogenic Engineering GmbH will establish itself in the market as a supplier of high quality equipment at competitive prices.

Recent years have proved that the establishment of joint and cooperation ventures with other partners represent an important area of investment. Arrangements of this kind strengthen our position on the market and help to generate external growth. The Messer Group will also continue to invest in its national companies in the coming years to create a sound foundation for organic growth. A large proportion of this investment will be spent on constructing new air separation plants in Spain, Poland, France and China.

We anticipate that operating activities will continue to progress positively in the future. Since our air separation plants were used to full capacity in 2006, we believe that further growth can be achieved by optimizing capacity utilization at the Group's cylinder filling plants and by rationalizing CO<sub>2</sub> production.

In the medium-term forecasts for 2007 and 2008, we plan further organic sales revenue growth as well as a sustainable improvement in profitability. We are aiming to achieve better operating margins in all of the markets in which we operate. This includes, amongst other measures, reducing transportation costs, optimizing the supply chain and expanding production capacities on a targeted basis.

For the financial years 2007 and 2008, we aim to achieve the following changes in the Messer Group's key performance figures:

	2007	2008
Net sales growth <sup>2)</sup>	4 %	7 %
EBITDA margin	22.1 %	23.4 %
CapEx / net sales	27 %	22 %
Working capital / net sales	12.8 %	13.2 %
Debt / equity and liabilities	25.5 %	26.9 %

<sup>2)</sup> excluding adjustment for foreign exchange impact and changes in the group reporting entity.

## Significant opportunities and risks affecting the future development of the Group

As an international supplier of industrial gases, the Messer Group is exposed to opportunities and risks which inevitably arise in connection with entrepreneurial activities. It is the task of all concerned to take advantage of opportunities when they arise, whilst at the same time ensuring that risk is kept to a minimum. Messer's future results are dependant on the operating performance of its gases business and on whether the economic situation continues to improve. The main risks which could be significant for the net assets, financial and earnings position of the Messer Group are as follows:

- The industrial gases business is subject to intense competition. The level of competition is increasing in conjunction with the process of globalization. This highly competitive environment could reduce Messer's earnings and cash flows in the future. The situation is being exacerbated by the entry of several East European countries into the EU and by the aggressive manner with which competitors are engaging in these new markets.
- We supply a cross selection of industries and sectors (including steel, metal processing, chemicals, petrochemicals, food and beverages, healthcare and glass) on the basis of long-term contracts over periods of up to 15 years. A significant reduction in market demand in any one of these industries or sectors could adversely affect future operating results. However, the Messer Group's revenues are not dependant to any significant degree on any single customer.
- The Messer Group operates globally, making it susceptible to local political, social and economic conditions and to the resulting risks arising in each market.
- Expansion within some markets involves greater demands being placed on the Group's infrastructure. We endeavour to avoid business interruptions for our customers through regular maintenance and monitoring of equipment. In the event of breakdowns or defects, emergency plans and instruments are in place to reduce the financial consequences of a business interruption at one of our customers. The Messer Group is currently expanding its supply structure to ensure that supplies to customers are safeguarded even in emergency situations.

# Group Management report

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- The continuing atmosphere of tension in the Middle East and the growing demand for energy, particularly in China, give reason to believe that oil and energy prices will continue to rise with a corresponding impact on the cost of operating supply items and primary products. Although the Messer Group is often able to pass on cost increases partially to its customers, it is possible that price increases for energy could adversely affect Group profitability.
- The Messer Group is reliant on cash flows from operating activities to repay debt. This is dependent to a large extent on the ability to generate positive cash flows from operating activities.
- The Group has recognized goodwill in the consolidated balance sheet. The application of IAS 36 (i.e. the performance of impairment tests) could result in the requirement to recognize impairment losses on goodwill, if business outlooks of affiliated companies deteriorate significantly compared to the original date of valuation.
- Enterprises are confronted from time to time with allegations that they have infringed industrial rights or legal obligations, that defective products have been supplied or that environmental care laws have not been adhered to. Regardless of their prospects of success, this type of claim can result in very high defense costs. In cases like these, the Messer Group defends itself energetically with the support of both in-house and external experts.
- The importance of information technology for day-to-day work is constantly growing. Our IT center in Germany gives us the scope to create a modern and efficient infrastructure and to improve our business processes where necessary. This concentration does, however, mean that there is a greater risk of business interruption due to natural hazards or human error. In order to avoid these risks, the IT center has its own IT risk management system.
- The integration of new member states into the EU entails risk in that many previously state-run businesses will need to be privatized and restructured in accordance with EU and International Monetary Fund requirements. The number and scale of state grants could be drastically reduced, culminating in numerous closures and mergers in these countries with negative influence on our sales. It is therefore likely that the downward pressure on selling prices will be increased.
- Our international operations are subject to a wide range of country-specific environmental legislation and regulations in areas such as gas emissions, groundwater pollution, the use and treatment of dangerous substances as well as ground surveys and decontamination. This can give rise to liability risks in conjunction with either past or current operations. New environmental requirements, partially resulting from the adoption of EU directives by new EU member states, necessitate that our existing environmental standards (which are already at a very high level) are brought into line with the new requirements. This may result in higher production costs and modifications to the production process. The financial year 2006 shows, however, that the implementation of stricter environmental regulations often results in a more efficient production process and a higher quality product.

The risks presented above are not the only ones to which the Messer Group is exposed. Some risks, which have not yet been identified or which are not considered to be significant from today's perspective could have an adverse impact on the Messer Group if general business or economic conditions were to change. At present, however, we do not see any significant macro-economic risks for the Messer Group. No risks were identified in 2006, either individually or in aggregate, which could have a material adverse impact on the going concern status of the Messer Group. No such risks are pending in the foreseeable future.

We see opportunities for the Messer Group in the overall favourable climate of the global economy and in the Group's presence in growth industries and dynamic markets. The positive development of the markets on which we operate will generate continued demand for our products. This should enable the Messer Group to continue to make good progress. Through investment, we have the opportunity to respond to tougher competition and to maintain our market position. We are taking advantage of the opportunities arising from internationalization and in particular from the eastwards expansion of the EU by purposefully expanding our facilities in this region. This also enables us to engage in new markets with growth potential. The number of European and even globally valid standards requiring a more environmentally compatible approach is on the rise. The Messer Group supports this by pursuing a strategy of continuously developing new and innovative concepts (e.g. CO<sub>2</sub> recovery).

## Risk management

Risk management is an important component of the decision-taking and business processes of the Messer Group. The management structure and reporting processes which are in place ensure that not only developments that could jeopardize its going-concern status are reported regularly and in good time to the relevant levels, but also that other developments which pose a threat to the achievement of short-term performance targets (such as EBITDA or cash flow) are reported. This allows management to initiate measures in good time to mitigate any business and/or financial risks. Risk managers have been designated at each of the subsidiaries with responsibility for ensuring the proper functioning of local reporting systems. Working together with local risk managers, the group risk manager prepares a risk report for the entire group at the start of each year, which is discussed by the Management and Supervisory Boards of the Messer Group.

The Messer Group is adequately insured against potential claims or liability risks, to which it is exposed; these policies ensure that the financial impact can be kept within defined limits or completely avoided. The coverage of these insurance policies is continually optimized. Insurance protection was reviewed in 2006 and brought into line with the needs of the various national companies.

Internal audits were performed at numerous Messer Group entities during the financial year 2006. This included testing compliance with corporate guidelines and sample testing of controls applied to vouchers within the various business processes. Recommendations made by the Internal Audit department were prioritized and implemented before the end of the financial year. Messer Group entities will again be subject to regular internal audits in 2007.

# Group Management report

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As part of the process of reorganizing IT activities, Messer has implemented state-of-the-art technologies to reduce the risk emanating from electronic data processing. Unauthorized access to data and systems and a significant loss of data are virtually ruled out. The efficiency, operational availability and reliability of systems are constantly being monitored. Messer's security concept also includes a detailed emergency plan.

Tax laws and competition regulations can also give rise to business risks. For this reason, the Group obtains a full range of advisory services from in-house and external experts.

## Financial risks

The main financial risks to which the Messer Group is exposed arise from exchange and interest rate changes.

The management of interest rate, currency and liquidity risks is carried out by Group Treasury based on guidelines laid down by management. Group Treasury identifies, measures and hedges financial risks. Treasury guidelines contain general risk management principles and specific rules for defined areas such as the exchange rate risk, interest rate risk, the use of derivative financial instruments and the investment of surplus cash.

Income and operating cash flows are, to a large extent, unrelated to market interest rates, since the Group does not hold any significant interest-bearing assets. Loans or credits subject to variable interest rates are hedged partly with the aid of interest rate swaps and caps (cash flow hedges of future interest payments). Under these arrangements, loans with variable interest rates are converted in substance to ones with fixed or maximum rates. In conjunction with the interest rate swaps, the difference between fixed interest rates and variable interest rates is settled at specified intervals (computed by reference to an agreed amount). In the case of interest rate caps, amounts are only required to be settled at the specified dates if the cap ceiling has been exceeded. At the balance sheet date, derivative financial instruments had only been entered into with renowned international financial institutions. In view of these measures, a currency or interest rate change risk is regarded as minimal.

Based on the overall assessment of the risk situation, management considers that risks are limited and manageable and that they do not endanger the Messer Group's going concern status.

## Events after the balance sheet date

On February 15, 2007, we sold 26 % of our investment (previously 51 %) in Messer Industrial Gases Pvt. Ltd., Sri Lanka. The sales agreement envisages that the remaining 25 % will be sold at some stage during the subsequent 18 month period.

On February 7, 2007, we were released from the guarantee (for an amount of K€ 6,756) previously given to Air Liquide Deutschland GmbH in conjunction with indemnification of obligations under guarantee obligations connected to an earlier export transaction of a former associated company of Messer Griesheim GmbH.

## Our thanks to Messer employees

Management would like to express its gratitude to all employees for their hard work, creative ideas and personnel efforts during the financial year 2006. Your commitment has made a vital contribution to Messer's success in 2006.

The management of Messer Group GmbH has fairly presented the business performance, the results of operations and financial condition of the Messer Group to the best of its knowledge and has appropriately evaluated and described the opportunities and risks which are relevant for the future development of the Messer Group.

Sulzbach, March 2, 2007

MESSER GROUP GMBH

# Notes

## Consolidated Income Statement for the Year ended December 31, 2006

(amounts in € thousands unless stated otherwise)

	Jan.1 - Dec. 31, 2006	Jan.1 - Dec. 31, 2005 <sup>1)</sup>
Net sales	629,973	573,940
Cost of Sales	(287,958)	(256,387)
<b>Gross Profit</b>	<b>342,015</b>	<b>317,553</b>
Distribution and selling costs	(212,588)	(195,750)
General and administrative costs	(64,999)	(67,965)
Other operating income	13,723	14,499
Other operating expenses	(10,631)	(9,268)
Impairment losses on intangible assets and property, plant and equipment	(2,889)	(1,802)
Impairment losses on Goodwill	(13,560)	(5,270)
<b>Operating profit</b>	<b>51,071</b>	<b>51,997</b>
Income/(Expenses) from equity method investments	3,687	(1,638)
Other investment income, net	6,288	3,700
Interest expense, net	(12,851)	(17,164)
Other financial result, net	(1,424)	2,243
<b>Financial income (expense), net</b>	<b>(4,300)</b>	<b>(12,859)</b>
<b>Income before income taxes</b>	<b>46,771</b>	<b>39,138</b>
Income tax expense	(13,273)	(5,966)
<b>Net income</b>	<b>33,498</b>	<b>33,172</b>
Of which attributable to:		
Shareholders of the group parent company	<b>23,096</b>	<b>23,367</b>
Minority interests	<b>10,402</b>	<b>9,805</b>

<sup>1)</sup> 2005 figures restated as a result of the first-time application of IFRIC 4.



## Consolidated balance sheet at December 31, 2006

(amounts in € thousands unless stated otherwise)

	<b>Dec. 31, 2006</b>	<b>Dec. 31, 2005<sup>1)</sup></b>
<b>ASSETS</b>		
Intangible Assets	525,364	540,907
Property, plant and equipment	600,591	532,835
Equity method investments	17,143	10,421
Investment in other companies and financial investments	13,391	19,198
Deferred tax assets	7,941	9,352
Other non-current receivables and assets	11,606	9,454
<b>Non-current assets</b>	<b>1,176,036</b>	<b>1,122,167</b>
Inventories	24,132	24,063
Trade receivables	130,313	117,610
Held-for-sale assets	261	3,979
Other receivables and other assets	43,994	31,656
Cash and cash equivalents	72,315	92,332
<b>Current assets</b>	<b>271,015</b>	<b>269,640</b>
<b>Total assets</b>	<b>1,447,051</b>	<b>1,391,807</b>
<b>EQUITY AND LIABILITIES</b>		
Share capital and additional paid-in capital	697,451	697,451
Other reserves	5,905	5,905
Retained Earnings	57,385	34,018
Net income	23,096	23,367
Fair value reserve	1,050	(199)
Currency translation reserve	13,957	6,861
	<b>798,844</b>	<b>767,403</b>
<b>Minority interests</b>	<b>69,829</b>	<b>61,828</b>
<b>Equity</b>	<b>868,673</b>	<b>829,231</b>
Provision for employee benefits	16,632	14,922
Other provisions	13,151	12,608
Non-current financial liabilities	278,330	311,519
Deferred tax liabilities	46,583	45,276
Other liabilities	378	345
<b>Non-current liabilities</b>	<b>355,074</b>	<b>384,670</b>
Other provisions	12,936	14,306
Financial liabilities	48,000	44,062
Trade payables	97,503	74,101
Other current liabilities	64,865	45,437
<b>Current liabilities</b>	<b>223,304</b>	<b>177,906</b>
<b>Total equity and liabilities</b>	<b>1,447,051</b>	<b>1,391,807</b>

<sup>1)</sup> 2005 figures restated as a result of the first-time application of IFRIC 4.

# Notes

## Statement of Income and Expenses recognized directly in Equity

(amounts in € thousands unless stated otherwise)

	Jan. 1 - Dec. 31, 2006	Jan. 1 - Dec. 31, 2005 <sup>1)</sup>
Translation adjustments relating to foreign subsidiaries	7,259	25,008
Change in fair values of derivative financial instruments	5,690	(5,755)
Deferred taxes	(558)	1,820
Unrealized gains/(losses) on held-for-sale assets	(3,883)	3,736
<b>Income and expenses recognized directly in equity</b>	<b>8,508</b>	<b>24,809</b>
Net income	33,498	33,172
<b>Total income and expenses recognized in equity</b>	<b>42,006</b>	<b>57,981</b>
Of which attributable to		
minority interests	10,565	13,253
shareholders of the parent company	31,441	44,728

<sup>1)</sup> 2005 figures restated as a result of the first-time application of IFRIC 4.

## Consolidated Statement of Cash Flows for the Financial Year 2006

(amounts in € thousands unless stated otherwise)

	<b>Jan. 1 - Dec. 31, 2006</b>	<b>Jan. 1 - Dec. 31, 2005<sup>1)</sup></b>
<b>Income before income taxes and minority interests</b>	<b>46,771</b>	<b>39,138</b>
Income taxes paid	(12,636)	(13,562)
Depreciation and amortization of property, plant and equipment and intangible assets	91,966	82,744
Impairment losses on non-current financial assets	255	5,351
Other non-cash income	(13,627)	(839)
Changes in investments in equity method investments	(2,694)	4,079
Interest expense, net	12,851	17,164
Other financial income, net	1,424	(2,243)
Changes in inventories	(1,948)	(1,103)
Changes in trade receivables and other assets	(24,136)	(5,572)
Changes in provisions	782	(165)
Changes in trade payables and other liabilities	27,706	(4,596)
<b>Cash Flow from operating activities</b>	<b>126,714</b>	<b>120,396</b>
Purchase of property, plant and equipment and intangible assets	(146,719)	(94,826)
Purchase of investments and other non-current assets	(10,954)	(10,461)
Acquisition of shares of other shareholders	—	(7,939)
Proceeds from disposals of property, plant and equipment and intangible assets	7,535	7,848
Proceeds from disposals of investments	22,371	2,873
Interest and similar income	4,537	4,383
<b>Cash Flow from investing activities</b>	<b>(123,230)</b>	<b>(98,122)</b>
Changes in capital	—	(51,300)
Proceeds from non-current financial liabilities	1,160	33,356
Repayment of financial liabilities	(5,765)	(16,270)
Dividends paid to minority shareholders	(5,822)	(3,081)
Contributions by other shareholders	3,802	—
Interest and similar expenses paid	(17,477)	(18,678)
Other financial income/(expense), net	(482)	(2,853)
<b>Cash Flow from financing activities</b>	<b>(24,584)</b>	<b>(58,826)</b>
<b>Change in cash and cash equivalents</b>	<b>(21,100)</b>	<b>(36,552)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>92,332</b>	<b>129,361</b>
Exchange rate impact on cash and cash equivalents	1,083	(477)
<b>Cash and cash equivalents at the end of the period</b>	<b>72,315</b>	<b>92,332</b>

<sup>1)</sup> 2005 figures restated as a result of the first-time application of IFRIC 4.

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