MESSER

Growth through our own efforts

Messer World highlights of

2005

Brief profile of the Messer Group

Messer is the largest owner managed industrial gases specialist and has more than 60 companies operating in 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 development 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

Contents

Each year no two days are the same. At Messer we have used 2005 for consolidation and the strengthening of synergies. From 1 January to 31 December 2005 we gave our all to meeting the needs of our customers, developing innovations and achieving profitable growth.

Yet Messer too has moments that stand out. Days on which we achieve an ambitious target. Highlights that are a particularly clear demonstration of our expertise. Or events that allow us to display our individual strengths.

We have made these really special moments the focal point of our annual report. We present a chronology of events that make the Messer World so unique and show why we were the first choice for many customers in 2005.

2005: Chronology of a very special year

By the way, if you like, you can detach the individual "calendar sheets" from the report, for example as an eye catcher in your office, or as a reminder of a financial year for the Messer Group that exceeded expectations by a wide margin.

Dear Business Partners, Customers, and Employees,

The first full financial year of the Messer Group and Messer Eutectic Castolin (MEC) as part of the same Messer family has been very successful for both companies in spite of a difficult global economic situation. The Messer Group's growth trend from Western to Eastern Europe and on to China has continued with growth rates of between 4 % and 20 %. Overall, this translates into an increase in turnover of more than 10 % from 521 million euros to 575 million euros. MEC, our sister company, recorded a 12 % increase in turnover to 366 million euros.

At the beginning of the year, we established Messer GasPack GmbH. We want to save costs and introduce uniform standards through the central management of our European steel cylinder fleet.

On 25 January the MEC World Meeting of all managers of the Group took place in Sulzbach, Germany. The participants from every continent were introduced to the new shareholder structure as well as the strategy as a new member of the "Messer World".

At the beginning of May, amid much publicity, we officially opened our new research and development centers in Mitry-Mory, France (for food, chemicals and the environment), and Gumpoldskirchen, Austria (for metallurgy, glass and industry). Together with the cold grinding center and the technical centers for cutting and welding in Krefeld, Germany, and Dällikon, Switzerland, the Messer Group once again has superbly equipped research and development facilities.

On 27 May, at this year's EIGA summer conference in Cannes, France, the Messer Group won 22 safety awards while Messer Italia received the "Peter J. Jackson Award". The safety of our customers and employees when handling gases is our number one priority – in 2006 as well.

A major issue was the refinancing of the Messer Group. In mid-May, we organized a "roadshow" in the USA aimed at encouraging American insurance companies to invest in our enterprise. The results were very good and showed us that in the capital market Messer is again an interesting investment proposition.

In mid-September, we had the opportunity to showcase our two groups as part of the "Messer World" for the first time to an interested audience from all over the world at the international "Cutting and Welding" fair in Essen, Germany. It was a proper "comeback" which brought back memories of times past. We are back, and this time stronger than ever before, with the Messer and Castolin Eutectic brands. A comprehensive product range focusing on industrial gases, cutting systems, filler materials for wear protection as well as equipment and fittings for torch cutting and welding make us a competent partner for industry.

BIT Analytical Instruments in Schwalbach, Germany, our manufacturing plant for medical, diagnostic and industrial OEM manufacturers, has also seen very good growth this year. This has resulted in the acquisition of additional new customers for the manufacture of instruments.

Our corporate conference in Dubrovnik, Croatia, in mid-October was an opportunity to celebrate the first 17 months of the new Messer Group. The highlight of the conference was the collective adoption of our new vision, mission and corporate values. This Dubrovnik Agreement, which was signed by every participant, is our Group's mission statement and will go down in our company's history as an important milestone.

In mid-October, the new facilities in Gumpoldskirchen, Austria, also hosted the first European Messer Steelworks Symposium, which proved very popular with our customers as well as our partners and suppliers.

This year we have again invested a lot of money in our common future, for example in China, where the fourth air separation plant was commissioned in Xiangtan. A decision was made regarding the construction of the fifth facility. In Yuxi, we commissioned another air separation plant at the Kunming Iron&Steel plant. The hydrogen plant in Zhangjiagang was started at the end of the year. The first air separation plant built in Europe together with our Chinese partner HangYang in Smederevo, Serbia, has been completed. The acquisition of a regional gas company in Kharkov has allowed us to enter the Ukrainian industrial gases market.

There are many new projects already in progress, which means that we can look forward to the future with courage and confidence. Together with our customers and partners, we have once again achieved a great deal this year. We will be delighted if you continue to accompany us with confidence and vigor on the successful path being pursued by our Group.

Stefan Messer, CEO

Dr. Hans-Gerd Wienands, CFO

Supervisory Board's Report

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 17 February, 20 April, 6 September and 15 November, 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 31 December 2005 as well as the business report of Messer Group GmbH have been audited and certified by the auditing company Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. The audit reports were discussed at the Supervisory Board meeting on 26 April 2006 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 2005 financial year.

Supervisory Board of Messer Group GmbH:

Dr. Jürgen Heraeus,
Chairman

Dr. Bodo Lüttge,
Deputy Chairman

Dr. Alexander Dibelius

Dr. Karl-Gerhard Seifert

Peter Wilhelm
Storm van's Gravesande

Sulzbach, 26 April 2006

Supervisory Board

Jürgen Heraeus

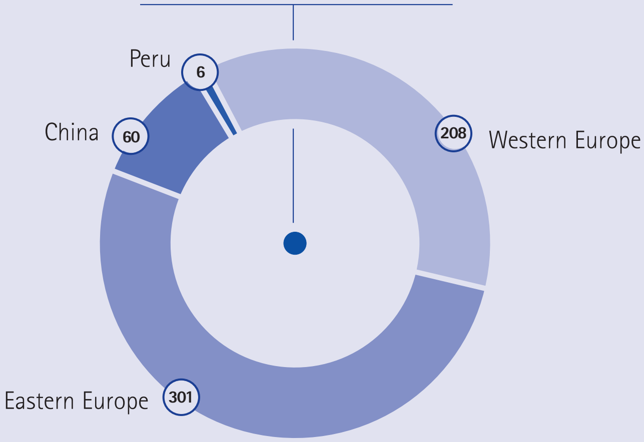
Dr. Jürgen Heraeus
Chairman

Key Messer Group figures at a glance

Net sales	575 million €
EBITDA	138 million €
EBITDA margin	24 %
Investments	108 million €
Employees	4,005

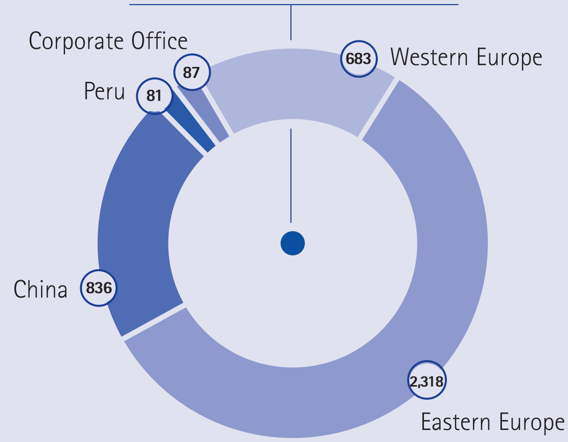
Net Sales (consolidated) 2005
in million € by region

575 Total Net Sales

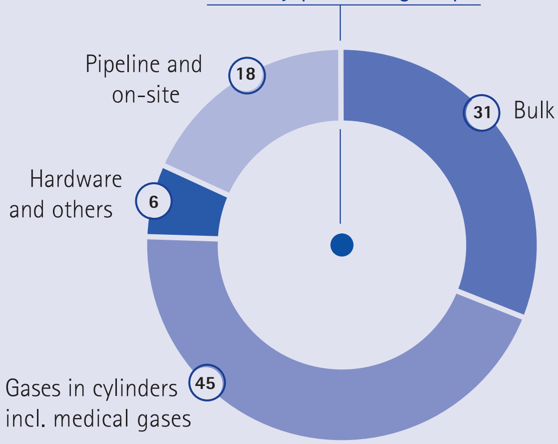


Number of employees 2005
by region

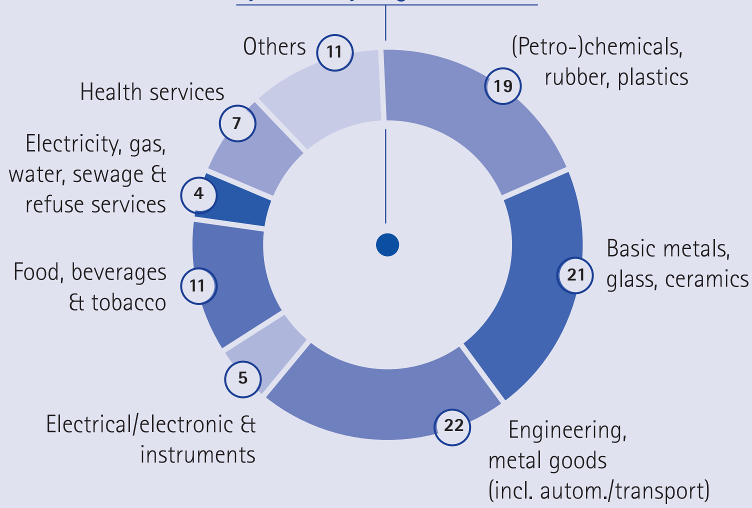
4,005 Employees



Net Sales 2005
in % by product groups



Net Sales 2005
by industry segments in %



Part of the Messer World

Messer Industrie buys out Messer Eutectic Castolin shares

Cutting and Welding belongs to Messer again. At the end of January 2005, Messer Industrie GmbH, the holding company of the Messer family, with Stefan Messer and Dr. Hans-Gerd Wienands as executive directors, acquired a majority shareholding in the Messer Eutectic Castolin Group (MEC). With the additions of the Wear & Fusion Technology, Messer Cutting & Welding and BIT Analytical Instruments divisions, the Messer World is complete again.

Messer Industrie GmbH was restructured by transferring its shareholding in MEC to the newly established affiliate MIG Holding GmbH. Since then, the two groups – Messer Group, for the area of industrial gases, and MEC Group – have had independent status in terms of corporate law.

The Messer World companies showcased themselves together for the first time at the "Cutting and Welding" trade show in Essen, Germany.

Messer Cutting & Welding is a division of the company that was created from the old Adolf Messer GmbH and then merged with Messer Griesheim GmbH in 1965. When 2/3 of Messer Griesheim GmbH belonged to Hoechst AG, the Messer family bought out Cutting and Welding from Hoechst AG in 1999 and subsequently contributed it into a new firm in which the American private equity firm, Carlyle Group, was the majority shareholder. Together they then acquired the Castolin Eutectic Group, which was amalgamated and restructured as MEC. By the end of 2004, MEC was debt-free thanks to good management. In December 2004, Messer Industrie GmbH signed a contract for the buyout of the Carlyle shares, which was implemented in January 2005.

"Big and strong" – as part of the Messer World

This year we have introduced the brand "Part of the Messer World" for Messer Group, Messer Cutting & Welding, Castolin Eutectic and BIT Analytical Instruments. There are synergies between these companies which are already being used at many levels. At the Cutting and Welding Trade Show in Essen, Germany, the Messer World showcased itself

Part of the Messer World

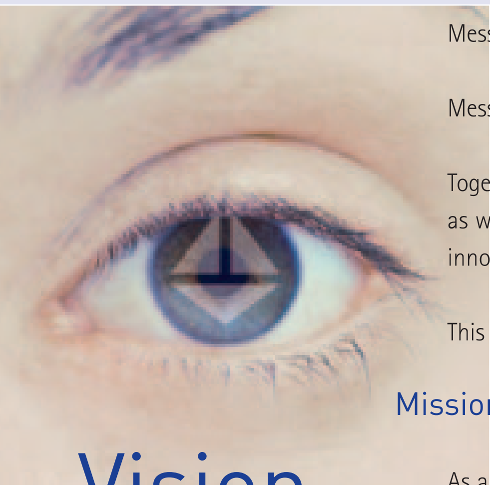
under one roof for the first time. In fact we had four separate exhibition stands, but the shared motto – Part of the Messer World – turned the four stands into one huge stand. Our customers were presented the full product range – and at the same time the event served to bring the different Divisions even closer together.

The »Commitment of Dubrovnik«

The corporate conference in Dubrovnik, Croatia, was a milestone in the history of our company. The conference agenda included our corporate strategy and our new mission statement. Since then, every employee is being supported by the mission statement of the Messer Group, which consists of a vision, a mission and our corporate values. In the months leading up to the corporate conference, a working group consisting of ten managers from different countries developed the mission statement and finalized it together with all other managers. The »Commitment of Dubrovnik« was then signed in Dubrovnik. The mission statement of the Messer Group is supposed to penetrate all levels of the organization while at the same time delivering a clear message to customers and the public. Who are we, what do we look like, what are our goals, what are our values – these questions are answered in our mission statement.

The Mission Statement of the Messer Group

Vision



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

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.

Mission

Values

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.

January

Law and Insurance
Bearing responsibility, minimizing risks

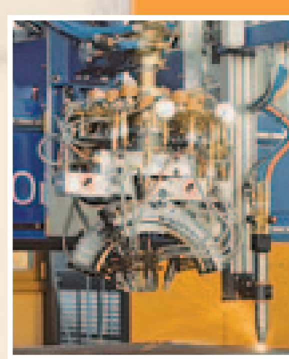
In 2005, the Group Guidelines applicable to all Messer companies were completely revised and implemented. The Group Guidelines describe the fundamental business processes of the Messer Group, thus forming the basis for firm and optimized decision-making within the Group. They also ensure the efficiency and consistency of reporting, so that processes and business activities are transparent across the whole Messer Group. The Group Guidelines thus provide a clear framework for identifying, evaluating and preventing risks and therefore form an essential part of a professional risk management system.

The Group Guidelines also led to a Code of Conduct being introduced for the Messer Group and its employees. This Code of Conduct commits the Messer Group and its employees to responsible as well as ethically and morally impeccable conduct.

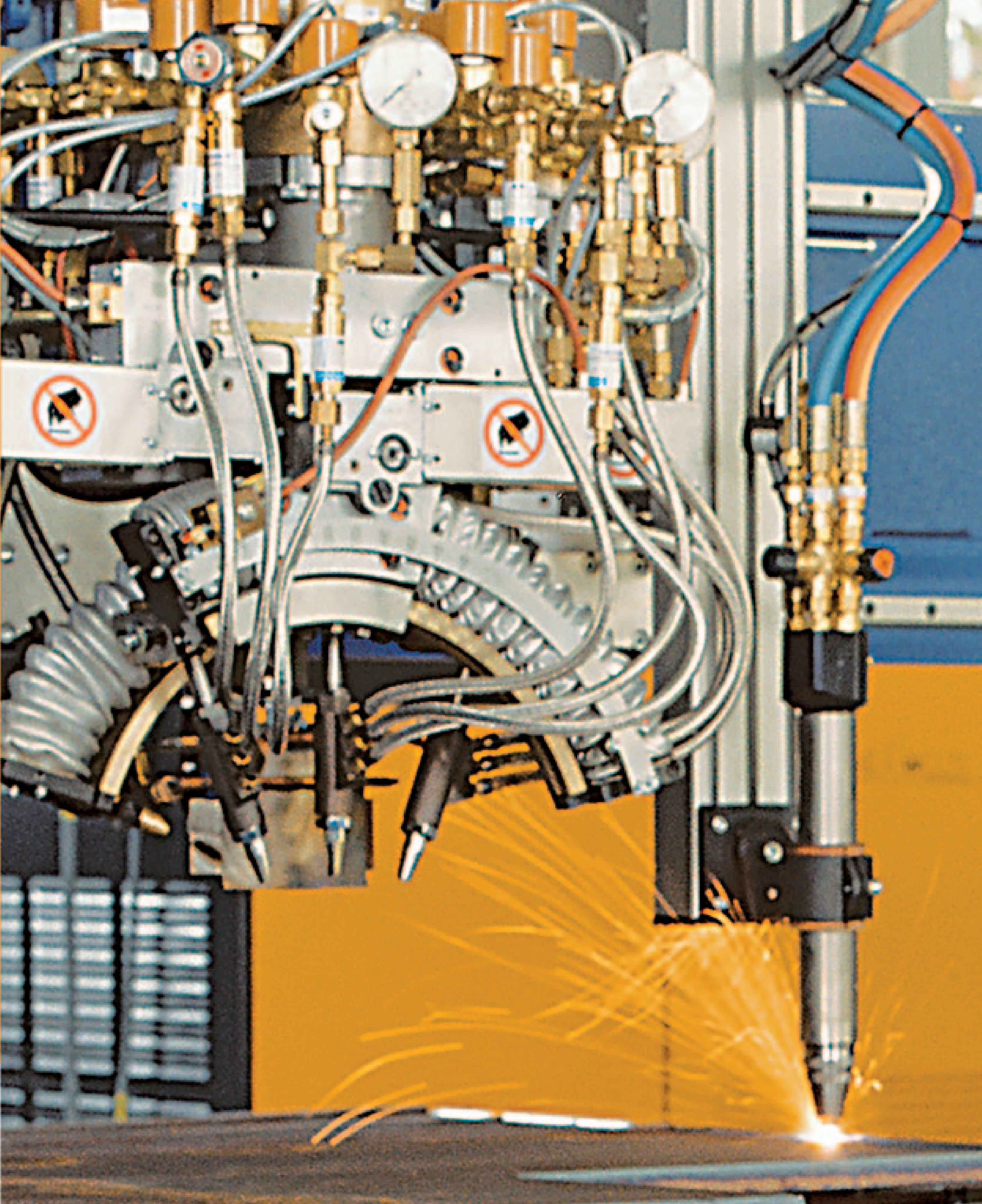
The introduction of internal guidelines for export control is an example of how the standards of responsibility for companies within the Messer Group have been raised. These requirements are based above all on the restrictions put in place in connection with the international fight against terrorism. The appointment of an Export Manager and the regulation of export operations to critical countries via the Group Legal Department ensures that the Messer Group will take advantage of every available opportunity for developing new business activities while at the same time fulfilling its responsibility as a company with global operations.

Treasury
Refinancing successfully completed

The period during which the Messer Group had to live under the restrictions of a leveraged-financed company ended on 2 August. A refinancing was successfully completed just 15 months after the restructuring of the Messer Group. The main objectives of this were to reduce the financing costs and ease the credit restrictions imposed by the banks. The capital market conditions also were favorable for this refinancing, which results in a saving of approximately four million euros per year. It was also made possible by the better than expected results, which gave a sustained boost to the capital markets' confidence in the Messer Group and contributed significantly towards a credit commitment no longer being seen as risk financing.



The Messer Eutectic Castolin Group (MEC) has been part of the Messer World, since January 2005, bringing extensive expertise in cutting and welding (see also page 8).



Welcome (back) to the family

In January, the Messer family acquired financial investor Carlyle's shares in the Messer Eutectic Castolin Group (MEC). Since then, the Messer World has been made up of Castolin Eutectic, Messer Cutting & Welding, Messer Group and BIT Analytical Instruments. Messer Cutting & Welding is a division of the company that was created from the old Adolf Messer GmbH and then merged with Messer Griesheim GmbH in 1965. When 2/3 of Messer Griesheim GmbH belonged to Hoechst AG, the Messer family bought out Messer Cutting and Welding from Hoechst AG in 1999 and subsequently incorporated it into a new firm in which the Carlyle Group was the majority shareholder. Together they acquired the Castolin Eutectic Group.

Messer GasPack GmbH (MGP) began operation on 1 January 2005. MGP was formed in order to, among other things, reduce investment costs through the bundling of procurement activities and the standardization of gas cylinders *(see also page 21).*

At the beginning of 2005, the Kiev-based Ukrainian subsidiary Elme Messer Ukraine joined the Messer Group. The company is a wholly owned subsidiary of Elme Messer Gaas, in which the Messer Group and Baltic Ship Repairers each have a 50 % shareholding as partners *(see also page 40).*

The new financing arrangement consists of a so-called US Private Placement with international insurance companies for 212 million euros over a term of seven and ten years with fixed interest rates of 3.9 and 4.4 % per annum. In addition there is a new long-term bank loan for 260 million euros, which was placed with an international consortium of banks under the lead management of HVB and ING Bank. This loan consists of a 110 million euro tranche which was immediately drawn down and a credit line of 150 million euros which will cover future finance requirements such as capex, working capital and guarantees. Both credit lines have a term of five years and variable interest. They can be drawn down in euros and several other European currencies.

The new financing arrangement gives the Messer Group the necessary flexibility to allow it to achieve its growth strategy in the next few years. The US Private Placement has given Messer access to a market segment that will become increasingly important.

During a Roadshow Messer Group's management convinced the capital markets of its strengths.

Human Resources
Living the values as a challenge and opportunity

The Corporate Human Resources Division was instrumental in formulating the company's new mission statement. This work focused, among other things, on describing the corporate values of customer orientation, employee orientation, responsible behavior, corporate responsibility, excellence, trust and respect. In order to ensure a better understanding of the values, supplementary explanations to the mission statement were formulated, which are designed to provide support in the implementation process. This enables each company in the Messer Group, each division and each employee to test and determine what influence the values are having on their day-to-day work. In this connection, the Human Resources Division looked at the question of which actions need to be taken from a Group point of view in order to implement the values: an employee survey and strengthening the international employee exchange program are just as much part of the concept as a training initiative for junior staff across the Group.

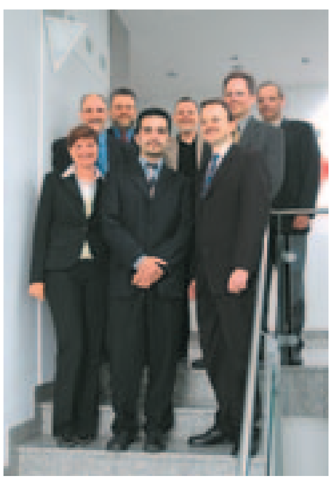
Recognizing and enhancing qualities: executive development

The new Corporate Guidelines of the Messer Group stipulate, among other things, the creation of job profiles for all positions in the Messer Group. This aspect is particularly important for the European executives. The job profiles will also specify the necessary knowledge, experience and skills. Working together with the technical managers, the Human Resources Division appraised the knowledge, experience and skills that the employees actually have. Based on the results of this, they defined the development and training requirements and initiated implementation measures. The Human Resources Division also organizes the Group's Executive Commission, which is made up of the executive directors of the Messer Group, the regional managers as well as the divisional directors of the Corporate Office. A particular focus of the Executive Commission's work is the staffing and training of first and second level management within the Messer Group, as well as the 'high potentials'. The Executive Commission met five times in 2005. They approved the succession planning of the main European companies, appraised the potential of the senior managers of these companies and defined possible development measures.

Training out of tradition and responsibility

Training in the Corporate Office of the Messer Group has been strengthened: six trainees were hired at the end of 2005, with five business trainees and one IT trainee. Out of tradition and responsibility, the training of young employees has been a priority from the beginning. In Germany, trainees make up eight per cent of the workforce. A training initiative for the entire Messer Group envisages rates of at least five per cent.

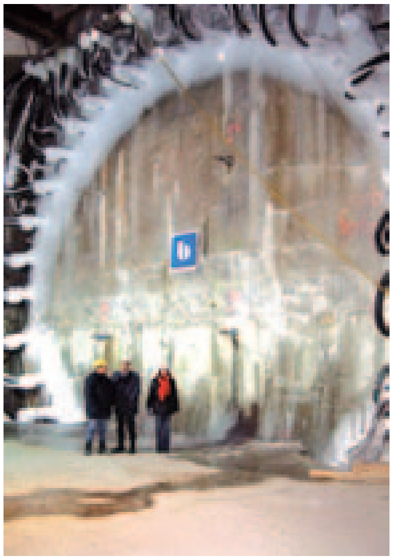
Certified training in Corporate IT



Employees of Corporate IT benefited particularly from the possibilities of qualification.

Human Resources puts forward proposals for training measures and initiates their implementation. In 2005, particular emphasis was placed on examining the training requirements of the IT division. In consultation with Corporate IT, an ITIL (IT Infrastructure Library) was set up. This makes it possible to increase the service quality and to provide the users with predictable and reliable IT services. For the Messer Group, this training course was particularly important in view of the planned development of a new computer center. The training took place in the form of an in-house seminar, in which the IT Managers of the larger companies as well as the Corporate IT Managers participated. The training will be concluded in 2006 with the personal certification of participants. Furthermore, job-related training was launched in the IT division. This advanced training, which is to be extended to all IT employees, will also lead to certification.

For the extension of the Vienna subway network, the ground was frozen with nitrogen from Messer in order to prevent subsidence (see also page 26).

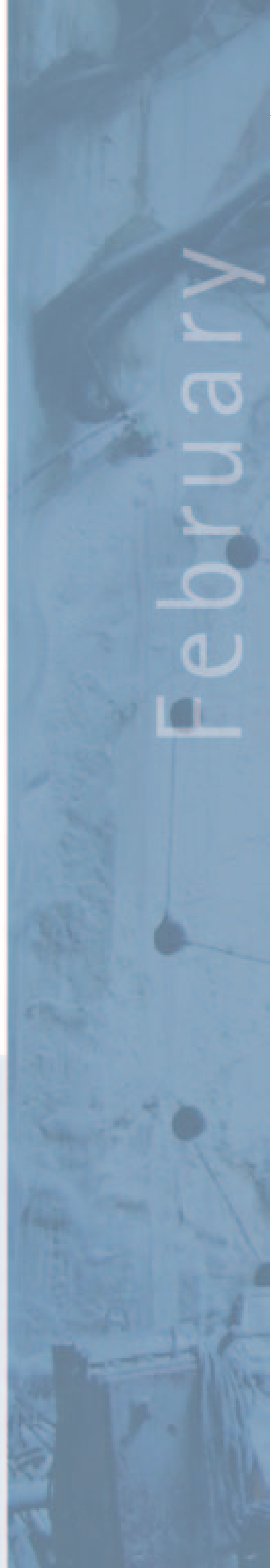


High expertise – even underground

From Mozart to the Vienna Prater to opera balls – Vienna, the Austrian capital, has a lot to offer. The construction of two 80 meter long subway tunnels under the Danube Canal began in November 2004. In order to prevent subsidence during the construction work, the ground was frozen with nitrogen from Messer. The Vienna subway extension is the largest nitrogen freezing project in Europe, proving at the same time that Messer has a high level of expertise – even underground.

In February 2005, Messer Gases del Peru was successfully certified according to ISO 9001:2000. The entire workforce was delighted with the certificate because it bears testimony to their outstanding work (see also page 59).

As part of a profile by Deutsche Welle TV's overseas service, a camera team accompanied Stefan Messer to Austria, Hungary and Frankfurt in February 2005. The piece was produced as part of the "Made in Germany" series.



Ensuring data protection

Human Resources is responsible for data protection within the company. In 2005, the directory of procedures stipulated by the Federal Data Protection Act was updated for the German Messer Group.

Information Technologies
Insourcing of IT – Formation of Messer Information Services

In the course of the acquisition of the MEC Group, the decision regarding a strategic reorganization of IT support was made in spring. This will take place from mid-2006 through a joint venture with MEC in the shape of an IT center in Groß-Umstadt, Germany. The contracts with the external service provider have been cancelled and bridging contracts signed. At the same time, Messer Information Services GmbH was formed on 1 September 2005 as a joint venture with MEC. According to the business plan, the IT company will make its full range of services available to both groups and their individual companies starting in June 2006.

The construction work for the conversion of the IT center in the Messer Cutting & Welding building in Groß-Umstadt, Germany, was completed on schedule by the end of 2005. The installation of the technical equipment and the migration of all the servers and applications has been taking place gradually since January 2006.

SAP harmonization defined as biggest IT project

The beginning of the year saw the start of SAP harmonization, the Messer Group's biggest IT project to date. The business model adopted by the Management formed the basis for implementation of the concept. This business model reflects the general basic principles, such as creating a standardized product portfolio for the Messer Group, the organizational requirements as well as the objectives of the project.

Many employees are involved in the SAP harmonization project.

The aim of the first phase of the SAP project was to define and describe the business processes in a harmonized environment. A previously conceived rough process model, which covered the Supply Chain Management and Accounting processes, provided the basis for project teams to develop and visualize the detailed business processes.

Exemplary work safety is rewarded – Messer Group shows lowest accident rate of all industrial gases companies

The safe handling of gases is a matter of top priority at Messer. As proof of this, Stefan Messer and his team went to the French town of Cannes at the invitation of the European Industrial Gases Association to receive several awards for exemplary work safety.

Ernst Bode (l.) received the "Peter J. Jackson Safety Award" from Dr. Aldo Belloni.

This year's summer meeting, which was organized by the European Industrial Gases Association in May, was a particularly successful occasion for the Messer Group. The representatives of all the leading industrial gases manufacturers gathered in the historic Carlton Hotel for, among other things, the presentation of the "EIGA Safety Awards".

Dr. Aldo Belloni, President of EIGA, presented no fewer than 22 awards to the Messer group. Messer's accident rate of 1.7 industrial accidents per million working hours is the lowest of all the industrial gases companies and well below the EIGA average of 3.7.

For Stefan Messer, this is recognition of his efforts in the field of work safety and environmental protection: "At Messer Group we have a strong culture of work safety which is lived and practiced by our employees. Safety has traditionally always been our number one priority".

Ernst Bode, Director of Messer Italia, also had a reason to be happy. He accepted the "Peter J. Jackson Safety Award" on behalf of Messer Italia. This award has been given since 1992 to the EIGA member companies with the best reduction in accident rates over a five-year period. "On the one hand, we sell gas as an absolute mass product, for example in the area of cylinder gases. On the other hand, accidents in this segment can be potentially fatal. For this reason it is doubly important to comply with the relevant laws, standards and regulations. Our safety concept involves keeping our employees, sub-contractors and customers informed at all times about the risks involved in working with gases in every area", explains Ernst Bode.

Logistics and Supply

New ground broken in logistics – air separators transported from China to Serbia

The parts of an air separation plant were transported from China to Serbia in containers.

The Messer Group has also broken new ground in logistics with the transport of two air separation plants from Hangzhou, China, via Shanghai and Rijeka to Smederevo in Serbia. A wide range of parts and materials of considerable weights and dimensions had to be shipped to Serbia on schedule. All the packages with normal dimensions and weights were loaded into containers which were procured for this purpose in China. These containers can be used again and again for future projects, thus ensuring that the valuable material is transported safely and quickly. In spite of the long transport routes with many stopovers and complicated import regulations, our air separators reached their destination on time thanks to an outstanding collaborative effort across countries and departments. This project has demonstrated that intercultural understanding and cooperation have become a matter of course for the Messer Group.

Successful cost optimization in spite of higher energy prices

In the area of customer supplies, the main feature of 2005 was the continued performance and cost optimization of the individual national subsidiaries. A central management system ensured the on-schedule preparation and supply of our entire product range. Especially with the "scarce" products like argon and helium, we had to make considerable efforts not to jeopardize the growth of the Messer Group in this sector. The increased energy prices in many countries have put an additional strain on the companies of the Messer Group. In spite of many optimizations, this has resulted in increased distribution costs. Nevertheless, we were able to optimally supply our customers in 2005.

Stock management of gas cylinders successfully implemented

Messer GasPack has made the standardization of the gas cylinder pool its responsibility.

A newly formed subsidiary of the Messer Group, Messer GasPack GmbH (MGP) based in our offices in Krefeld, Germany, commenced operations on 1 January 2005. MGP was formed with the aim of reducing investment costs through the bundling of procurement activities and the standardization of gas cylinders and fittings. At the same time, stock management is to be optimized across Europe through increased circulation frequency and cross-border exchange. At the beginning of the year, there were about 1.8 million gas cylinders in circulation in the Messer Group and with customers. In terms of the stock management, sourcing and standardization of our cylinder fleet, we had to create and implement completely new structures. Dramatically increased steel prices put our goal of achieving long-term optimization of investments at risk in the course of the year. Nevertheless, displaying great flexibility and a bold willingness to improvise, the national subsidiaries and MGP still managed to implement this innovative concept within twelve months. One of the main aims for 2006 is the installation, operation and further development of the computerized BABEL cylinder tracking system across the whole Group.

Technology Development
Innovations from every region

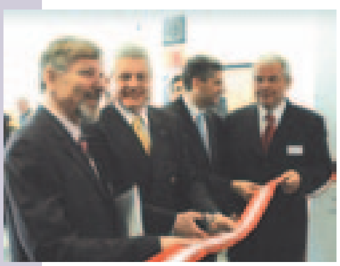
In the cold grinding center good utilization rates were reached.

Last year the Messer Group spent approximately 6 million euros on developing and improving application technologies for gases.

In 2005 saw a marked increase in the innovation intensity in the company. In total, 29 inventions were developed and submitted to the patent office. The market proximity of our development work is also reflected in the changed regional spread of inventions: noticeably more inventions than in previous years are coming from the European companies. Many pilot projects or first installations were carried out at or together with our international customers. The central technology departments in Krefeld, Germany, are working hand in hand with the regional application departments, who on the one hand identify new customer requirements and on the other hand are directly involved in implementing new developments or applications in the regions.

Expanding the infrastructure with new technical centers

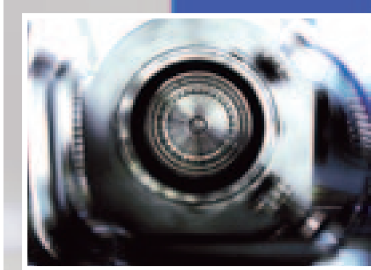
The expansion of the infrastructure for our development activities, which was begun last year, has now been completed. In May 2005, we opened a research and development center in Gumpoldskirchen, Austria, which deals with metallurgical projects and cold industrial applications. We are using the newly built burner test stand to develop customized burner solutions for smelting metallurgy applications. Also in May 2005, we opened a new technical center in Mitry-Mory, France. Our development activities in France focus mainly on food technology and pharmaceuticals, as well as environmental procedures. In our cold grinding center near Krefeld, Germany, which went into operation in February 2005, we have already reached good utilization rates with test grindings from the Grinding and Recycling divisions. We want to use this to develop new applications for liquid nitrogen. Last year we extended our welding network with a base in Shanghai. This allows us to make our application know-how available to our Chinese customers close to the market.



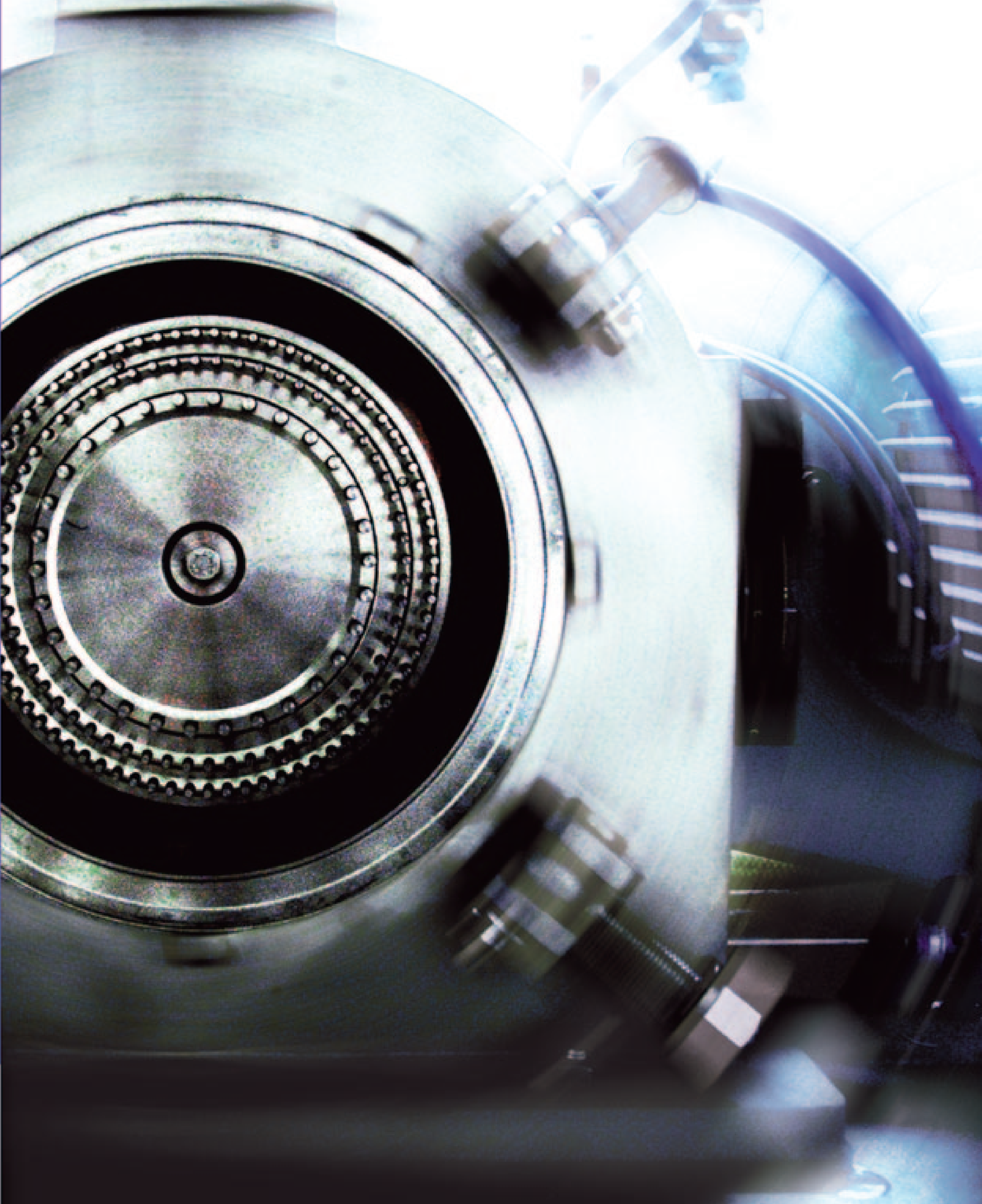
Official opening of the Research and Development Center in Gumpoldskirchen, Austria.

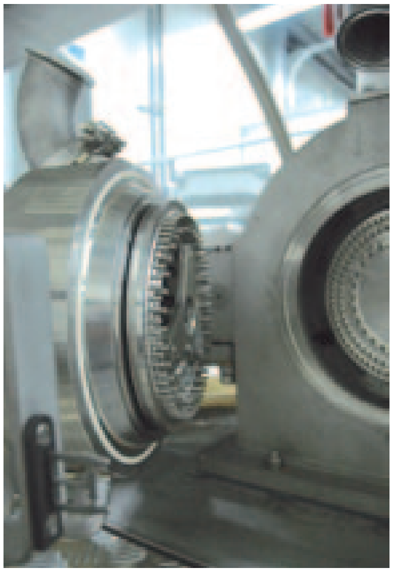
Technologies and applications

New cooling system for transporting meals The area of "Food Transport Refrigeration" is developing very dynamically. The growing requirements in terms of the cold chain are constantly producing new applications for cryogenic



A counter-rotating pin mill is the centerpiece of the new cold grinding center in Willich, Germany, which has been available to customers for sample grindings since March 2005.





Ground to perfection

The Messer Group's new cold grinding center in Willich, Germany, proves that pulverizing can be done very efficiently and economically. Since March 2005, customers of all the national subsidiaries have been able to carry out sample grindings of their products, including thermoplastics, elastomers and spices. Among other things, a counter-rotating pin mill that allows tangential velocities of up to 235 m/s is available for this. The results allow the technical limits to be assessed and can easily be transferred to industrial production processes.

During a trade delegation to Slovakia in March 2005, the Minister of Economics for the state of Hesse, Dr. Alois Rhiel, visited Messer Slovnaft and Messer Tatragas. Stefan Messer (left) and Milan Gala, Managing Director of Messer Slovnaft (right), showed Dr. Alois Rhiel round the plant.

The haulage firm Transport Coulier N.V. will be supplying liquid oxygen, nitrogen and argon as well as gaseous hydrogen to customers of Messer Benelux for another five years. The contract extension was signed in March 2005 by Jean-Pierre Fromage from Messer Benelux (left), Florence Dupasquier, President of the SAMAT Group (center) and Serge Dewolf, Coulier's Regional Director for Benelux.

coolants. We have developed a system with our partner Electrocalorique which allows meals for patients in hospitals, old people's homes and similar institutions to be precooked in a central kitchen and then cold-packed. This allows complete menus to be prepared up to three days in advance. Electrocalorique developed and supplies the special temperature controlled vehicles for this. The dry ice metering system was developed, tested and designed by Messer France. One hospital has already opted for this new technology, having compared it with other technical solutions.

Claude Beaugé of Messer France developed the Clapet nozzle.

Injecting nitrogen directly into the mixer Mixers or mixing grinders that are injected with cryogenic coolants are often used in the processing of food under refrigerated conditions, such as meat for example. When using liquid nitrogen as a coolant, injecting the coolant from below through the bottom plate offers many economic advantages. Injection nozzles that are commonly used with other media were therefore mechanically modified for this application, allowing them to be used for liquid nitrogen as well. After carrying out the relevant tests in our food technical center in Mitry-Mory, France, the first such installation was successfully completed and put into operation at a customer's location in Lithuania.

Sewage sludge incineration in a fluidized bed with oxygen The operators of sewage sludge incineration plants are looking for solutions that will improve the efficiency of their furnaces. In stationary fluidized bed furnaces, this is made possible by using oxygen. One such plant is operated by E.D.A.R. Galindo, the company responsible for supply and disposal in the city of Bilbao, Spain. Messer Carburos is testing a new procedure here. A procedure combining supersonic injection and combustion air enrichment has yielded marked efficiency improvements. The procedure is currently undergoing further fine-tuning.

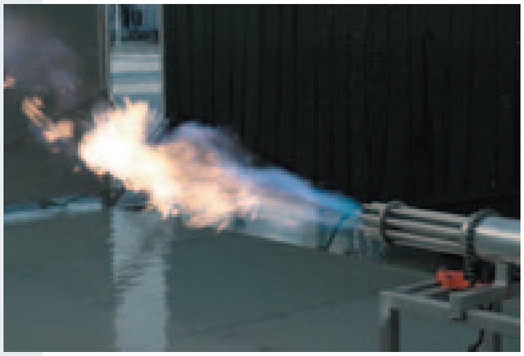
Cooling service for building sites – Cement cooling with liquefied carbon dioxide Messer has a concrete cooling procedure whereby snow produced with cryogenic nitrogen is added to fresh concrete. This procedure is used mainly in large construction projects. On smaller building sites, it is often better to reduce the temperature of the original products in the mixing plant. The cooling of cement is a particular case in point here. Liquid CO_2 is particularly suitable as a cooling medium. Messer has developed, tested and qualified such a procedure together with the firm Schwenk. As a result, we have added another interesting component to our range of products for the construction industry. We can now offer our customers in the construction sector a complete service package from cement cooling to various forms of concrete cooling through to soil freezing and the neutralization of construction site wastewater.

The compound burner is the latest development in the area of burner technologies.

Compound burners with solid fuel capacity We are making intensive use of our new burner test stand to carry out new developments for application-specific burners. The latest result of these developments is a burner that can burn conventional fuels as well as solid fuels. This kind of burner allows operators of, for example, rotary furnaces in the cement industry or in recycling processes to integrate and use solid waste products into their process in a cost-effective and energy-saving way.

Messer Austria, Austria

New research center gains international importance The work carried out in the newly built European Research and Development Center in Gumpoldskirchen, Austria, focuses mainly on research and development in the field of metallurgical high-temperature processes as well as innovative services in the food, industry, chemicals and environment sectors.



The burner test stand is an important part of the new Gumpoldskirchen Research Center in Austria.

In a research project funded by the research promotion fund (FFG) and carried out in association with Montanuniversität Leoben and Vienna Technical University, Messer is developing processes for reducing nitric oxides in waste gas for the Oxyfuel technology. Ever since it was opened, the Research and Development Center has thereby gained importance in Europe in terms of environmental policy. And it was here that the first symposium for steelworks operators was held, which was an international success.

Viennese tunnel construction successfully completed Messer carried out and successfully completed Europe's largest ground freezing project in the Austrian capital. Two 80 meter long subway tunnels were constructed about eight meters under the Danube canal. Liquid nitrogen was used to freeze the ground underneath the Danube canal, with up to 11,000 liters of nitrogen per hour being withdrawn from four large storage tanks every day.

Implementation of new technologies in Austria Austrian automotive suppliers were able to use environmentally friendly lead-free soldering of printed circuit boards for the first time thanks to a new technology from Messer. Geba is the first customer that Messer Austria has won in the Eastern European region for the use of a cryogenic grinding system for plastic. The first Siber-System for transport refrigeration with CO_2 in the region was commissioned at Pfeiffer.

"BABEL" cylinder tracking system The "BABEL" cylinder tracking system has become a complete and process-encompassing application at Messer Austria, specifically through its use in projects over the past 12 months. It is also yielding initial successes in the area of process support. The cycle from filling, contract filling, cylinder checking, analysis, order picking, factory outlet sale, factory-to-factory logistics, factory-to-customer logistics, distributor processing and cylinder logistics through to the appropriate reporting tools is now homogeneous and self-contained. The introduction of BABEL has allowed us to achieve a high degree of availability both in cylinder and product management. This has reduced the working capital and at the same time increased delivery reliability and therefore customer satisfaction. The processing of complaints has also been significantly improved.

Messer Polska, Poland

FVZ DeliMeat in Orzesze freezes its ready meals in a cryotunnel with liquid nitrogen from Messer Polska.

Strongest growth in food technology Food technology has developed into the top growth sector at Messer Polska. This is documented by 14 new orders, including orders for liquid nitrogen for freezing as well as carbon dioxide, oxygen and nitrogen for the packaging of meat products in a controlled atmosphere and orders for the use of carbon dioxide as a greenhouse fertilizer. At FVZ DeliMeat in Orzesze, ready meals were frozen with liquid nitrogen in a Cryotunnel. Successful tests for IQF freezing ("Individually Quickly Frozen") in an immersion freezer were carried out at Kasol in Białystok, one of the leading frozen food producers in Poland.

Optimization of manufacturing processes in metallurgy At Śrubex in Łańcut, a synthetic protective gas atmosphere was implemented for the heat treatment process. Messer Polska has signed a five year contract with Śrubex to supply hydrogen and nitrogen. In melting metallurgy, the Polish subsidiary won an order from HCMŚ in Miasteczko Śląskie to supply oxygen for a shaft furnace.

Chemicals and environment The close collaboration between Wedeco Polska and Messer Polska has led to a success. In 2005, a contract was signed with the waterworks in Toruń for the supply of oxygen for ozone production. Water treatment with ozone was used in tests at two other waterworks.

Messer Polska – a competent partner of the automotive industry Messer Polska has signed a contract with Delphi Polska for the supply of liquid nitrogen for use in heat treatment. Delphi Automotive Systems is a leading international system technology company and manufacturer of components for automobiles and mobile electronics.

Delphi Polska relies on the use of liquid nitrogen in heat treatment.

Own competence improved New filling points have improved the production quality and working conditions. The installation of new analytical equipment has transformed both laboratories in Chorzów and Police. The analytical equipment for medical gases enables all analyses to be carried out in accordance with the standards of the European Pharmacopoeia. The analytical equipment for food gases allows all analyses to be carried out in accordance with Directive 96/77/EC including amendments. In addition Messer Polska is now ISO 9001 certified.

Messer Tatragas and Messer Progas, Slovakia

Exclusive partner of the automotive industry The Slovak company Messer Tatragas is the partner of the automotive industry. Messer Tatragas has signed an exclusive contract with PSA Peugeot Citroën Slovakia for the supply of all the gases used in automobile manufacturing, such as liquid carbon dioxide, liquid argon, liquid nitrogen and all the cylinder gases. Messer Tatragas is the sole supplier of all gases and gas mixtures for Kia Motors Slovakia. Messer cutting and welding gases are also used by Getrag Ford Transmissions in Slovakia. No other industry uses as many different specialty gases and gas mixtures as the automotive industry.

Nationwide, sales of argon mixtures for cutting and welding have increased in particular. Messer Tatragas had a good year across the whole range of inert welding gases. The Slovak company Messer Progas achieved a significant increase in sales of propane and butane.

All the Messer companies in Slovakia remained accident-free in 2005.

Messer Chimco Gas, Bulgaria

Pioneer in the use of technologies Messer Chimco Gas is the only supplier in Bulgaria of Messer's patented process for printed circuit board manufacture under an inert atmosphere in the electronics industry. The technology facilitates perfect soldering in a nitrogen tunnel. In the area of cutting and welding gases, Messer Chimco Gas has established itself in the Bulgarian market – Messer produces gas mixtures tailored to the needs of customers at its own facilities. The food technologies used by Messer in Bulgaria focus on meat production as well as on the treatment of drinks.

Messer Chimco Gas is the partner of the wine producer "Domain Boyar".

New filling station in the capital The company has started building a modern filling station for technical and medical gases in Sofia, which will give it a stronger market presence in the principal market, the Sofia region, from 2006. At the same site, a second-hand nitrogen generator is being installed which will supply nitrogen to Sofia Med "over the fence".

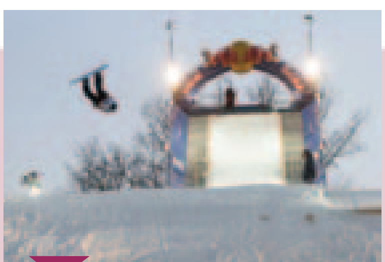
Messer Chimco Gas celebrated its tenth anniversary in 2005.

In April 2005, the parts for two air separation plants were transported from Hangzhou in China to Smederevo in Serbia in containers bought specifically for this purpose, and reached their destination on schedule (see also page 21).


MESSER

Traveling heavy to Serbia

In April 2005, the Messer Group broke new ground in logistics with the transport of two air separation plants from Hangzhou in China to Smederevo in Serbia. All the packages were loaded into containers which had been bought specifically for this purpose in China. The containers ensured that the valuable material was transported safely and quickly and, what is more, they can be used over and over again for future projects. In spite of the long transport routes with many stopovers and complicated import regulations, our air separators arrived in Smederevo on time – thanks in part to the good cooperation across countries and departments.



A snowboard competition piste was covered with over 220 tons of artificial snow for a major snowboard competition in Warsaw, Poland, in April. Messer Polska supplied the liquid nitrogen needed to produce the snow (foto: Rafal Wielgus).

Having won the contract with the National Meteorological Institute in Spain, Messer Carburos has been supplying helium to weather stations throughout the country since April 2005 (see also page 51).

CO_2 is pumped into boreholes in order to increase the amount of oil extracted.

Messer Croatia Plin, Croatia

Thanks to optimal utilization of the Croatian production plants, Messer Croatia Plin was also able to reliably supply the sister companies' markets in the neighboring countries. For example, working in collaboration with the Messer companies in Serbia-Montenegro and Hungary, the Croatian subsidiary supplied liquid oxygen to Mittal Steel in Bosnia-Herzegovina.

Carbon dioxide helps in the extraction of crude oil deposits 16,000 tons of CO_2 were successfully pumped into boreholes of the firm INA in order to extract remaining oil deposits in a field. The carbon dioxide increases the amount of oil extracted. The collaboration is to be extended to other oil fields in 2006.

Robert Mustač, General Manager of Messer Croatia Plin, and his team hosted the Corporate Conference in Dubrovnik.

Certifications facilitate the production of "healthy" gases The successful audits for carbonic acid and nitrogen carried out by Coca-Cola meant that Messer Croatia Plin got the go-ahead to supply all the Coca-Cola bottling plants in the South East Europe region. Only high purity carbonic acid and nitrogen can be used in the drinks industry. The Croatian Health Ministry has awarded Messer in Croatia the production licenses for medical oxygen and nitrous oxide. Analytical equipment was bought for the laboratories at all the locations. This equipment will allow all the analyses to be carried out in accordance with the Pharmacopoeia for medical oxygen and in accordance with HACCP for gases for the food industry. The ISO 9001 quality assurance system was tested by several internal and external audits and the certificate renewed without objection.

Host of corporate conference Messer Croatia Plin hosted the Messer Group's 2005 Corporate Conference in Dubrovnik. All the managers gathered on the Adriatic coast to discuss corporate strategy and how to put the Group on the right track (for growth) in the coming years.

Messer Hellas, Greece

Messer Hellas supplies a constantly growing number of customers from its headquarters in Athens and its branches in Patras and Iraklion.

In 2005 Messer Hellas established itself in the Home Care market with portable oxygen devices.

Long-term partners in Home Care In the area of medical gases, a number of long-term contracts have helped Messer Hellas to establish itself in the Home Care market. A new contract for 80,000 cubic meters of liquid oxygen and 4000 cubic meters of gaseous oxygen was signed with Halkis Hospital near Schimatari. Portable oxygen devices help patients to continue leading their lives in their home environment.

The contract with V.P.I. SA, a Frigoglass Group company in the packaging industry, to supply gaseous nitrogen for the manufacture of polyethylene semi-finished products, was renewed for another five years.

May

TMD Gradacac buys argon from Messer Sarajevo Plin for its production.

Messer Sarajevo Plin and Messer Mostar Plin, Bosnia-Herzegovina

Messer Sarajevo Plin wins new customers Messer Sarajevo Plin signed a contract with Mittal Steel to supply liquid oxygen for its steelworks. The back-up system was completed and commissioned on the Mittal Steel Zenica site at the end of July. At TMD Gradacac, a new argon tank was erected to supply 120 tons of argon per year. Liquid nitrogen customer, Polihem Tuzla, commenced production of polyols – intermediate products for the plastics industry – in 2005.

Aluminij Mostar is one of the most important customers of Messer Mostar Plin.

Increase in production at Messer Mostar Plin Messer Mostar Plin was able to increase its earnings compared with the previous year. This is primarily due to existing customers' increased purchase volumes, in particular the customer Aluminij Mostar.

Messer Sarajevo Plin commissioned a new filling plant for carbon dioxide in Lukavac. The Bosnian company was awarded ISO 9001 accreditation and the ISO 2001 certificate of Messer Mostar Plin was renewed. The companies prepared for the value added tax introduced in Bosnia-Herzegovina in 2006 primarily through training courses and adjustments in IT.

Messer Slovenija, Slovenia

New application technology contracts enabled Messer Slovenija to far exceed its targets for 2005. By hiring more staff, it was possible to implement more customer projects than ever before.

Štore Steel is supplied with gases for steel production by Messer Slovenija.

Expanding supply to key accounts The supply to Štore Steel of gases for steel production was expanded according to plan. ZZV Maribor again procured its analytical gases exclusively from Messer Slovenija in 2005. In the Jožef Štefan Institute in Podgorica, the high purity gas network was expanded, as was the high purity gas supply system in the new quality control laboratory at Lek Mengeš.

Interesting prospects in food technology There were interesting projects in the food industry, in particular in the freezing of food with nitrogen or carbon dioxide and the transportation of food in thermally insulated containers. Successful tests were carried out with the Siber-System at Engrotuš, and with Cryopack at Mercator.

Messer Slovenija has intensified its collaboration with the Slovenian Welding Institute.

The Development Center for Gas Applications in Mitry-Mory, France, which was opened in May 2005, provides optimal conditions for the development of innovative technologies such as the production of dry ice for food applications (see also page 48).

May

Greater room for innovation

"Giving pigs mineral water to drink or rinsing pipes with sparkling water are also examples of successful gas technology" – these tongue-in-cheek comparisons were made by Adolf Walth, Managing Director of Messer France, at the official opening of the new European Development Center for Gas Applications in Mitry-Mory in May 2005. The carbon dioxide leads to quicker and healthier weight gain in pigs and ensures that there is less build-up in pipes. In Mitry-Mory, Messer is carrying out research in a wide range of application technologies, leading to innovative solutions in food technology in particular.

Messer Austria is investing in gas research: In Mai 2005, a state-of-the-art research center featuring, among other things, a state-of-the-art burner test stand, was opened in Gumpoldskirchen, Austria (see also page 22).

Participants in a symposium for the bakery sector held in the new Gumpoldskirchen Research Center in May 2005 were given demonstrations of the effect of cryogenic gases on the quality and freshness of bakery products (see also page 44).

Messer China is continuing its expansion. In just 15 months, a state-of-the-art production facility, complete with its own air separation unit, was built on a greenfield site at Yunnan Messer Gas Products (YMG) (see also page 60).

Messer Romania Gaz, Romania

The Messer Group has three companies operating in Romania – Messer Romania Gaz, Messer Energo Gaz and Messer Magnicom Gaz.

Intrarom uses liquid nitrogen in the soldering of electronic components.

Partners of choice for the electronics industry Messer Romania Gaz has been supplying liquid nitrogen to Celestica, the Canadian global market leader in innovative electronic manufacturing services, since 1 May 2005. Celestica has invested 20 million dollars in Romania and employs 500 people in Oradea, near the Hungarian border. The Greek company Intrarom has expanded its activities in Romania and procures liquid nitrogen for use in the soldering of electronic components from Messer Romania Gaz. Messer Romania Gaz supplies liquid nitrogen for use in the production of material for the electronics industry to the Romanian subsidiary of Belgian firm Connectronics in Oradea.

Messer Romania Gaz is setting new standards at Stabilus with a cryogenic high pressure pump.

New solutions through competence In August 2005, Messer Romania Gaz signed a contract with Stabilus Romania for the supply of liquid nitrogen as well as for equipment and services in connection with the use of cylinder gases at the production facility in Brasov. The special thing about this is that a cryogenic high pressure pump was installed at Stabilus' Romanian site for the first time, which raises the nitrogen pressure to 400 bar. By contrast, all of Stabilus' other sites use a conventional vaporizer and a high pressure compressor. The contract was signed just two weeks after the initial inquiry had been made – an extremely short period of time, considering that the new installation meant that Stabilus was deviating from its standard system and also that it had found a new supplier in Messer Romania Gaz.

Messer Romania Gaz was awarded the license to sell medical oxygen in cylinders by the Health Ministry, moreover, the company had another accident-free year and, in March 2005, was awarded the EIGA Bronze Award for five accident-free years.

Messer Magnicom Gaz was the third Messer company in Romania to receive ISO accreditation.

Messer Vardar Tehnogas, Macedonia

The Macedonian subsidiary Messer Vardar Tehnogas, based in Madzari-Skopje, was able to successfully develop its business and win new customers in 2005. Sales of liquid gases increased not just in the Macedonian market: for the first time Messer Vardar Tehnogas exported gases to Kosovo and Albania.

Another accident-free year Messer had another accident-free year in Macedonia through staff development and training in the various special fields as well as in work safety.

June

Messer Tehnogas, Serbia and Montenegro

Market position defended in Serbia and Montenegro Messer Tehnogas was able to defend its excellent position in the Serbian-Montenegrin market through strong growth in sales.

Messer has built a new air separation plant in Smederevo, Serbia, which went into service at the beginning of 2006.

Supply contract with US Steel leads to new production plant Messer Tehnogas signed a long-term supply contract with U.S. Steel Serbia for the supply of oxygen, nitrogen and argon. Messer began the construction of a new air separation plant in the Serbian town of Smederevo, which will produce over 40,000 standard cubic meters of gaseous oxygen per hour in 2006. In addition to the agreed supply of oxygen to US Steel, Messer will be able to supply the entire Balkan region with products from this new air separation plant. This gives the company an important position among the Eastern European sister companies of the Messer Group.

Messer Tehnogas acquired the industrial gases company Progas at the end of 2005, further strengthening its position in Montenegro. Messer Tehnogas received ISO 14001 accreditation and had its ISO 9001:2000 and ISO 17025 certificates renewed.

Messer Aligaz, Turkey

The main site of Messer Aligaz is in Istanbul. With filling plants in Bursa and Manisa, where acetylene is also produced, Messer Aligaz is represented in the most important industrial regions in Turkey.

The Turkish subsidiary's main area of activity is cylinder gases, and it is very successful in selling argon mixtures for cutting and welding.

Merger of Turkish Messer companies At the end of 2004, all the Messer companies in Turkey were merged into one company under one name. The amalgamation of Messer Aligaz Holding, Aligaz Sanayi Gazlari, Aligaz Ege Sanayi Gazlari and Assan Asetilen ve Sinai Gazlar has created a more profitable organization.

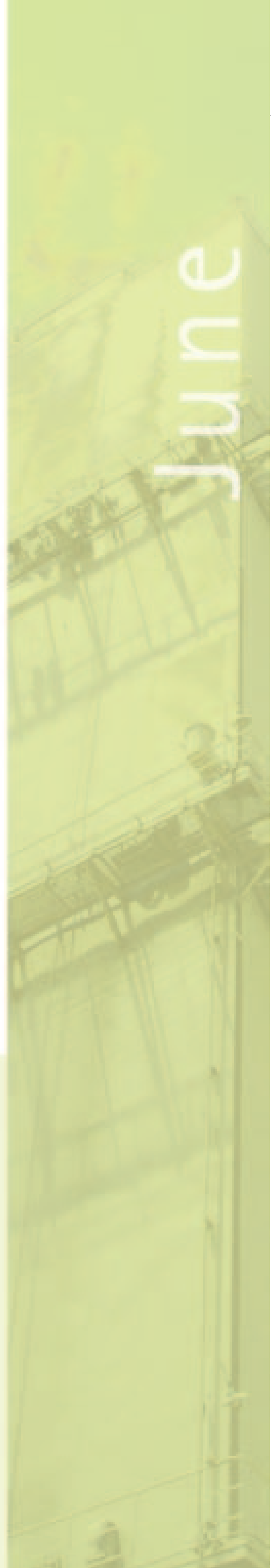
In mid-June 2005, XMG commissioned a new air separation plant in Hunan, China. It has a daily capacity of 550 tons (see also page 60).

Messer builds on expansion in China

"Based on the ever growing demand for production capacity in China, we have decided to expand our production capacity in our core markets", said Helmut Schneider, CEO of Messer China. A tangible result of this successful expansion policy can be found in Hunan, where the fourth air separation plant of Xianggang Messer Gas Products (XMG) was commissioned on 15 June 2005, 45 days ahead of schedule. It has a capacity of 550 tons per day, which, together with its other production capacities, makes XMG the Messer Group's largest subsidiary in China.

In June 2005, a complete refinancing was successfully completed just 15 months after the restructuring of the Messer Group. The main objectives of this were to reduce the financing costs and to ease the credit restrictions imposed by the banks (see also page 15).

At the summer meeting of the European Industrial Gases Association (EIGA) in June 2005, the Messer Group received no fewer than 22 awards, including one for the lowest accident rate of all the industrial gases companies. With 1.7 industrial accidents per million hours worked, Messer's rate is well below the EIGA average of 3.7 (see also page 20).



Messer Technogas and MG Odra Gas, Czech Republic

In spite of increased competition, Messer Technogas and MG Odra Gas were able to strengthen their position in the Czech market.

New environmental laws boost sales Accession to the EU brings many changes for the countries of Central and Eastern Europe, particularly in the area of legislation. The electronics industry too is affected: from 1 July 2006, the use of certain substances – such as lead, cadmium, chromium and various bromine-based flame retardants – will be banned in the EU. Messer Technogas has successfully introduced lead-free soldering at its customers' sites. It not only installed a nitrogen supply for the necessary inert atmosphere, but also converted the existing wave soldering machines to allow operation with the new technology. Messer won seven new contracts for the supply of liquid nitrogen in 2005.

Cooperation with Mittal Group extended Messer Technogas has signed a contract with Válcovny plechu in Frýdek Místek, a subsidiary of the Mittal Group in the Czech Republic, for additional supplies of hydrogen by trailer for use in heat treatment.

New technologies bring success The German company OLHO-Technik has decided, like many other companies, to make additional investments in the Czech Republic. In addition to increasing its production, OLHO also wants to implement a new technology for treating plastic surfaces before painting. The use of carbon dioxide snow will increase sales of liquid carbon dioxide by 1500 tons a year.

Messer also supplying Benteler's 3rd and 4th production facilities After very successful years in the Czech Republic, the German company Benteler has decided to build a third and fourth production facility in the country. The collaboration with Messer Technogas has been further extended: Messer Technogas is supplying an additional 300,000 cubic meters of liquid argon and gases for welding and laser cutting.

Messer Technogas was able to increase its production output by installing a new filling unit for gaseous laser oxygen and the production of carbon dioxide pellets. The company's good results were also influenced by the improvement of internal processes. Systems such as MRP ("Material Requirement Planning"), PRACAR (automatic transport planning system) and BABEL (gas cylinder tracking system) were introduced and have successfully continued. The company was recertified for ISO 9001 and ISO 14001.

Successful growth at MG Odra Gas The key factor for success for MG Odra Gas was the boom in the steel industry – there was an increased requirement for gaseous oxygen on the part of its on-site customer Mittal Steel Ostrava.

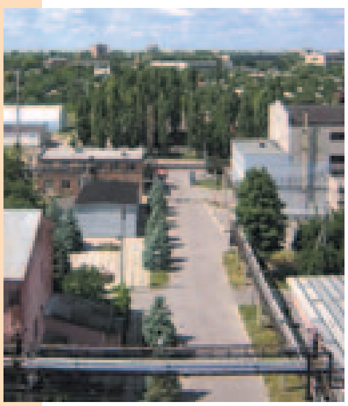
The strict EU regulations governing the production and distribution of medical and food gases have been implemented at MG Odra Gas. In 2005, the ISO 9001:2000 and ISO 14001:1997 control audits were both carried out successfully. MG Odra Gas is taking part in the BABEL project: the necessary infrastructure was installed in the filling plant, acetylene plant and steel cylinder workshop, and appropriate employee training was carried out. This meant that the process of labeling all the steel cylinders with a barcode was started in May 2005.

Elme Messer Gaas, Estonia, Latvia, Lithuania, Ukraine, Russia

The Messer Group owns companies in Estonia, Latvia, Lithuania, Ukraine and the Russian territory of Kaliningrad.

Electronics industry profits from Messer technology Many Messer technologies are used in the Baltic states to increase the efficiency and quality of customer processes. The lead-free soldering of printed circuit boards in a nitrogen atmosphere is a particularly successful technology in the Baltic market. Customers in Estonia and Lithuania are profiting from this environmentally friendly process, which reduces the error rate in the manufacture of printed circuit boards, thus improving productivity.

Nitrogen added directly to meat for the first time Messer gases are also being used in the food industry: At Utena Mesa, the leading meat producer in the Baltic States, our new cryogenic cooling system with liquid nitrogen was installed on a meat mixer. This is the first project in the Baltic market in which nitrogen is injected through the bottom plate. This ensures an optimal processing temperature as well as compliance with the strict EU regulations for the sensitive products. With the customer already purchasing CO_2, Elme Messer Gaas has now also been able to clinch a three-year contract for the supply of liquid nitrogen. Estonian drinks manufacturers like Varska Vesi or Karksi are using liquid carbon dioxide to carbonate their products.



Elme Messer Ukraine is a new subsidiary of Messer Group.

Messer Group gets bigger At the beginning of 2005, the Ukrainian subsidiary Elme Messer Ukraine, based in Kiev, joined the Messer Group.

Elme Messer Ukraine is a wholly owned subsidiary of the Estonian company Elme Messer Gaas A.S., in which the Messer Group and the Baltic Ship Repairers Group each have a 50 % shareholding as partners. Elme Messer Ukraine has acquired the company Kharkovski Autogeni Plant from the state and now owns 92.73 % of the shares. The industrial gases company Kharkovski Autogeni Plant owns all the licenses required for the production, transport and sale of gases in Ukraine.

"Competence is multi-faceted" – this was an advertising slogan used for the launch of the new "Part of the Messer World" parent brand in July 2005. The brand was implemented in all the media of the companies involved (see also page 8).

MESSER
messergroup.com

MESSER
Cutting & Welding

BIT
BIT Analytical Instruments GmbH

Part of the **Messer** World

New name for bundled expertise

A diamond and the slogan "Competence is multi-faceted" were the central elements of an advertising campaign to launch the new "Part of the Messer World" brand in July 2005. "Part of the Messer World" comprises the expertise of Messer Group, Messer Cutting & Welding, Castolin Eutectic and BIT Analytical Instruments. This underlines existing synergies between the companies and communicates them to customers. "Part of the Messer World" represents a promise to offer customers a wide spectrum of services from one source.

Rich in tradition, the Krems winery in Austria is renowned for the quality of its wines, made from handpicked grapes. Nothing is therefore left to chance when it comes to storing them: in July 2005, 160 stainless steel tanks in a new wine cellar were welded with gas mixtures from Messer for "perfect" welding seams.

Messer Hungarogáz produces air gases on its own site.

Messer Hungarogáz, Hungary

Expansion of a pipeline system between Messer and General Electric Messer Hungarogáz had been supplying the Budapest based Hungarian subsidiary of General Electric with around 7 million cubic meters of nitrogen a year using tankers. Since September 2005, the two sites, which are located close to each other, have been linked by a network of pipes. This means that Messer Hungarogáz offers its biggest customer long-term a secure and economic supply and has freed up significant capacity in the production of bulk gases.

Major new customer for health protection – Ibiden Co. Limited Of the new contracts that were signed, the supply contract with Ibiden Co. Limited stands out. This Japanese company, a global leader in its field, develops and produces particle filters for vehicles with diesel engines. Messer Hungarogáz supplies nitrogen and argon for the heat treatment furnaces in the new Ibiden plant. The annual supply volume is around 4 million standard cubic meters of nitrogen and 1.5 million standard cubic meters of argon. In this connection the customer received a PSA system for nitrogen production in August 2005, with a capacity of 500 cubic meters per hour. The argon supply will be secured by tanker deliveries. Messer Hungarogáz signed another supply agreement with Ibiden in November. This means that the total volume of supplies to Ibiden has been increased to 3.1 million euros per year. This collaboration also means that we are indirectly contributing to the protection of our environment: the use of the diesel particle filters substantially reduces the potentially carcinogenic soot content in exhaust fumes.

Ibiden, the Japanese manufacturer of diesel particle filters, needs nitrogen and argon for its heat treatment furnaces.

New nitrogen generator for major "established" customer Bosch The nitrogen demand of the Robert Bosch GmbH subsidiary – one of the biggest customers of Messer Hungarogáz – has increased seven-fold since 2000, from half a million cubic meters to around 3.5 million cubic meters per year. Since further increases in production are anticipated, Bosch signed a contract last year for the supply of a nitrogen generator which will replace the previous tanker deliveries. The system will be telemetrically controlled from the European Control Center in Budapest. Messer Hungarogáz can thus supply an important partner to their mutual benefit. Nitrogen is used for inerting reflow furnaces and wave soldering machines used in the production of electronic components for all the leading automobile manufacturers.

Liquid oxygen for glass melting At the beginning of 2005, a new contract for the supply of liquid oxygen was signed with GE Hungary Rt. (General Electric). As part of this contract, Messer will supply liquid oxygen for the new glass melting furnace at the GE factory in Vác.

Cleaning with CO_2 snow at Shinwa Kft. A supply contract for 1000 tons of liquid carbon dioxide per year was signed with Japanese firm Shinwa Kft. One container with a 27,000 liter capacity has already been installed at Shinwa; deliveries will commence in 2006. The CO_2 snow will be used for cleaning plastic surfaces in the production of electronic components for in-car audio equipment.

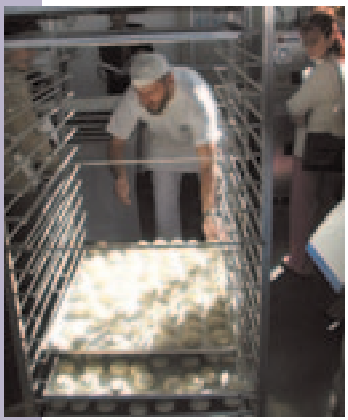
August

Supply of carbon dioxide to Brau Union In March 2005, a contract was signed with Brau Union Rt. (member of Heineken Group), on the basis of which Messer Hungarogáz will supply the brewery in Martfü with 1000 tons of liquid carbon dioxide per year.

Electronics for the automotive industry The Japanese company SEWS-CEH produces electronic components for the automotive industry. Nitrogen is used for inerting the wave soldering machines. Messer Hungarogáz supplies the liquid nitrogen for this.

At Mirelite, Hungarian Goulash is coated with different sauces.

Successful pilot project – IQF freezing of traditional Hungarian specialty dishes Mirelite – one of the leading Hungarian manufacturers of frozen products – supplies high-quality specialty dishes prepared according to traditional Hungarian recipes. And, of course, the most traditional of these is Hungarian goulash. As part of a pilot project, Messer Hungarogáz had installed a Cryotumbler at Mirelite, in which the individual pieces of the ready meals are coated with different sauces using IQF freezing. The result is appetizing and positive. The pilot project was successfully completed and the innovative new product is already on supermarket shelves.



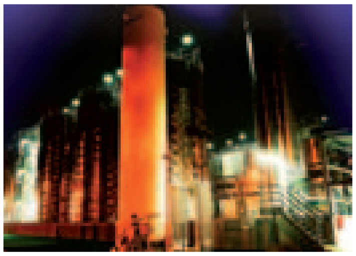
The bakery symposium was a great event for Messer Hungarogáz.

Rapid freezing of bakery products at Zalaco In May 2005, Messer Hungarogáz had invited 40 potential customers to the baking industry symposium in Gumpoldskirchen, Austria. The first result was a contract with the large baking industry company Zalaco Rt for the installation of a rapid freezer and the supply of liquid nitrogen.

Commissioning of a Cryocontrol system at the Hungarian pharmaceutical manufacturer Richter Gedeon Richter Gedeon is one of the largest Hungarian pharmaceutical manufacturers. In September 2005, this key customer of Messer Hungarogáz commissioned a new Cryocontrol® unit for reactor cooling in Dorog. This is already the second Cryocontrol® system in Hungary. The gas requirement is around 200,000 m^3 of liquid nitrogen per year.

Messer Hungarogáz is very successful in the home care market.

Home Care – performance doubled Messer Hungarogáz has been active in the home care market since 2004. The new business unit was able to double its annual turnover in the second financial year. In other words, turnover grew from 325,000 euros to 685,500 euros compared with the previous year. The number of patients supplied by Messer Hungarogáz increased from 2282 to 3729. Because of the increase in the number of patients, a new home care center was opened in Ölbő, in the west of the country. This brings the number of home care centers being run nationwide to five. In the space of two years, Messer Hungarogáz has achieved a market share of nearly 25 % in this segment.



The first biodiesel plant in central and Eastern Europe has been built in Trzebinia, Poland. Since August 2005, nitrogen from Messer has been maintaining the inert gas atmosphere required for production and storage of the fuel.

Step on the gas with biodiesel

Biodiesel vehicles are growing in popularity across Europe because of the environmental benefits of fuel that is produced from rape seed. This is precisely what is happening at the first biodiesel plant in central and Eastern Europe, which was commissioned in the Polish town of Trzebinia. Messer Polska has been supplying nitrogen to the plant since August 2005. The nitrogen plays an important role by maintaining the inert gas atmosphere required for production and storage.

Messer Hungarogáz has won a major new customer in Ibiden Co. Limited. The Japanese company is a global leader in the development and production of particle filters for diesel vehicles. Messer Hungarogáz has been supplying nitrogen and argon for the heat treatment furnaces in the new Ibiden plant since August 2005 *(see also page 43).*

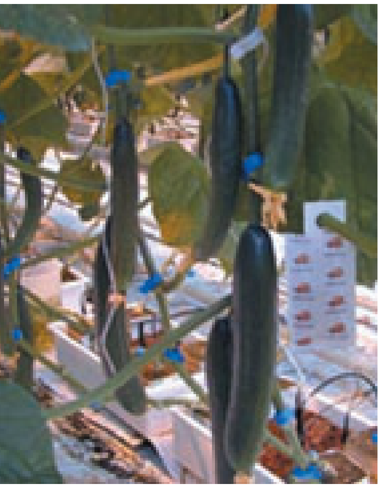
Both Messer Hungarogáz and Messer MOL Gáz have had an ISO 9001:2000 quality management system in place for several years. During the reporting period, the obligatory inspection audits were successfully completed by an external auditor. With regard to food safety, another milestone was reached at Messer MOL Gáz with the integration of the HACCP guidelines into the quality management system, especially with an external auditor having certified that the HACCP method was being applied correctly. The implementation of the complete EU regulations for food gases is in full swing and will be completed in the first few months of 2006. As a result, Messer Hungarogáz will be even better able to supply international customers in particular with high quality products that comply with all the EU regulations.

Naaraharju Oy is famous for its excellent steel for welded steel constructions.

Messer Suomi, Finland

Top quality steel with Messer gas A contract was signed with Naaraharju Oy for the supply of welding gases. Ever since it was established in 1970, Naaraharju Oy has been famous for its excellent steel for welded steel constructions. Distributed under the brand name Marksteel, the steel is used in bridge buildings, in industrial buildings and in the construction of power stations, not just in Finland but throughout Europe, Russia and the Middle East. A steel framework made by Naaraharju Oy was used in the construction of Helsinki-Vantaa Airport.

Environmentally friendly manufacture of insulation material In the area of specialty gases, an important contract was signed with Finnfoam Oy in December 2005. The supply of carbon dioxide has begun in February 2006. Finnfoam, a family business based in Salo, is the largest Finnish manufacturer of heat insulating material. The company has been able to replace some environmentally harmful plastic compounds with carbon dioxide. Other applications are being discussed – it is possible that isobutene and pentane will be used in production in the future. Gases make the insulation elements lighter.



Carbon dioxide from Messer Suomi allows the cucumbers to grow more quickly and healthily.

Finnish cucumbers grow with carbon dioxide In mid-October, Puutarha Pirinen in Hyvinkää, one of the biggest market gardens in Finland, decided to buy its food gases from Messer Suomi. The company primarily produces cucumbers, but also peppers, tomatoes and cultivated blueberries which are sold via large trading companies to stores throughout Finland. The greenhouses occupy an area of more than 8000 square meters. The carbon dioxide allows the fruit and vegetables to grow more quickly and healthily. All the tanks will be installed by February 2006.

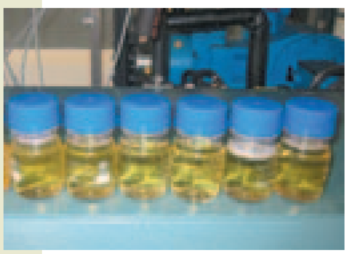
September

Messer France, France

Marie Hussenot, application engineer with Messer France, in conversation with a customer at the opening of the Technical Center in Mitry-Mory.

Competence center for "cold applications" A wide range of technology was on show at the opening of the European Development Center for Gas Applications in Mitry-Mory near Paris. In May, more than 100 guests and employees of Messer France watched demonstrations of freezing, extracting, micronization, cooling and snow production with gases. Since then, Messer France has been developing new processes – especially in the areas of food and drinks, water and wastewater technology, chemicals and industry – and improving existing ones even more effectively, which are used by customers all over Europe. The new technical center is one of the strategically positioned research and development centers of the Messer Group and can be used by all the Messer companies.

Patented technology comes out on top The family business Poujol Frères in Sainte Geneviève sur Argences has chosen Messer France as the gases supplier for its new location. Five large meat mixers/grinders are cooled at the plant using liquid carbon dioxide, which is injected into the mixers from below. The end products are then packaged using a highly concentrated oxygen gas mixture. Thanks to our patented Thermocool technology for supercooling CO_2, the dry ice content is increased when producing CO_2 snow for the cooling of meat products. This technology has allowed Poujol to reduce its liquid carbon dioxide consumption by up to 15 %.



Pasteurization with carbon dioxide preserves all the important vitamins in apple juice.

Gentle pasteurization preserves vitamins In the new research and development center, Messer France studied the possibility of using carbon dioxide to kill bacteria in liquid foodstuffs, thereby increasing their shelf life. The advantage of this type of pasteurization over established thermal procedures is that the products can be treated at lower temperatures, thus preserving important vitamins and proteins.

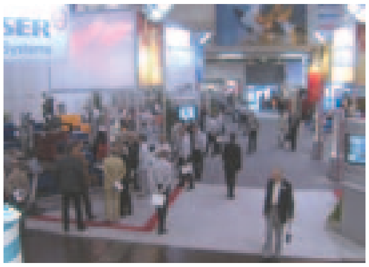
New mixer cooling procedure The development of a special nozzle allows liquid nitrogen to be injected from below through the bottom plate of a mixer. In the last few years, liquid nitrogen and liquid carbon dioxide have been increasingly being used in mixer cooling. The reasons for this are ever bigger mixers and stricter EU regulations, especially in the food industry.

The new Clapet nozzle allows liquid nitrogen to be injected into a meat mixer from below.

Messer France experienced particularly good growth in the areas of metal processing and food applications. Collaboration with partners such as Olivo and Electrocaloric is bringing international success.

The companies that are "Part of the Messer World" demonstrated their expertise at the "Cutting & Welding" exhibition in Essen, Germany, in September 2005 – and they did so very skillfully (see also page 8).

September



Expertise that binds together

Cutting and welding applications have traditionally been part of Messer's core competencies. Thus the Messer Group, Messer Cutting & Welding, Messer Cutting Systems and Castolin Eutectic showcased themselves in September 2005 to large numbers of specialists attending the international "Cutting & Welding" exhibition in Essen, Germany. The firms' four independent trade fair stands came together to form one big stand under the shared "Part of the Messer World" banner – just like the competencies within the Messer World.

In September, a forum supported by Messer among others revealed investment possibilities in the Chinese city of Foshan. Foshan lies at the heart of the Pearl River Delta, one of the most dynamic areas of China.

As part of the acquisition of the MEC Group, Messer is taking back control of IT support. In September 2005, Messer Information Services was set up and a modern computer center built at Messer Cutting & Welding in Groß-Umstadt, Germany, serving all the companies of the Messer World (see also page 19).

Messer Carburos, Spain

Messer Carburos operates a pipeline system to supply its industrial customers.

Unique – gas supplied by pipeline A long-term contract extension has been negotiated with the Repsol Group. Messer Carburos has also secured long-term deals with chemical groups Bayer and Celanese, who are based in the Tarragona Industry Park.

Oxygen heats up enamel The US company Ferro produces enamel at two production facilities in the Castellón province on the East coast of Spain. Since 2005, Messer Carburos has been supplying the liquid oxygen for the enamel, which is required in the manufacture of sanitary ware, porcelain, building materials, for the coating of containers and in the chemical industry.

Messer Carburos supplies helium to the National Meteorological Institute for weather stations right across Spain, such as here in Madrid

Weather balloons fly thanks to helium from Messer In April 2005, after the National Meteorological Institute had issued a call for tenders, Messer Carburos won the contract to supply the Institute with helium. Ever since, Messer has been supplying helium to weather stations right across Spain, including the Canary Islands. The helium is used to fill weather balloons that perform measurements at heights of up to 30 kilometers.

Partners in trout farming Messer Carburos supplies several of the most important trout farms in Spain with liquid oxygen. Truchas del Segre operates Europe's largest trout farm in Peramola, Catalonia, and another one in Olivan in the Aragon region. Messer Carburos supplies the liquid oxygen for oxygenation of the pools, which ensures the safe and healthy growth of the trout. This has enabled Messer Carburos to build up a good reputation in this market, and the company now also supplies liquid oxygen to another two fish farms run by Truchas del Rio Oja in the Rioja region.

Entry into the medical market In 2005, Messer Carburos made preparations for its entry into the medical gases market segment. The public health authority issued the license to sell medical oxygen and nitrous oxide. As well as preparing the production facilities, Messer Carburos carried out training of its staff, allowing the company to enter the medical gases market at the beginning of 2006.

MesserGas, Portugal

The Portuguese company Gasimesser was formed in November 2004 and then renamed MesserGas in 2005. MesserGas is continuously expanding its nationwide distribution network. It offers the full range of cylinder gases, supplying customers in the chemical, metallurgical, automotive and food industries as well as in glass making and environmental technology.

Messer Italia, Italy

Messer's INCAL process involves aluminum blocks being cooled with nitrogen and pushed through an extrusion die.

The market for medical oxygen has seen strong growth in Italy. Messer Italia supplies the breathing oxygen in SANOX gas cylinders.

Application technology – the Italian market's main growth area The aluminum industry is particularly interested in Messer's INCAL process for aluminum extrusion with liquid nitrogen. Aluminum blocks are pushed through an extrusion die under great pressure and during this process are cooled with liquid nitrogen. Messer Italia has signed seven test contracts with important customers from the aluminum industry. Other factors that have contributed to the success of the Italian company include Variosol, a process for atomizing fats and oils under supercritical carbon dioxide conditions, as well as food applications. In the area of metallurgy, Messer Italia developed oxyfuel systems for shaft furnaces.

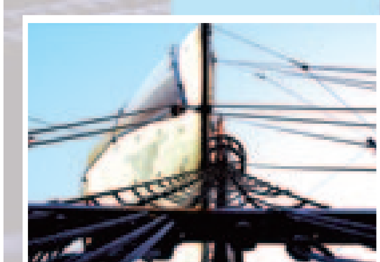
Strong growth in the medical oxygen market The medical market – especially for Messer's SANOX liquid oxygen – was further expanded in 2005. Deliveries of the SANOX gas cylinders to hospitals and doctors' surgeries were up by more than 50 % on the previous year.

Collaboration with sister companies Messer Cutting & Welding and Castolin Eutectic was intensified in 2005 in the area of cutting and welding.

In summer 2005, the new filling plant in Caivano near Naples was commissioned. All the technical gases and medical gases needed to supply the customer base in the south of Italy are filled at this plant. The ISO 9000 certification for the manufacture and sale of carbon dioxide was successfully renewed at the end of 2005.

Messer Italia wins safety awards In May 2005, Messer Italia received the EIGA's Peter J. Jackson Safety Award for being accident-free for several years. It remained accident-free in 2005.

October



The Messer Group sets its course for the future: the Messer Group's mission statement was developed collectively at the corporate conference in Dubrovnik, Croatia, in October 2005 (see also page 9).

The Messer Group sets its course for the future

The corporate conference, which was held in the Croatian city of Dubrovnik in October, was a milestone in the history of the Messer Group. At this conference, the "Dubrovnik Agreement" was developed, agreed and signed. It encompasses the mission statement of the Messer Group, which consists of a vision, a mission and the corporate values. The Messer Group's mission statement is intended to penetrate all levels of the organization while at the same time delivering a clear message to customers and the public.

In October, Messer hosted a "hot" symposium in the new research and development center in Gumpoldskirchen, Austria. This included a demonstration of the new burner test stand (see also page 26).

In October 2005, Dr. Matthias Hollick received the Adolf Messer Prize from the Technical University of Darmstadt, Germany, for his scientific work in the field of reliable communication in self-organizing networks. The Adolf Messer Prize is awarded annually in honor of the founder of the Messer Group.

Messer Schweiz, Switzerland

In 2005, "Sauerstoffwerk Lenzburg" became "Messer Schweiz". The trust which customers had in "Sauerstoffwerk" was successfully transferred to "Messer" thanks to the excellent customer loyalty that had been established.

Pioneers in fire prevention In 2005, two fire prevention systems were installed at the locations of customers Lonza and OPO, and further orders have already been received. In collaboration with the relevant authorities, we have been able to optimize the system's design, which is now the benchmark for the entire Messer Group. Messer Schweiz installed on-site systems at Axicom and Schekolin for the inerting of production facilities with explosion risk.

The new CO trailer delivers carbon monoxide to the Swiss chemical industry.

New CO trailer for Switzerland The specialty gases market in Switzerland is stable too – for example, a supply contract for the supply of carbon monoxide by trailer was signed with a large well-known chemical concern. A suitable vehicle was built in conjunction with Messer GasPack. In the last few years, Messer Schweiz has established itself as the Swiss market leader in specialty gas installations.

Medical technology of Swiss quality Messer Schweiz is the only Messer company that can carry out the planning and installation of medical gas supply systems on a Europe-wide basis, having been awarded an EU license by the public health authority »Swissmedic«. Messer Schweiz's customers include a number of renowned clinics.

Production optimization tests with carbon monoxide have been carried out in the paper industry by two Swiss customers since 2005.

Supplies of hydrogen to Ciba from the new plant in Monthey were in the region of 1.3 million cubic meters for the first operating year.

Compressor station for hydrogen with storage facility in Monthey.

November

Messer Benelux, Belgium and Netherlands

Top provider in the area of transport refrigeration and food Messer Benelux has achieved a tenfold increase in its liquid gases customer base. The supermarket chain Colruyt has renewed its trust in Messer Benelux and the application technologies of the Messer Group by signing a long-term contract in 2005. The transport refrigeration system was expanded conjointly and installed at the new Collivery division, which delivers groceries directly to customers' homes. Messer Benelux is making increased use of the new Gourmet food gases (previously Inertal) for its customers from the drinks and food industry. Messer Benelux is a recognized consultant in this area and offers all its customers trials and test runs. At Vitens, a major supplier of drinking water in the Netherlands, Messer Benelux was able to use this know-how for water treatment.

Major leap in cutting and welding In the traditional area of cutting and welding, Messer Benelux has taken a major leap forward through the introduction of multi-top cylinders. These cylinders have an integrated pressure and flow valve. The design has proved very popular with customers as it increases safety for users and the environment.

Medical gases around-the-clock The total market in the Home Care sector has seen very strong growth since the introduction of financial support for home care. Messer offers an ideal concept for patients and pharmacists with its decentralized distribution system: the Combi cylinders are delivered to patients in their homes 24 hours a day, seven days a week. What sets Combi cylinders apart is their high quality and their integrated outlet and pressure regulation valve.

Messer Danmark, Danmark

Messer Danmark was formed in 2004 as a wholly owned subsidiary in order to build on the existing strengths of the Messer Group in technical gases among other things. Especially in the cylinder gases segment, Messer Danmark was able to convince its customers of the quality of its service. Messer will continue to invest in the Danish company in 2006 in order to be able to provide application technologies to Danish industry in the future.

Niels Erik Andersen (l.) and CEO Tim Evison of Messer Danmark.

Targeted oxygen delivery can save the lives of premature babies suffering from breathing problems. In November 2005, the Dr. Hans Messer Social Foundation donated the equipment needed for this to a Vietnamese hospital.

Life-saving oxygen

Breathing in oxygen – something that healthy people do automatically – can often become a matter of life or death for premature babies. Without the appropriate help, they often get too little oxygen. In November 2005, the Dr. Hans Messer Social Foundation donated funds to a Vietnamese hospital for the purchase of three CPAP machines, three pulsoxymeters and three incubators, in order to give premature babies a better start in life. Further support through the foundation and the Vietnamese Messer subsidiary is planned and is designed to contribute towards reducing the mortality rate of premature babies in Vietnam.

In just twelve months, the Messer Group and its Chinese plant construction partner Hangzhou HangYang were able to commission an air separation plant at US Steel in Smederevo, Serbia-Montenegro (see also page 36).

Messer Algérie, Algeria

Messer Algérie – noted for high quality 2005 was a very successful year for Messer Algérie. There was strong growth in the demand for nitrogen, especially from the oil refinery NAFTEC and the natural gas producer G.N.L. in the Skikda Industrial Park. The production plants ran smoothly and without any failures thanks to the technical improvements made to the on-site generators. Messer Algérie is known for its reliable and continuous supply of gaseous nitrogen which meets all the demands of a range of customers.

The nitrogen needed at Skikda Industrial Park is produced by Messer Algérie.

Direct to the customer via a pipeline Messer Algérie, based in Algiers, is a joint venture between Messer and ENGI, an Algerian industrial gases producer. The joint venture was set up in 1998 in order to supply nitrogen to four major petrochemical customers in Skikda. Skikda lies approximately 500 kilometers to the east of the Algerian capital and is one of the largest petrochemical industrial zones in Algeria. To keep its customers supplied, Messer Algérie has two nitrogen generators with a total production capacity of 6000 cubic meters per hour. A pipeline supplies the customers with gaseous nitrogen.

Messer Gases del Peru, Peru

Messer Peru has also been offering the Messer Cutting & Welding product range since 2005.

Synergies in the Messer World yield economic benefits The integration of Castolin Eutectic and Messer Cutting & Welding into the Messer World presented a number of new business opportunities for Messer Peru. Messer Peru has been offering the Messer Cutting & Welding product range on the Peruvian market since October 2005. The gas supply systems for the laboratory at Minera Yanacocha, one of the largest gold mines in the world, have already been fitted with Messer Cutting & Welding products. From 2006 it will also be possible to buy the world-famous Messer welding torches in Peru.

Messer Peru used the synergies with a sister company in China to compensate for the shortage of argon in Peru which resulted from the devastating damage caused in Houston and New Orleans by Hurricane Katrina.

Important partner in mining Messer Peru has signed a four-year contract with Minera Yanacocha in the north of Peru, for the supply of oxygen, acetylene and gas mixtures for mining. This makes the Peruvian subsidiary one of the most important gas suppliers in the mining industry.

Oxygen stops the build-up of odors The municipal sewage treatment plant in Lima (SEDAPAL) awarded the contract for the supply of liquid oxygen to prevent odor formation in sewers (Oxyduct) to Messer and two other providers. Messer started feeding oxygen into the sewers in 2005.

The Peruvian company was successfully certified according to ISO 9000 in February.

Messer China, China

Messer China was able to profit in our core markets particularly from the good economic situation in the steel sector and, thanks to increased capacities, achieved a noticeable growth rate in turnover as well as in operating profit. This pertains most noticeably to the regions of southern and western China with the provinces of Hunan, Guangdong, Yunnan and Sichuan.

High utilization of air separation plants in southern China In mid-2005, the fourth air separation plant and the new liquefier were commissioned in Xiangtan, Hunan. Among other things, the strong demand for gases on the part of our customer Xianggang ensured very high plant utilization levels. The air separation plant in Foshan, Guangdong, has been producing air gases since the end of 2004. Messer counts the leading lighting manufacturers in China among its customers and has established itself as an important liquid gases supplier in the province's third largest city, Guangdong. As a result of this success and the solid growth in the Foshan region, a second air separation plant is now being built.

Strong gas demand in Chengdu Chenggang Messer in Chengdu, Sichuan profited from the strong gas demand of its most important pipeline customer. In order to meet the increased gas demand in Leshan, Messer Sichuan is installing a new nitrogen generator.

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

Growing with the customer In order to facilitate the expansion plans of our customer Kunming Steel in Yuxi, Yunnan Messer has built an air separation plant with a capacity of 12,000 standard cubic meters/h, which has been in operation since May 2005.

December

In December 2005, Messer France developed a special pasteurization process whereby the bacteria in fruit juices are killed off while the vitamins are optimally preserved (see also page 48).

December

"An apple a day keeps the doctor away"

This is especially true in winter: the vitamins contained in apple and other fruit juices help ensure good health and a strong immune system. This process has now been made even more effective thanks to our experts in the new research and development center in Mitry-Mory, France. In December 2005, they found a way of killing bacteria using carbon dioxide. This special form of pasteurization takes place at significantly lower temperatures than in conventional thermal procedures, thereby optimally preserving the vitamins contained in the fruit.

Messer Romania Gaz can look back on a short but very successful history. The company has grown dramatically since its formation in 1998. Today, annual turnover is more than 9.5 million euros. A good reason to celebrate – and not just at the company Christmas party.

Expansion in Eastern China We are strengthening our market position in the dynamic region Eastern China, whose center is Shanghai, through the construction of a new site in the Zhangjiagang chemical business park in Jiangsu Province, near Shanghai. A nitrogen plant as well as an air separation plant with liquefier are being built and will go into operation in 2006. Several pipeline customers can thus be supplied. Besides supplying customers in the chemical business park, the new company Messer Zhangjiagang focuses on the marketing of liquid gas in the metropolitan area of Shanghai/Jiangsu. The liquefier plant will replace the previous production in Shanghai Pudong, where we had to vacate our premises at the beginning of 2006 to make room for the "Expo 2010".

All our Chinese companies have been ISO 9000 certified since 2005.

Messer Vietnam and Messer Haiphong, Vietnam

Messer Vietnam won a contract with Yamaha Motor Company for the supply of gases.

Messer was particularly successful in the cylinder gases sector in Vietnam in 2005, but both Vietnamese companies in the north and the south of the country also managed to win new customers for liquid and special gases. Messer Haiphong signed contracts for the supply of argon and carbon dioxide with Yamaha Motor Company, Honda Motor Company and Kyoei Manufacturing Co.

Messer invested in the expansion of its companies in Vietnam in 2005. The gas plant in Ho Chi Minh City was expanded to a modern filling station for technical gases, high purity gases and special gases. The gas cylinder fleet was increased in both Haiphong and Ho Chi Minh City and new liquid gas supply systems were also installed in Haiphong.

The vehicle fleet in Haiphong was modernized, ensuring that gas is now safely transported on Vietnam's roads.

The vehicle fleet of Messer in Vietnam has been modernized.

Audit Opinion

On the condition that the Company's Supervisory Board approves the resolution passed by the shareholders of Messer Group GmbH on March 10, 2006, and effective December 31, 2005, relating to the transfer of a further amount from additional paid-in capital equivalent to the net loss of € 2,999,476 recorded by Messer Group GmbH for the financial year 2005 (we draw attention also to the explanation provided in the Notes), we issue the following opinion on the consolidated financial statements and group management report:
"We have audited 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 2005 to 31 December 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.
We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and with additional consideration of the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting disclosures in the consolidated financial statements is examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.
Our audit has not led to any reservations.
In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Eschborn/Frankfurt am Main, March 13, 2006
Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Geisler
Wirtschaftsprüfer
(German Public Auditor)

Herder
Wirtschaftsprüferin
(German Public Auditor)

1. Reorganization of the Messer Group

Following the exit of financial investors, the Messer Group ("Messer" or "the Group") is fully controlled by the Messer family since May 7, 2004. At the same time, Messer Group GmbH ("Messer Group") commenced its activities as the Group's management holding company. Products, services and technologies continue to be sold under the proprietary name of 'Messer'.

The activities of the Group are managed out of Sulzbach, near Frankfurt am Main. Certain technical functions, comprising logistics, engineering and production, and application technologies, continue to be managed centrally out of Krefeld. The Group also has its own operating facilities in each of the main European markets (with the exception of Germany and Great Britain) as well as China, Vietnam, Algeria and Peru. We were able to increase our presence in Eastern Europe during the financial year 2005 by means of market expansion in the Ukraine. Technical expertise centres have been set up within the Group: Teams of experts covering the various gas technologies as well as a highly specialised technical department for applications such as cold grinding, recycling and cryogenics and a technical center for developments in the cutting and welding technology are located in Germany. Application development activities for industry, metallurgy, heat treatment and burner engineering are performed by teams of experts in Austria. In France, the focus is on the development of technologies for use in the food-processing, pharmaceutical and biotechnology sectors.

The Group recorded net sales of K€ 575,297 for the year ended December 31, 2005, a clear indication that we have been able, as the new Messer Group, to maintain our strong position in the countries and markets in which the Group currently operates.

2. Review of economic development

Business environment

The world economy continued to expand strongly in 2005, despite a sharp rise in the price of crude oil. The increase in world production, at well over 4 %, again turned out higher than originally forecasted for the medium-term. China continued to be a major source of impetus for the global economy, with the pace of growth remaining at the same high level. The rapid increase in production volumes and demand in China is not only one of the reasons for the rise in commodity prices, but has also contributed to the fact that the world economy has been able to cope relatively well with the high price of crude oil and other raw materials. The economies of industrialised countries slowed down marginally over the course of the year, albeit with significant differences from region to region. Whilst Japan saw a strong upswing in domestic demand during the first half of the year which gradually lost momentum from the middle of the year onwards, the Euro region saw the reverse trend. The first half of the year was marked by almost stagnant domestic demand accompanied by general economic sluggishness, whereas since the summer there have been increasing signs of recovery. In the USA, the gross national product increased vigorously over the course of the year and continued to outpace production capacity.

The dampening effect of higher energy prices on industrialised countries' economies did not turn out to be as negative as past experience might have led one to fear. This was largely due to the powerful counterbalance provided by the stimulus of low interest rates. Inflation has not been a major problem so far either, and although inflation rates have risen in some industrial countries, this could largely be put down to the high price of oil. The underlying inflation rate remained at a low level. Nonetheless, the rise in oil prices is a clear signal that the risk of an increasing inflation may have increased. In the final analysis, developments on the oil market have been driven to a large extent by strong demand, in other words the consequence of a fast-growing world economy that, in turn, has benefited from low interest rates and strong demand from both China and India.

Significant developments

In the following section, we describe the main developments and trends affecting the financial year ended December 31, 2005.

Change in net operating assets

Measures were implemented during the year to reduce the level of net current operating assets, comprising inventories, trade receivables and trade payables. In the light of higher net sales and the resulting higher level of trade receivables, however, it was not possible to reduce net current operating assets in 2005 and these stood at December 31, 2005 at K€ 67,572 compared to K€ 57,965 one year earlier.

Refinancing

Messer had been financed up to July 2005 in the form of a long-term credit agreement dating from April 2004 ("Senior Facilities Agreement") with a volume of € 525 million. On August 2, 2005, the business was completely refinanced, under the lead of Bayerische Hypo- und Vereinsbank AG and ING Bank NV. A new Senior Facilities Agreement with a volume of € 260 million and a US Private Placement (long-term bonds placed with US insurance companies) with a volume of US$ 252 million were concluded. The refinancing was made possible by the reduction in debt and the fact that Messer's earnings have exceeded budget since the exit of the financial investors, thus strengthening the capital markets' confidence in the Group. Moreover, favourable capital market conditions also had a positive effect. The twin aims of the refinancing measures were to reduce the cost of financing and simplify the collateral structure. The new financing arrangements provide the flexibility necessary to achieve the Group's growth strategy over the coming years.

Capital expenditure

Capital expenditure on property, plant and equipment in 2005 (excluding first-time consolidations) totalled € 94.8 million and were therefore equivalent to 16.5 % of total net sales. In addition to the construction of an air separation plant in Serbia-Montenegro, a large part of capital expenditure was invested in China. In this region, capital expenditure was equivalent to 36 % of net sales and related primarily to two air separation plants constructed for major steel customers and to a hydrogen plant.

The Group also broke new ground in logistical terms by transporting an air separation plant from Hangzhou, China, via Shanghai and Rijeka to Smederevo, Serbia-Montenegro. Extensive plant equipment, involving a substantial weight and size, was successfully transported to Serbia-Montenegro on schedule.

Changes in the group reporting entity

During the course of 2005, the Group acquired additional shares in Messer Tehnogas AD, Serbia-Montenegro, from minority shareholders. Elme Messer Gaas A.S., Estonia, and its Baltic subsidiaries were included in the group of consolidated entities for the first time. We were also able to include one more company in China, our first company in Portugal and one German company (responsible for management, purchase and standardisation of cylinders) for the first time. One affiliated company and one associated company in China were sold in 2005, and were therefore deconsolidated.

3. Review of overall economic position

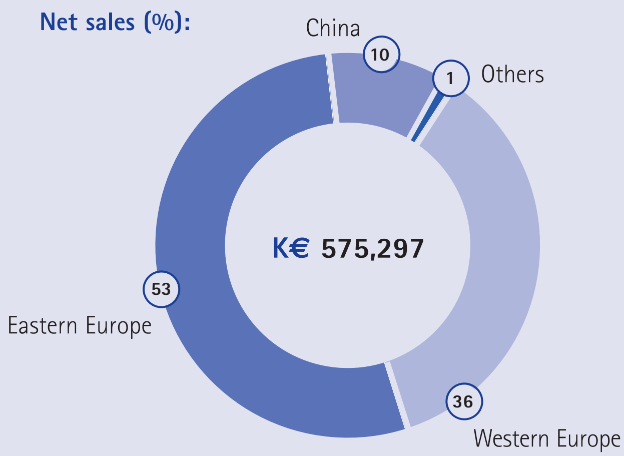
The general upturn in the global economy, our strong market position in many countries and the boom in China were all positive factors affecting the Group's economic position. The currencies of most of the new EU member states stabilised initially during the year and then appreciated in value. This impact was accentuated by an 18 % appreciation of the Renminbi Yuan against the Euro. This appreciation resulted from the higher value of the US Dollar against the Euro, given that the Renminbi Yuan was coupled to all intents and purposes with the US Dollar.

Results from operations

Messer generated worldwide net sales of K€ 575,297 in 2005, which can be analysed by region as follows:

Net sales of K€ 208,391 were recorded in Western Europe. This is equivalent to 36 % of total net sales. This performance was negatively influenced by steep rises in energy and commodities prices. The market continues to be characterized by strong competition between international gas suppliers and also a great number of small, independent suppliers.

Business developed very differently from one country to the next. In Switzerland, Messer was able to maintain its position in the market for specialty gases. In 2005, Messer Carburos S.A./Spain obtained



regulatory approval to sell medical gases, thus allowing it to enter a new market. Messer Carburos S.A. ISO certifications were expanded to cover all business operations. The company will shortly commence construction of the new Messer IV air separation plant in the Tarragona district of Spain. In 2005, Messer France S.A.S. was able to prevail over the competition thanks to the patented Thermocool® technology (deep-freezing using CO_2). Messer Italia S.p.A. commissioned a new cylinder-filling plant in Caivano near Naples in 2005. Southern Italy will now be supplied with technical and medical gases from this location. Messer Italia S.p.A. received an award from the EIGA in recognition of the many years that it has operated without accident.

In Eastern Europe, group companies recorded net sales of K€ 300,802. This corresponds to 53 % of total net sales. This region continues to be growth-oriented and offers an even greater range of opportunities as a result of the entry of several states into the European Union. However, there is also increasing competition in these markets, as a result of which selling prices have come under pressure. Profitability deteriorated in countries where the Group does not manufacture locally and where long transportation routes resulted in higher costs due to rising oil prices. Despite these factors, Messer was nevertheless able to maintain its strong market position in 2005.

Quality assurance was certified according to ISO 9001 at several of the Group's companies in Eastern Europe in 2005. The Romanian health ministry issued official approval to Messer Romania Gaz S.R.L. for to sell medical oxygen. Messer Croatia Plin d.o.o. received official approval from the Croatian health ministry, allowing them to produce medical oxygen and nitrogen. Successful tests of production facilities for carbon dioxide and nitrogen carried by a major client now enable Messer Croatia Plin d.o.o. to supply all of this client's filling plants in South-Eastern Europe. In Poland, production standards checks were carried out by several major clients at Messer Polska Spólka z.o.o., therefore strengthening customer relations.

In Hungary and Slovakia, several customers were either acquired or retained by Messer on the basis of long-term supply agreements. In Poland too, the Group was able to expand its market position despite strong competition.

Construction of an air separation plant was commenced at Smederevo, Serbia-Montenegro and has started to operate in March 2006. In Hungary, the main items of capital expenditure were for a pipeline, an on-site plant and a nitrogen plant.

In Austria, the largest soil freezing project in Europe was successfully completed. Two 80-metre long underground railway tunnels were constructed under the Danube canal in Vienna. In 2005, a new technology enabling environmentally friendly lead-free soldering was employed for the first time at the premises of Austrian suppliers to the automotive industry.

Elme Messer Gaas A.S. entered the Ukrainian gas market following the acquisition of a number of companies.

Lax payment practices prevailing in many East European countries puts a strain on the companies operations in this region because of the high cost of collecting receivables.

China continued to display a dynamic economic development during the financial year of 2005, with the steel industry growing in particular. During 2005, China switched from being an importer to an exporter of steel, a development which is now being reflected in lower steel prices. In addition, the method of calculating the GNP in China was also amended: the computation is now based on the method generally accepted around the world. As a consequence of the change, China now has the world's fourth largest GNP after the USA, Japan and Germany.

The Group operates with 13 entities in the China region, including 6 joint ventures. In 4 of these joint ventures Messer is the majority shareholder. Messer is therefore comprehensively represented throughout all of China's core industrialized centers, allowing it to do investments in all growth sectors in the region. In 2005, Messer generated net sales of K€ 59,881 in China. Along with the steel industry, the main impetus for growth came from the chemical, automobile and electronics industries. Messer has thus been able to participate overproportionately in China's growth in 2005, thereby continuing to expand its market position in this region.

The development of our business in China continues to be enjoyable. Net sales from pipeline and on-site business saw sharp growth, whilst sales of compressed gases also climbed. The good growth rates achieved in the area of helium and specialty gases indicate that this line of business holds great promise for the future. Investment projects for two air separation plants to serve the additional needs of major steel clients were completed during the financial year 2005. Diversification of the customer portfolio was also furthered by the successful completion of a hydrogen plant in a chemical industrial park near Shanghai.

The group profit before minority interests for the financial year 2005 amounted to K€ 33,533. The gross profit amounted to K€ 318,385 (55 % of net sales) and the operating profit amounted to K€ 52,829 (9 % of net sales). The profit before tax and minority interests was affected above all by the net interest expense of K€ 17,479. This was only partially offset by net investment income and other net financial income (principally foreign currency exchange gains).

Net assets position

The balance sheet total (total assets/total equity and liabilities) as at December 31, 2005 amounted to K€ 1,390,312. The bulk of this (81 %) related to fixed assets which went up by 4 % during the financial year 2005. Cash at bank accounted for a further 7 %.

The equity ratio improved from 55 % to 60 %. This was attributable to the net profit for the year and a capital increase of K€ 80,000; on the other hand, capital decreases and dividends reduced equity by K€ 51,300. Non-current financial liabilities accounted for 22 % of the balance sheet total and remain practically unchanged in percentage terms compared to one year earlier. Net debt increased by K€ 57,263 to K€ 263,249 (December 31, 2004: K€ 205,986).

Financial position

Messer's liquidity is adequately secured by stable cash flows, unused credit lines of € 123.2 million and high cash balances.

In 2006, 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. Messer's strong position in the various markets in which it already operates, combined with expansion into new markets, will be key factors to continue the robust financial progress that we have made.

4. Other disclosures

The new infrastructure – European centers of technical expertise

The process of expanding Messer's research and technical infrastructure, started in 2004, was successfully completed in 2005.

In May 2005, we commissioned a technical center in Gumpoldskirchen, Austria, where metallurgic projects and cold industrial applications are now processed. The newly completed burner test station enables us to develop customised burner solutions for metallurgic melting applications. We also commissioned a new technical center in Mitry-Mory, France, in spring 2005. Development activities in France were focused on food processing, pharmaceutics and environmental care technologies. A cold grinding technical center was taken into operation in February 2005 near Krefeld, Germany. We are already achieving good capacity utilization levels there with customer trials and test grinding in the fields of fine grinding and recycling. With the know-how gained, we plan to explore new applications for liquid nitrogen.

In 2005, we expanded our welding technology network with a new support site in Shanghai in order to bring our know-how in the field of application technology closer to our Chinese customers. At its support centers in Budapest and Shanghai as well as the technical center in Dällikon, Switzerland, Messer is also able to put innovative process designs to the test and carry out projects jointly with customers.

Development of application processes

The Group operates its own technical research centres, where it develops products and services that are tailored to the needs of the market and customer, as well as new application technologies. The development of application processes has been improved by investing in excess of € 6 million.

In total, 29 inventions were registered in 2005. A total of 20 patents was registered at both German and international patent offices. Our strategy of staying close to the markets with our development activities is also reflected in the change in the regional structure of inventions. A large number of inventions are now generated by our Eastern European subsidiaries. Messer's regional technical departments are able to identify the latest customer requirements through their proximity to the market. They receive support from the central technology departments in Krefeld to implement these new developments.

Corporate culture

Over the past financial year, Messer has developed a new strategy and a new set of principles that have been incorporated into a contract signed by senior management. Measures have been developed that are designed to encourage innovation, increase expertise, promote growth and emphasize Messer's values. From now on, all employees will be aware of this set of principles, which comprise a vision, a mission and Messer's corporate values. That vision is worded as follows:

"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 company. Together with our partners and associated companies working in the area of wear, fusion and cutting technologies as well as precision instrumentation, we meet our customers' needs expertly, reliably and with a flair for innovation. That is what makes us the first choice for our customers and employees."

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

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 2005 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 enhance Messer's value through profitable growth. Profitable operations and a forward-looking financing policy will provide the necessary financial leeway to make this possible.

As part of Messer's uniform global environmental policy, new ideas are constantly being developed and higher demands are placed on the existing processes in the face of environmental requirements and stricter threshold values. Messer has developed new environmentally-compatible processes and technologies in a whole range of areas during the past financial year.

Our employees

At the end of 2005, the workforce of Messer Group GmbH had risen to 84, including six apprentices. On average, the Group employed 4,005 members of staff worldwide, compared to 3,762 in 2004.

The social skills and integrity of our staff serve to strengthen the bond within Messer. The personal qualities and social abilities of an employee are considered to be as important as his/her technical abilities. The approach we take to personnel development is designed to compensate for deficits wherever necessary and to build on existing strengths. Messer's success is strongly dependant on the commitment, knowledge, motivation and performance of its employees. Internal and external training measures and attractive remuneration, social and incentive packages have been put in place to ensure that success can be maintained on a sustainable basis. Our aim is to create a well-trained and motivated workforce which has a long-term interest in remaining with Messer. In return, we expect initiative, teamwork and a sense of responsibility from our employees. Working with the interests of employees in mind and bearing a sense of social responsibility towards our employees are values that have been incorporated into Messer's corporate principles.

Safety, environmental care and quality

Safety, environmental care and quality are firmly embedded within Messer's corporate principles and have a very high priority. Messer 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.

In an international comparison of the gas-producing industry, the accident rate of 1.7 working accidents per million hours worked is well under the average of 3.7. In 2005, the Group received 22 awards for exemplary job safety. In order to maintain these high standards, we will, during 2006, implement a European guideline, carry out internal audits and continue to strengthen the sense of responsibility of each and every employee. We are convinced that safety and environmental care will once again become an important 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 to customers, employees and the environment itself. In 2005, several Eastern European companies, as well as Messer Gases del Peru, received official approval to sell medical oxygen and nitrogen.

New IT strategy

In conjunction with the acquisition of the Messer Eutectic Castolin Group ("MEC") by Messer Industrie GmbH, various synergies became visible in the area of information technology. For this reason, a decision was reached in spring 2005 to strategically realign the IT function within the Group. This will be implemented from mid-2006 onwards in the form of a joint venture with MEC, based at a computer center in Groß-Umstadt, Germany. As a consequence, existing agreements with the external service provider were cancelled and transitional agreements put in place. At the same time, Messer Information Services GmbH was founded as a joint venture with MEC. This IT company will cover the complete range of requirements of both groups. Technical construction work necessary to modify the computer center was completed by the end of 2005. The installation of technical equipment and the migration of servers and applications will be accomplished step by step from the beginning of 2006 onwards.

SAP harmonisation was commenced at the beginning of 2005, the largest IT project ever undertaken by Messer to date. The objective of the first phase of the project was to define and depict all business processes within a harmonised environment. On the basis of a previously conceived rough process model, international project teams elaborated, and then visualized, the various detailed business procedures. Corporate IT was able to complete the first phase of the SAP harmonisation by the end of 2005. Results and findings will be channelled into the project as it continues in 2006.

An IT application developed by Messer enhance the possibility to trace cylinders currently in circulation. This system has already been successfully introduced in our companies in Austria, Slovakia and the Czech Republic. In 2006, the system will be rolled-out to a number of other countries.

5. Future developments

Outlook

It is likely that general business conditions will not change significantly in 2006. It is anticipated that 2006 will see a further moderate expansion of total production in the industrialized countries, and that China will record a continuously high level of growth. As long as the prospects for earnings and the monetary situation remain favourable, investments will continue to be made.

Our expansion into the Ukraine will enable us to increase our presence in Eastern Europe and to consolidate our position in that region. The steel and metal sector will continue to grow moderately, giving rise to an expectation of a positive impact for Messer, in particular from China. Capital expenditure made in 2005 will enable us to grow our business along with our customers and to strengthen our market position there. The formation of a joint venture with the largest Chinese manufacturer of production plants for industrial gases will allow Messer's know-how to be combined with the enormous production capacities of our joint venture partner. These synergies will be used particularly in the growing Eastern European markets.

Selling activities in 2006 will focus on Messer's specific regional strengths. In Western Europe, we will focus on achieving growth with our profitable cylinder-gas business and our innovative know-how in the area of application technology. In Eastern Europe we will aim to generate growth by increasing volumes of bulk supply and expanding Messer's successful on-site business. Business relationships have already been significantly strengthened by means of an agreement with our largest on-site customer in Serbia-Montenegro. In China, in addition to a targeted expansion of customer-specific production facilities, the focus will be on successively improving capacity utilization in the area of bulk supply business. Due to the fact that southern Vietnam has witnessed strong industrial expansion, we will also restart and expand our business activities in this area.

We anticipate that operating activities will progress positively in 2006. At the same time, the level of capital expenditure will be increased to allow Messer to meet the specific needs of its customers.

Significant risks affecting the future development of the Company

Messer's future results are dependant on the development of its gases business and whether the overall economic situation continues to improve. The main risks which could be significant for Messer are as follows:

- The industrial gases business is highly competitive. This highly competitive environment could reduce Messer's earnings and cash flows in the future. This situation will be exacerbated by the entry of several East European countries into the EU.

- 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, Messer's revenues are not noteworthy dependant on single customers.

- Messer operates in many countries, making it susceptible to political, social and economic conditions prevailing in each of these countries and to the resulting risks arising in each local market.

- The continuing atmosphere of tension in the Middle East and the growing demand for energy, give reason to believe that oil and energy prices will continue to rise with a corresponding impact on the cost of power, fuel and primary products. Although Messer 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.

- Despite meticulous planning, maintenance and control procedures, technical plants and equipment can still break down. Messer is currently expanding its supply structure to ensure that supplies to customers are safeguarded even in emergency situations.

- Messer 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 number of European and even globally valid standards requiring a more environmentally compatible approach is on the rise. The Group counters these challenges by pursuing a strategy of continuously developing new and innovative concepts.

- Enterprises are confronted from time to time with allegations that they have infringed industrial rights, that defective products have been supplied, that environmental care laws have not been adhered to or that legal obligations have been violated. Regardless of their prospects of success, this type of claim can result in very high defense costs. In cases like these, the Group defends itself energetically with the support of both in-house and external experts.

Risk management

Risk management within the Group is an important aspect of running the business. 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 processes. 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 Executive Management and Supervisory Board of Messer Group.

Messer 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 2005 and brought into line with the needs of the various national companies.

As a result of the group reorganization, 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 Messer is exposed arise from exchange and interest rate changes.

The management of interest, 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. The 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 the fixed interest rate for a pre-determined period and the variable interest rate 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 risk is regarded as minimal.

Management considers, as a result of the overall assessment of the risk situation, that risks are limited and manageable and that they do not endanger Messer's going concern status.

6. Events after the balance sheet date

We make reference to Note 34 Events after the balance sheet date.

Our thanks to Messer employees

Management would like to express its gratitude to all employees for their services and personnel efforts during the financial year 2005. Your commitment has made a vital contribution to Messer's success in 2005.

Sulzbach, March 10, 2006

Messer Group GmbH

Consolidated Income Statement

(amounts in € thousands unless stated otherwise)

	Note	Jan. 1 - Dec. 31, 2005	May 7 - Dec. 31, 2005
Net sales	3	575,297	352,820
Cost of sales		(256,912)	(154,639)
Gross profit		**318,385**	**198,181**
Distribution and selling costs		(195,750)	(125,522)
General and administrative costs		(67,965)	(43,884)
Other operating income	4	14,499	9,802
Other operating expenses	5	(9,268)	(3,280)
Impairment losses on intangible assets and property, plant and equipments	10, 11	(7,072)	—
Operating profit		**52,829**	**35,297**
Income from equity method investments		(1,638)	1,324
Other investment income, net		3,700	651
Interest expense, net	6	(17,479)	(14,052)
Other financial income, net	7	2,243	6,590
Financial income (expense), net		**(13,174)**	**(5,487)**
Income before income taxes		**39,655**	**29,810**
Income tax expense	8	(6,122)	(5,794)
Net income		**33,533**	**24,016**
of which attributable to:			
shareholders of the group parent company		**23,728**	**17,526**
minority interests		**9,805**	**6,490**

Consolidated Balance Sheet

(amounts in € thousands unless stated otherwise)

	Note	Dec. 31, 2005	Dec. 31, 2004	May 7, 2004
Assets				
Intangible assets	10	540,907	542,838	552,395
Property, plant and equipment	11	536,786	495,292	478,274
Equity method investments	12	10,421	16,323	17,738
Other non-current assets	13, 14	19,198	15,664	14,837
Deferred tax assets	8	9,243	4,284	2,597
Other non-current receivables and assets		5,233	4,228	3,736
Non-current assets		**1,121,788**	**1,078,629**	**1,069,577**
Inventories	15	24,063	21,707	21,961
Trade accounts receivable	16	117,610	105,041	113,266
Held-for-sale assets	17	3,979	—	—
Other receivables and other assets	18	30,540	34,559	69,884
Cash and cash equivalents	19	92,332	129,361	115,471
Current assets		**268,524**	**290,668**	**320,582**
Total assets		**1,390,312**	**1,369,297**	**1,390,159**
Equity and Liabilities				
Share capital and additional paid-in capital		697,451	683,934	670,790
Other reserves		5,905	—	—
Retained Earnings		32,709	—	—
Net income		23,728	17,526	—
Fair value reserve		(199)	—	—
Currency translation reserve		6,801	(14,699)	—
		766,395	**686,761**	**670,790**
Minority interests	25	**61,828**	**61,507**	**66,871**
Equity	24	**828,223**	**748,268**	**737,661**
Provision for pensions and similar obligations	20	14,922	12,861	6,632
Other provisions	21	12,608	16,931	16,508
Non-current financial liabilities	22	311,519	306,682	235,228
Deferred tax liabilities	8	44,789	47,546	47,730
Other liabilities		345	403	2,981
Non-current liabilities		**384,183**	**384,423**	**309,079**
Other provisions	21	14,306	12,063	7,465
Financial liabilities	22	44,062	28,665	20,883
Trade accounts payable		74,101	68,783	54,736
Other current liabilities	23	45,437	127,095	260,335
Current liabilities		**177,906**	**236,606**	**343,419**
Total equity and liabilities		**1,390,312**	**1,369,297**	**1,390,159**

Consolidated Statement of Changes in Equity
(amounts in € thousands unless stated otherwise)

	Share capital	Additional paid-in capital	Other reserves	Retained Earnings	Fair value reserve for cash flow hedges
	(Note 24)	(Note 24)	(Notes 2, 24)	(Note 9)	(Note 31)
Balance at Jan. 1, 2005	**25**	**683,909**	**—**	**17,526**	**—**
Share capital increase/ addition to minority interests	99,975	—	—	—	—
Capital reductions/ reductions in minority interest	—	(99,975)	—	—	—
Transfer to/ from reserves	—	13,517	5,905	66,483	(3,935)
Net income	—	—	—	23,728	—
Dividends	—	—	—	(51,300)	—
Exchange rate effects	—	—	—	—	—
Balance at Dec. 31, 2005	**100,000**	**597,451**	**5,905**	**56,437**	**(3,935)**

Fair value reserve (Note 34)	Currency translation reserve	Minority interests (Note 25)	Total equity
—	**(14,699)**	**61,507**	**748,268**
—	—	4,357	104,332
—	—	(14,208)	(114,183)
3,736	—	—	85,706
—	—	9,805	33,533
—	—	(3,081)	(54,381)
—	21,500	3,448	24,948
3,736	**6,801**	**61,828**	**828,223**

	Share capital	Additional paid-in capital	Net income	Currency translation reserve	Minority interests	Equity
Balance at May 7, 2004	**25**	**670,765**	**—**	**—**	**66,871**	**737,661**
Capital reductions/ reductions in minorities	—	13,144	—	—	(5,239)	7,905
Net income	—	—	17,526	—	6,490	24,016
Dividends	—	—	—	—	(1,894)	(1,894)
Exchange rate effects	—	—	—	(14,699)	(4,721)	(19,420)
Balance at Dec. 31, 2004	**25**	**683,909**	**17,526**	**(14,699)**	**61,507**	**748,268**

Consolidated Statement of Cash Flows

(amounts in € thousands unless stated otherwise)

	Note	Jan. 1 to Dec. 31, 2005	May 7 to Dec. 31, 2004
Income before income taxes and minority interests		**39,655**	**29,810**
Income taxes paid		(13,562)	(7,194)
Depreciation and amortization of property, plant and equipment and intangible assets	10, 11	83,269	52,035
Impairment losses on non-current financial assets	13, 14	5,351	100
Other non-cash income		(1,443)	(3,496)
Change in investments in equity method investments		4,079	(320)
Interest expense, net	6	17,479	14,052
Other financial income, net	7	(2,243)	(6,590)
Change in inventories		(1,103)	151
Change in receivables and other assets		(5,523)	7,181
Change in provisions		(165)	11,459
Change in trade accounts payable and other liabilities		(5,083)	10,532
Cash flow from operating activities		**120,711**	**107,720**
Purchase of property, plant and equipment and intangible assets	10, 11	(94,826)	(70,217)
Purchase of investments and other non-current assets	13, 14	(12,115)	(4,265)
Acquisition of shares of other shareholders		(7,939)	(1,977)
Proceeds from disposals of property, plant and equipment and intangible assets		7,848	1,096
Proceeds from disposals of investments		2,873	885
Interest and similar income		4,068	2,356
Cash flow from investing activities		**(100,091)**	**(72,122)**
Changes in capital		(51,300)	—
Proceeds from non-current financial liabilities		33,356	90,201
Repayment of financial liabilities		(16,270)	(6,292)
Repayment of shareholder loan		—	(90,000)
Dividends paid to minority shareholders	25	(3,081)	(1,894)
Interest and similar expenses		(18,678)	(13,606)
Other financial income, net		(2,853)	6,590
Cash flow from financing activities		**(58,826)**	**(15,001)**
Cash flow from operating, investing and financing activities		**(38,206)**	**20,597**
Currency translation impact on cash and cash equivalents		(477)	(6,707)
Change in cash and cash equivalents		**(38,683)**	**13,890**
Cash and cash equivalents			
at the beginning of the period		**129,361**	**115,471**
Net impact of changes in group reporting entity on cash and cash equivalents		1,654	—
at the end of the period		**92,332**	**129,361**

Notes to the Consolidated Financial Statements

(Amounts in € thousands unless otherwise stated)

1. General disclosures

Messer Group GmbH (the "Company" or "Messer Group") is a holding company with its registered office in Sulzbach/Taunus, Germany. The Group manufactures and markets industrial gases (in particular oxygen, nitrogen, argon, helium, carbon dioxide, hydrogen and specialty gases), gas application processes and customer-site gas systems (so-called on-site facilities). The main customers of the Messer Group ("Messer") include major enterprises in the manufacturing, chemical, steel-production, pharmaceutical and food processing industries and the waste disposal sector.

At December 31, 2005, Messer Industrie GmbH ("Messer Industrie"), in which the Messer family has bundled its investments, is the sole shareholder of Messer Group via its investment in Messer Holding GmbH and that company's wholly-owned subsidiary, Messer Griesheim Vierte Vermögensverwaltungs GmbH. Messer Industrie is the ultimate group parent company and is required to prepare consolidated financial statements. Messer Group therefore prepares sub-consolidated financial statements. The requirements of § 315 a (3) HGB relating to the preparation of the consolidated financial statements of Messer Group in accordance with International Financial Reporting Standards ("IFRS") have been met.

The year-end reporting date of Messer Group and its consolidated subsidiaries is 31 December of each respective year.

2. Accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the International Accounting Standards Board. The Group has applied all International Accounting Standards and pronouncements which were mandatory at December 31, 2005.

Consolidation principles A full list of the investments of the Group has been filed with the Commercial Registry in Frankfurt/Main. The major subsidiaries at December 31, 2005 were as follows:

Name and registered office of subsidiary	Country	Shareholding in %
Messer Austria GmbH (Gumpoldskirchen)	Austria	100 %
Messer France S.A.S. (Asnières sur Seine Cédex)	France	100 %
Messer Hungarogáz Kft. (Budapest)	Hungary	100 %
Messer Technogas s.r.o. (Prague)	Czech Republic	100 %
Messer Schweiz AG, formerly Sauerstoff-werk Lenzburg AG (Lenzburg)	Switzerland	100 %
Messer Croatia Plin d.o.o. (Zaprešić)	Croatia	99.96 %
Messer Belgium N.V. (Machelen)	Belgium	99.77 %
Messer Polska Spólka z.o.o. (Chorzów)	Poland	99.44 %
Messer Carburos S.A. (Vilaseca/Tarragona)	Spain	89.97 %
Messer Tehnogas AD (Belgrade)	Serbia-Montenegro	81.94 %

The consolidated financial statements at December 31, 2005 include Messer Group and all subsidiaries in which it has, either directly or indirectly, the majority of the voting power, or over which it has control. Entities which are immaterial for the net assets, financial position and results of operations due to the fact that they are dormant or only have a minor level of operations are not included in the consolidated financial statements. The cost of the business acquisition has been allocated to the assets and liabilities of the various subsidiaries up to the amount of their fair value. Any excess is recognized as goodwill which is subject to an impairment test at least once a year. An excess of the net fair value over cost is recognized immediately in profit or loss. The results of subsidiaries acquired or disposed in the course of a financial year are included in the consolidated income statement as of the date on which control is acquired or up to the effective date of disposal.

Intragroup receivables and payables, sales, income and expenses are eliminated on consolidation. Intra group sales of goods or services are transacted on the basis of market prices or arm's length transfer prices; that's one of the reasons why in the reporting period, profits and losses on intragroup transactions were not eliminated due to immateriality.

In the period between January 1 and December 31, 2005, Messer Group acquired further shares (approximately 6 %) from minority shareholders of Messer Tehnogas AD, Serbia-Montenegro, at a purchase price of K€ 2,564. In addition, Messer Tehnogas AD acquired approximately 8 % of its own shares for a consideration of KCSD 327,032. As a result of these transactions, the Group now holds approximately 82 % of Messer Tehnogas AD's shares. The increase in the majority shareholding in Messer Tehnogas AD from 68 % at the end of the previous year to 82 % at December 31, 2005 gave rise on consolidation to an excess of fair values over cost amounting to K€ 5,905. Since the acquisition in 2005 only increased an existing majority shareholding which was already fully consolidated, it does not represent a business combination as defined by IFRS 3. The excess of fair values over cost arising on the consolidation of these shares was recognized directly in equity (and not as income in accordance with IFRS 3.56), since the transaction only represented a shift of shareholding between minority and majority shareholders.

Intangible assets and goodwill The difference between the cost to the Group of acquired entities and the fair values of the identifiable assets and liabilities acquired is recognized as goodwill in conjunction with a purchase price allocation performed in accordance with IFRS 3.36. Goodwill, the residual amount arising from the above procedure, is tested for impairment at least once a year.

Other intangible assets such as patents, licenses, customer bases, software, etc. are measured at cost. In conjunction with the revision of groupwide uniform useful lives, the Company has revised the useful lives assumed for intangible assets. As a result, patents, licenses and software, etc. are amortised over expected useful lives of 3 to 20 years. In the case of brand-names, the Company assumes that the assets have an indefinite useful life. An impairment test is performed once a year to assess whether there is any requirement to recognize an impairment loss on those brand-names. The brand-name "Messer" is well-established in the markets in which the Group operates and will continue to be promoted. For this reason, it is therefore considered that the brand-name "Messer" has an indefinite useful life. The amortization expense on other intangible assets is included within the related expense line item.

Property, plant and equipment Property, plant and equipment are recognized initially at acquisition or manufacturing cost and depreciated over their estimated useful lives. The manufacturing costs of self-constructed assets include all directly attributable costs and an appropriate portion of overheads, including depreciation, and are therefore measured on a fully absorbed cost basis taking account of all costs required to construct the assets. In the event that there is a statutory requirement to restore an item to its original condition, cost also includes the present value of future expected payments for disassembly and recultivation. In the case of major inspections, costs which satisfy the relevant recognition requirements are included in the carrying amount of the item of property, plant and equipment as a replacement in accordance with IAS 16.14.

On disposal of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount is recognized as a gain or loss in the income statement. Non-major repair costs are recognized as expense as incurred.

Following a change in the assessment of useful lives of assets within the business, uniform group useful lives were revised with effect from January 1, 2005 to reflect changed circumstances and recently determined empirical data based on past experience. Following the change in economic useful lives, property, plant and equipment are depreciated on a straight-line basis over the following useful lives:

Buildings	10 - 50 years
Plant and machinery	5 - 20 years
Other equipment, fixtures and fittings	3 - 10 years

Items leased under the terms of long-term agreements or other arrangements which transfer substantially all of the risks and rewards incidental to ownership to the Group, are recognized as assets and measured at the lower of the fair value of the assets or the present value of the lease payments during the fixed lease term. The corresponding obligation is recorded as a liability. Leased assets are depreciated on a straight-line basis over their estimated useful lives or, if shorter, over the fixed lease term.

Equity method investments Investments in entities over which the Group has a significant influence, or which are jointly controlled, are accounted for, either as a result of mandatory rules or on the basis of an accounting option, using the equity method (associated companies or joint ventures). The Group's share of the result of such entities is included in the line item "Income from equity method investments". In the event of impairment, the carrying amounts of equity method investments, including goodwill, are written down.

Financial assets and liabilities Financial assets which are not classified as "Loans and receivables", and which are not derivative instruments, are classified as "available-for-sale". Financial liabilities are measured at amortised cost. Transaction costs are capitalised and amortised over the term of the underlying liability using the effective interest method. The fair value option is not applied for financial liabilities.

Financial assets classified as "Loans and receivables" are measured at their nominal amount if they are non-interest bearing and have a maturity of less than one year. Allowances are recognized in the event that a payment disruption is identified at the balance sheet date. In the case of financial assets with a maturity in excess of one year and which are non-interest bearing, the nominal amount is discounted using market interest rates appropriate for matching periods. In subsequent periods, the carrying amount is increased using the effective interest method and the reversal of the discounting is recognized as income.

Other financial assets are classified on acquisition as "available-for-sale financial assets". Assets allocated to this category are measured on initial recognition at acquisition cost plus transaction costs incurred. Subsequent to initial recognition, they are also measured at their fair value, with fair value gains or losses recognized directly on a separate line within equity.

Unless treated as hedging instruments in conjunction with hedge accounting, derivatives are classified as "Financial assets and liabilities measured at fair value through profit and loss" in accordance with the definition contained in IAS 39. As such, they are measured on initial recognition at acquisition cost plus transaction costs incurred. At subsequent reporting dates, they are always measured at their fair value, with fair value gains and losses recognized in profit or loss.

Derivatives designated as hedging instruments in conjunction with cash flow hedges are recog-nized in the balance sheet at their fair value. Fair value gains and losses on the derivative are recog-nized directly on a separate line within equity, if and to the extent that, the hedging relationship is deemed to be effective. The portion of the fair value gains and losses on the derivative deemed to be ineffective is recognized in profit or loss. The portion of fair value gains and losses recognized directly in equity is recognized subsequently as profit or loss as soon as the hedged item is recognized in the income statement, or, if the underlying is cancelled, as soon as termination takes place.

Hedge accounting is only applied if effectiveness (range of 80 - 125 %) can be demonstrated.

In accordance with IAS 39, the application of hedge accounting involves substantial documentary requirements. For this reason, economic hedging relationships are only hedge-accounted if the relevant conditions for hedge accounting were and are met.

Financial risk strategy

Hedging philosophy Derivative instruments are only used when underlying transactions (also referred to as "hedged items") require to be hedged. Hedged items are defined as obligations entered into on a contractual basis necessary to achieve Messer Group's objectives.

The Treasury department is not a separate profit centre. Derivative instruments are only used to safeguard Messer Group's business success up to limits fixed in the Company's statutes.

Macro-hedging (i.e. aggregating individual items and hedging only the net amount) is not applied.

Most of the transactions for which this type of hedging could be applied are hedged in full in terms of scope or amount, using a variety of financial instruments. The selection of a specific instrument is always determined by executive management taking account of the specific risk profile i.e. the potential returns associated with each risk.

Financial risk identification Messer's business processes currently entail the following areas of financial risk:

Interest rate risk These risks can arise when liabilities subject to interest are not hedged in terms of maturity or amount by either corresponding assets or derivatives. The Company uses derivatives to hedge against the risk of interest rate changes on a significant proportion (approximately 70 %) of its total financial liabilities.

Currency risks The Company and its subsidiaries operate within various currency zones and are therefore exposed to exchange rate fluctuations relating to the currencies involved. With the exception of the hedge of a US dollar loan against interest rate and currency fluctuations (see Note 22 Financial liabilities), no significant currency hedges are currently in place.

Inventories Inventories are stated at the lower of cost (acquisition or manufacturing cost) or net realizable value at the balance sheet date, using the average cost method. Fully absorbed manufacturing cost includes all directly attributable costs and an appropriate portion of material and production overheads, as well as depreciation.

Accounts receivable Trade accounts receivable are stated at their nominal value. Appropriate allowances are recognized to cover significant specific risks. In addition, flat-rate specific allowances are also recognized.

Cash and cash equivalents Cash and cash equivalents include all cash balances and demand deposits, as well as short-term liquid financial investments which can be readily converted to cash.

Impairment losses on non-current assets An impairment test is carried out in accordance with IAS 36 whenever there is an indication that items of fixed assets, in particular property, plant and equipment and intangible assets, are impaired. In addition, an impairment test is carried out on goodwill and the brand-name "Messer" (as an intangible asset with an indefinite useful life) at least once a year. An impairment test involves comparing the recoverable amount of an asset with its carrying amount in order to determine whether an impairment loss needs to be recognized. The recoverable amount is defined as the higher of the asset's fair value less costs to sell and its value in use. Value in use corresponds to the present value of future cash flows which the Group expects to generate from using the asset and from its disposal at the end of its useful life. Impairment losses on assets (excluding goodwill) are reversed for current and non-current assets when the reasons for impairment no longer exist.

Provision for pensions and similar obligations The net obligations for defined pension benefit plans are computed separately for each plan, with future pension benefits estimated on the basis of employees' service in current and past periods. The fair value of plan assets meeting the criteria for plan assets set out in IAS 19.7 is offset against the present value of the obligation. The present value of the obligation is measured by actuaries using the projected unit credit method. When the benefits offered by a plan are improved, the proportion relating to employees' past service is recognized as expense in profit or loss over the average period up to the date on which the benefits vest. To the extent that entitlements vest immediately on introduction of a plan or on a change to an exiting pension plan, the past service is recognized immediately as expense.

For the purposes of measuring the obligation, cumulative actuarial gains or losses which exceed 10 % of the higher of the present value of the defined benefit obligation or the actual value of plan assets are recognized in profit or loss over the average remaining period of service of the employees covered by the relevant plan. Otherwise, actuarial gains or losses are not recognized.

Obligations for end-of-employment compensation and for early retirement benefits are measured on the basis of actuarial computations, taking into account the interest rates and salary trends applicable in each of the countries concerned.

Obligations for defined contribution pension plans are recognized in the income statement in the relevant period.

Other provisions Other provisions are recognized when the occurrence of an obligation is probable and the amount of the obligation can be reliably measured. Where the time value of money is material, provisions are discounted using a pre-tax rate that reflects, where relevant, the specific risks of the liability. Where a provision is discounted, any increase due to the unwinding of the interest over time is recognized as interest expense.

Trade payables and other liabilities Trade payables and other liabilities are stated at their repayment amount.

Derivative financial instruments In conjunction with its operating activities, Messer is exposed to a number of financial risks, in particular the effect of exchange rate and interest rate changes. The risk management system considers primarily the unpredictability of the financial markets and aims at minimizing the potential negative impact on the net financial result.

Risk management is handled by Group Treasury in compliance with guidelines approved by executive management. Group Treasury identifies, evaluates and hedges financial risks. The guidelines contain the general principles applicable for risk management and the detailed rules for specific areas, such as exchange and interest rate risks, 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 the fixed interest rate for a pre-determined period and the variable interest rate 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.

On acquisition, derivative financial instruments are recognized in the balance sheet, measured at cost, and subsequent to initial recognition, at fair value. The treatment of gains and losses resulting from derivative financial instruments depends on the nature of the hedged item. Each derivative contract is designated on acquisition as either (1) a hedge of the estimated recoverable amount of a recognized asset or liability (a fair value hedge) or (2) the hedge of a forecast transaction or firm commitment (a cash flow hedge). At December 31, 2005, only cash flow hedges were in place.

Changes in the fair value of derivatives which are designated as fair value hedges, and which are highly congruent with changes in the value of the underlying transaction, are recognized directly in the income statement together with any changes in the fair value of the hedged assets or liabilities.

Changes in the fair value of derivatives which are designated as cash flow hedges and which are highly congruent with the value of the underlying transaction, are recognized directly in equity. When the forecast transaction or firm commitment results in the recognition of an asset or liability, then the gains and losses previously recognized in equity are removed from equity and taken into account in the measurement of the cost of the asset or liability. In all other cases, the gains or losses previously recognized in equity are transferred to net profit or loss in the same period as that in which the hedged forecast transaction or firm commitment impacts the income statement.

Certain financial derivatives provide an effective economic hedge for risk management purposes, but do not meet the criteria for hedge accounting specified by IAS 39. Changes in the fair values of financial derivatives which do not meet the criteria for hedge accounting in accordance with IAS 39 are recognized directly in profit or loss.

When a hedging instrument expires or is sold, or when a hedging instrument no longer meets the criteria for hedge accounting in accordance with IAS 39, any cumulative gains or losses recognized up to that date in equity remain there and are not removed from equity until the forecast transaction or firm commitment is recognized in profit or loss. However, cumulative gains and losses previously recognized directly in equity are recognized as income or expense when it is no longer expected that the forecast transaction or firm commitment will occur.

Deferred taxes Deferred taxes are recognized, in accordance with the balance sheet-based liability method, on temporary differences between the carrying amounts of assets and liabilities for group accounting purposes and their corresponding tax bases, and on tax losses available for carryforward. In accordance with IAS 12.15 (in conjunction with IAS 12.21B) temporary differences relating to the first-time recognition of goodwill are not taken into account in the computation of deferred taxes. Deferred taxes are measured using currently enacted or announced tax rates which will apply when the timing differences reverse. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised and/or can be offset against taxable differences between the carrying amounts of assets and liabilities for accounting purposes and their corresponding tax bases.

Deferred tax assets and liabilities are only offset if they relate to taxes imposed within the same tax jurisdiction and the entity has a legal right to offset the tax assets and liabilities.

Income taxes relating to items that are recognized directly in equity are also recognized directly in equity and not in profit or loss. Deferred taxes are recognized directly in equity if the underlying item or transaction is also recognized directly in equity.

Revenue recognition

a) On-site sales and pipeline sales Customers requiring large volumes of industrial gases (typically oxygen, nitrogen and hydrogen) and with a relatively constant demand are usually supplied by plants adjacent to or on their facilities, where, as a general rule, gases are also produced to supply the surrounding market. Messer owns and operates these plants. The product supply contracts usually run for 10 to 15 years and include take-or-pay purchase requirements or prices and price escalation clauses. Revenue is recognized when the gas is delivered to the customer, which corresponds to the date of transfer of risk and passage of title of the industrial gases. If the customer does not take delivery of the minimum purchase requirements, the additional revenue is recorded up to the contractual minimum. Similar terms and financial accounting treatment usually apply with regard to sales made via pipelines, the only difference being that, in this case, several customers are supplied via one pipeline.

b) Bulk supply sales Bulk supplies are stored in tanks which are owned by Messer and leased to customers on their own premises. The gases are delivered to customers in tanker trucks, tube trailers or rail cars from which they are transfered to the leased tanks. The agreements used in the bulk supply business typically have a two to three year term. Revenue is recognized on bulk supply sales when the gases are delivered to the customer. Income from the rental of tanks is recognized according to the terms of the lease agreements.

c) Cylinder sales Customers requiring small volumes of gases (including most speciality gases) are supplied by products in cylinders, which the Group typically owns and leases to the customer. Cylinder gases are generally sold by individual purchase orders or by contracts, with terms ranging between one and two years in Europe. Revenue is recognized when the cylinders are delivered to the customer. Income on the rental of cylinders is recognized according to the terms of the lease agreements.

Distribution and selling costs Distribution and selling costs include all expenses which are related to the sale and marketing of a product. This primarily includes expenses for the sales department, representatives' commissions, packaging and delivery, freight, transportation insurance, insurance coverage for receivables, the hedging of foreign currency receivables, bank fees for exports, advertising (related to products), technical advice for customers, samples and exhibitions.

Use of estimates The preparation of financial statements in conformity with IFRS requires management to make certain estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date, and the reported amounts of revenues and expenses during the reporting period. Principal estimates required to be made in preparing the financial statements include those related to the measurement of deferred tax assets and the pension provision. Other estimates are used in the computation of the allowance for bad debts and the inventory valuation. The nature of the assets and liabilities involved as well as their carrying amounts at the balance sheet date are disclosed in the relevant note on those items.

In addition, the allocation of goodwill to the various cash-generating units and the performance of the impairment test on the basis of expected future cash flows of these cash-generating units over the detailed forecast period of 5 years are subject to estimates made at a group level. For further information regarding the carrying amount of goodwill, see Note 10.

Actual results could differ from those estimates.

The application of International Financial Reporting Standards (IFRS) IFRS is the term used for all new IASB accounting standards issued since 2002, replacing the previous term IAS or International Accounting Standards. Standards issued by the IASB prior to the change in terminology continue to retain the abbreviation "IAS".

All Standards revised in conjunction with the IASB's Improvement Project, and which are relevant to Messer, have been applied in the 2005 consolidated financial statements.

In addition to IFRS which are mandatory for the financial year 2005, further IFRSs and IFRICs have been issued by the IASB, which have been endorsed by the EU, but which do not become mandatory until a later date. In the following section, however, only those Standards and Interpretations are discussed which are relevant to the Company. Early adoption of these Standards and Interpretations is explicitly allowed and encouraged. The Company has, however, only opted to adopt them early if specifically stated below.

On December 2, 2004, the IASB issued IFRIC 4 Determining whether an Arrangement contains a Lease. IFRIC 4 addresses the issue of whether contractual arrangements, irrespective of their designation, should be treated as leases.

On December 16, 2004, the IASB issued amendments to IAS 19 Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures. As well as extending disclosure requirements in the notes to financial statements, these amendments also allow actuarial gains and losses to be recognized directly in equity as an alternative to existing accounting treatments.

On April 14, 2005, the IASB issued the final wording of the rules relating to "Cash flow Hedge Accounting of Forecast Intragroup Transactions". This amendment to IAS 39 allows hedge accounting for intragroup transactions under specified circumstances.

On June 16, 2005, the IASB issued the final version of the fair value option for inclusion in IAS 39. The resulting changes partially restrict the rules contained in IAS 39 (2004) relating to comprehensive fair value measurement. The new wording of the fair value option has also given rise to changes in IAS 32 and IFRS 1.

IFRIC 4, the amendments to IAS 19, the fair value option and the rules contained in "Cash flow Hedge Accounting of Forecast Intragroup Transactions" in accordance with IAS 39 are mandatory for financial years commencing on or after January 1, 2006; early adoption is recommended.

On August 18, 2005, the IASB issued IFRS 7 Financial Instruments: Disclosures. This Standard replaces the existing IAS 30 and incorporates all of the disclosure requirements contained in IAS 32. In this context, revisions and amendments were made to IAS 1 with regard to capital disclosures. The Standard results in a fundamental change in the way the disclosure requirements on financial instruments are structured. In short, disclosures are required to be made on objectives, methods, risks, collateral and management processes. The disclosure requirements contained in IFRS 7 and the revised disclosure requirements on capital in accordance with IAS 1 are mandatory for reporting periods commencing on or after January 1, 2007; early adoption is recommended. The new rules contained in IFRS 7 do not involve changes in measurement, but do result in detailed disclosure notes and descriptions.

In conjunction with the IASB's Improvement Project, the following changes affecting IAS 1 have resulted in changes in presentation of the consolidated financial statements:

As a consequence of the clarification provided by IAS 32 (2004) regarding the classification of equity and debt capital, minority interests are now treated as a component of equity. Accordingly, minority interests are presented on a separate line within equity (IAS 1.68).

New columns have been added to the Statement of Changes in Equity in order to present amounts attributable to minority interests and to equity holders of the group parent company separately (IAS 1.96).

As a result, a reconciliation of group income/loss in the consolidated income statement, taking account of minority interests, is no longer necessary. Instead, profits or losses attributable to minority interests and to equity holders of the group parent company are presented in the income statement for informational purposes (IAS 1.82).

IAS 1.113 requires disclosure of those judgements made by management in applying accounting policies which have the most significant effect on the amounts recognized in the consolidated financial statements.

In addition, IAS 1.116 requires that information about the key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in the Notes. The Notes are required to include details of the nature and carrying amounts of such assets and liabilities at the balance sheet date.

As a result of the changed rule in IAS 17, initial direct costs must be included in the measurement of operating and finance leases. From the perspective of lessors, initial direct costs relating to an operating lease must be included as a cost component of the leased asset's acquisition cost and subsequently depreciated down to the expected residual value over the useful lives of the asset or over the term of the lease. In the case of a finance lease, initial direct costs are required to be included in the present value computation of the lease receivables, thus increasing the net investment in the lease. Overheads are not included in initial direct costs since they are not directly attributable to the lease. This accounting treatment was previously an optional treatment in the original IAS 17 and has now been made mandatory.

The new rule contained in IAS 21, as relevant for the Company, relates to the currency translation of goodwill arising in conjunction with the acquisition of foreign operations. Goodwill arising in this way is now required to be treated as an asset of the foreign operation and translated from the functional currency of the foreign operation using the balance sheet rate.

Goodwill arising on the acquisition of all its subsidiaries by Messer Group was determined in the relevant foreign currency as at May 7, 2004 and is being rolled-forward in those currencies. Goodwill is therefore translated at the closing rate at each balance sheet date and the translation difference recognized directly in equity. Accordingly, goodwill was increased for translation differences at December 31, 2005 by K€ 10,979 with the corresponding amounted recognized directly in equity.

IAS 32 sets out the rules for the presentation of financial instruments and related disclosure requirements. Relevant disclosures for the Company were reported in the consolidated financial statements as at December 31, 2004. Changes for the financial year 2005 are described separately below.

The new rules contained in IAS 39 introduce, amongst other things, a further category of financial assets. It was also decided that changes in the fair value of available-for-sale financial assets are now required to be recognized on a separate line within equity until such time that the asset is derecognized or impaired. The cumulative gain or loss is transferred to the income statement at the date of disposal. In addition, an accounting option was created to allow an entity to measure a financial asset or liability that was originally measured at amortized cost to be measured in future at fair value through profit or loss (the so-called "fair value option"). In addition, hedge accounting rules were also amended.

The remaining revisions or amendments to IFRS in conjunction with the Improvement Project or other new pronouncements not explicitly referred to above do not have a material impact on the Company's consolidated financial statements, since the relevant accounting treatments and alternatives were already allowed under the original versions of the relevant IFRS and applied by the Company and since the effect of changes on measurement, for individual assets and liabilities and in total, is not material for the consolidated financial statements in absolute terms or because the rules concerned (at least at present) are not relevant for the Company's consolidated financial statements.

The rules contained in IFRS 5 "Non-current assets held for sale and discontinued operations" have been applied for the first time in connection with the sale of the Swiss subsidiary, Messer Schweisstechnik AG (with effect from 1 January 2006). The same applies to the sale of Progas spol.s.r.o., Slovak Republic, effected in February 2006.

Foreign currency translation The consolidated financial statements are prepared in Euro, the Group's reporting currency. Each entity within the Group determines its own functional currency. The items included on the financial statements of each entity are measured on the basis of this functional currency. Foreign currency transactions are translated initially using the spot exchange rate, applicable at the date of the transaction, between the functional currency and the foreign currency. Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the closing rate. All exchange differences are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The functional currency of all group entities not based within the ECU area is the relevant local currency in each country. At the balance sheet date, assets and liabilities of these subsidiaries are translated at the balance sheet date into Messer Group's presentation currency. The resulting exchange differences are recognized as a separate component of equity and therefore have no impact on profit or loss for the year.

On the disposal of a foreign operation, the cumulative amount of the exchange differences recognized directly in equity relating to that foreign operation is recognized in profit or loss when the gain or loss on disposal is recognized.

Exchange gains and loss on foreign currency trade accounts receivable and payable are included in the line items "Other operating income" and "Other operating expenses".

The following summary shows the exchange rate development of the currencies which are of particular importance to the Messer Group:

Selected currencies	ISO code	Closing rates Dec. 31, 2005	Dec. 31, 2004	May 7, 2004	Average exchange rates 1.1. - Dec. 31, 2005	7.5. - Dec. 31, 2004
		€	€	€	€	€
100 Polish Zloty	PLN	25.85	24.46	20.71	24.79	22.59
100 Chinese Renminbi	CNY	10.47	8.86	10.09	9.81	9.68
100 Czech Crowns	CZK	3.45	3.29	3.07	3.36	3.17
100 Serbian Dinar	CSD	1.17	1.27	1.44	1.20	1.37

3. Net sales

Net sales are generated primarily by the sale of bulk supply products, cylinder gases as well as on-site and pipeline supplies. Net sales in 2005 related to the following distribution channels:

	Jan.1 - Dec. 31, 2005	
Cylinder	257,939	45 %
Bulk	180,691	31 %
Pipeline	86,067	15 %
Other/Hardware	33,817	6 %
On-site	16,783	3 %
Total	**575,297**	**100 %**

4. Other operating income

	Jan.1 - Dec. 31, 2005	May 7 - Dec. 31, 2004
Income from the reversal of write-downs on receivables	3,154	—
Gains on the sale of fixed assets	1,897	298
Income from the reversal of provisions	1,503	562
Derecognition of liabilities	1,074	945
Income relating to prior periods	1,003	—
Exchange rate gains from operating activities	679	1,109
Income from the recognition of the excess of the acquirer's interest in the net fair value of the identifiable assets and liabilities over cost	—	3,496
Other	5,189	3,392
Total	**14,499**	**9,802**

5. Other operating expenses

	Jan.1 - Dec. 31, 2005	May 7 - Dec. 31, 2004
Write-downs on receivables	2,364	1,063
Legal and consulting expenses	1,709	—
Other taxes	949	—
Exchange rate losses from operating activities	689	679
Expenses relating to prior periods	534	—
Bank charges	190	—
Other	2,833	1,538
Total	**9,268**	**3,280**

6. Interest expense, net

	Jan.1 - Dec. 31, 2005	May 7 - Dec. 31, 2004
Interest income	4,068	2,356
Interest expense	(21,547)	(16,408)
Interest expense, net	**(17,479)**	**(14,052)**

Interest expense for the period under report relate primarily to the Senior Facilities Agreement and to interest expense in conjunction with the US Private Placement. Interest income relates mainly to cash held on bank accounts.

7. Other financial income, net

	Jan.1 - Dec. 31, 2005	May 7 - Dec. 31, 2004
Foreign currency exchange gains	8,718	8,080
Foreign currency exchange losses	(5,945)	(2,578)
Other	(530)	1,088
Total	**2,243**	**6,590**

8. Income tax expense

	Jan.1 - Dec. 31, 2005	May 7 - Dec. 31, 2004
Current income taxes	(11,931)	(8,727)
Deferred income taxes	5,809	2,933
Income tax expense	**(6,122)**	**(5,794)**

Consolidated statement of changes in equity Deferred taxes on items recognized directly in equity were as follows:

	Jan.1 - Dec. 31, 2005	May 7 - Dec. 31, 2004
Deferred taxes on losses arising on the fair value measurement of hedging instruments used to hedge interest rate and currency risks relating to the US Private Placement	1,820	—
Deferred taxes assets recognized directly in equity	**1,820**	**—**

In the following table, the computations of deferred taxes of consolidated companies based on company specific local tax rates are aggregated with the effects of consolidation procedures and the expected tax expense is reconciled to the actual tax expense reported in the income statement. For the purposes of computing the expected tax expense for 2005, the income before taxes has been multiplied by the applicable average group income tax rate of 33.86 %.

	Jan.1 - Dec. 31, 2005	May 7 - Dec. 31, 2004
Tax rate in %	33.86 %	26.38 %
Income before income taxes	**39,655**	**29,810**
Expected tax expense	13,427	7,862
Income from the recognition of the excess of the acquirer’s interest in the net fair value of the identifiable assets and liabilities over cost	—	(921)
Deferred tax expense (income) on deductible amortization of goodwill	4,025	(1,426)
Tax rate differences at foreign subsidiaries	—	(2,603)
Tax losses of group entities not used in the reporting period	1,518	2,730
Effect of tax losses brought forward	(1,556)	—
Non-recognition of deferred tax assets on tax losses in the previous reporting period	(5,156)	—
Effect of tax credits	(1,118)	—
Non-deductible withholding taxes	837	118
Municipal trade tax reductions	(33)	162
Effect of changed tax rates	115	(36)
Effect of different tax rates in net investment income (equity method investment)	440	(263)
Tax expense for prior years	47	(159)
Increase in taxes due to non-deductible expenses	2,674	1,011
Decrease in taxes due to tax-exempt income	(836)	(681)
Tax-deductible amortization of trade names	(1,030)	—
Effect of profit and loss transfer agreements	556	—
Dividends paid	(7,788)	—
Actual tax expense	**6,122**	**5,794**
Effective tax rate in %	**15.44 %**	**19.44 %**

At December 31, 2005 unused tax losses of the Messer Group available for carryforward amounted to K€ 82,896. Deferred tax assets were recognized on tax losses of K€ 35,292 since it is probable that the tax losses will be recovered. Recognition of deferred tax assets on these unused tax losses and tax credits gave rise in the financial year 2005 to tax income of K€ 7,959. As a result of tax deductible amortization on goodwill recorded by a subsidiary in Hungary, deferred tax liabilities arose, which, in accordance with IAS 12.21b, was recognized as a deferred tax expense of K€ 3,539.

Deferred tax assets were not recognized on deductible temporary differences as defined by IAS 12 and for unused tax losses available for carryforward of Messer Gases del Peru S.A. (Messer Peru), either at

May 7, 2004 or at December 31, 2004, since at that stage Messer Group did not expect to realize these deductible temporary differences and unused tax losses. Messer Peru's business developed positively in 2005. Partly as a result of tax planning opportunities as defined in IAS 12.30 as well as positive forecasts for the detailed forecast period of 5 years, management now believes that at least a part of the deductible temporary differences will be realized over the detailed forecast period, thus reducing tax expense. For this reason, a deferred tax asset and tax income of K€ 5,021 were recognized for the first time at December 31, 2005.

Since, however, these deductible temporary differences already existed at the date of first-time consolidation of the investment in Messer Peru and deferred taxes were not recognized then only because the prospects of realization were assessed less positively at that stage, Messer Group has, in accordance with IAS 12.68, also recognized an impairment loss for the same amount (K€ 5,021) with income statement effect on the goodwill recognized and allocated as at May 7, 2004. The goodwill impairment loss related to three different cash-generating units since the goodwill had resulted from a corporate-level transaction on May 7, 2004 in conjunction with a purchase price allocation and the allocation of the goodwill balance to the group's significant cash-generating units. We refer to Note 10 Intangible assets.

Deferred tax assets were not recognized on tax losses of K€ 47,604 since it is not considered sufficiently probable that the tax losses will be recovered.

The tax losses of the Messer Group expire as follows:

Expiry within	Dec. 31, 2005	Dec. 31, 2004
1 year	1,277	334
2 years	223	750
3 years	759	555
Later than 3 years	848	2,411
Unrestricted carryforward	79,789	40,627
Total	**82,896**	**44,677**

In addition to unused tax losses, the Group also has tax credits, in particular within its Chinese subsidiaries, which can be realized in the coming years in the form of a tax expense reduction. Deferred tax assets were recognized in the consolidated financial statements as at December 31, 2005 on the main tax credits.

No deferred tax liabilities were recognized at December 31, 2005 on temporary differences between the carrying amount of investments and their retained earnings on the one side and the tax base of foreign investments on the other. These amounts may give rise to a tax expense when distributed by the subsidiary or on sale of the investment. The amount of unrecognized deferred tax liabilities for potential future distributions cannot be estimated at present.

Deferred taxes at December 31, 2005 relate to the following balance sheet items:

	Dec. 31, 2005	Dec. 31, 2004	May 7, 2004
Deferred tax assets			
Tax loss carryforwards and tax credits	11,040	3,081	1,311
Property, plant and equipment	2,929	1,506	2,464
Pension provisions	1,138	1,096	1,948
Other provisions	3,493	2,151	2,458
Inventories	207	117	26
Other	2,878	2,793	496
Total	**21,685**	**10,744**	**8,703**
Deferred tax liabilities			
Intangible assets	(14,461)	(24,306)	(25,560)
Property, plant and equipment	(32,947)	(28,500)	(26,056)
Transaction costs on financial liabilities	(1,576)	—	—
Lease liabilities	(1,037)	—	—
Other provisions	(441)	(35)	(352)
Other	(6,769)	(1,165)	(1,868)
Total	**(57,231)**	**(54,006)**	**(53,836)**
Deferred tax liabilities, net	**(35,546)**	**(43,262)**	**(45,133)**

Deferred tax assets and liabilities, after offset at an individual company level, are made up as follows:

	Dec. 31, 2005	Dec. 31, 2004	May 7, 2004
Deferred taxes			
Deferred tax assets	9,243	4,284	2,597
Deferred tax liabilities	(44,789)	(47,546)	(47,730)
Deferred tax liabilities, net	**(35,546)**	**(43,262)**	**(45,133)**

9. Paid and proposed dividends

In accordance with the shareholders' resolution on July 11, 2005, Messer Group GmbH's shareholder, Messer Griesheim Vierte Vermögensverwaltungs GmbH, passed a resolution to pay an interim dividend of K€ 40,000. This interim dividend was paid on condition that the statutory financial statements of Messer Group GmbH at December 31, 2005 would not show an accumulated deficit after payment of the dividend. In order to uphold the interim dividend of K€ 40,000 and in order to offset the net loss for the financial year 2005 reported in the statutory financial statements of Messer Group GmbH, the shareholder resolved at the Shareholder's Meeting on March 10, 2006, and effective December 31, 2005, to transfer a further amount of K€ 2,999 from additional paid-in capital. This resolution was passed subject to subsequent approval by the Supervisory Board. In addition, it was resolved at the shareholders' meeting on December 6, 2005 to pay an interim dividend of K€ 11,300.

No further distributions are currently planned for the financial year 2005. We refer to the presentation of the Statement of Changes in Equity.

10. Intangible assets

	Goodwill	Other intangible assets	Total
Acquisition cost			
Balance as at January 1, 2005	**370,908**	**205,477**	**576,385**
Additions	—	3,891	3,891
Disposals	(249)	(885)	(1,134)
Reclassifications	—	42	42
Translation differences	10,979	1,459	12,438
Balance as at December 31, 2005	**381,638**	**209,984**	**591,622**
Accumulated write-downs			
Balance as at January 1, 2005	**—**	**(33,547)**	**(33,547)**
Additions	(5,270)	(11,896)	(17,166)
Disposals	249	686	935
Translation differences	(263)	(674)	(937)
Balance as at December 31, 2005	**(5,284)**	**(45,431)**	**(50,715)**
Carrying amount at January 1, 2005	**370,908**	**171,930**	**542,838**
Carrying amount at December 31, 2005	**376,354**	**164,553**	**540,907**

The useful lives of intangible assets were changed with effect from January 1, 2005 in the light of new information about the utilization of those assets within the Group. This gave rise to a positive effect of

K€ 74 on the result for the year compared to the amortization expense which would have arisen had the same useful lives been applied as in the previous year.

Other intangible assets comprise mainly customer bases and licences, with carrying amounts at December 31, 2005 of K€ 97,738 and K€ 56,566 respectively. The Group has given a purchase commitment to an IT service provider for a specified hourly volume for which it has paid a consideration of K€ 700; these services relate primarily to software programming and the installation of software products.

The customer bases relate primarily to the purchase price allocation made at May 7, 2004 and are being amortized straight-line over a maximum remaining amortization period of 18.3 years (at December 31, 2005). The amortization expense for the year is included in distribution and selling costs. The licences comprise mainly rights to the "Messer" name. This is an intangible asset with an indefinite useful life as defined by IAS 38; it is therefore not amortized on a scheduled basis, but rather subjected to an annual impairment test in accordance with IAS 36. This test did not give rise to any requirement to recognize an impairment loss.

The useful life of the customer bases is set at a maximum of 20 years; this is higher than the original maximum contractual periods of 15 years, since it is highly probable that the relevant contract extension clauses will be applied by customers. Licenses relate principally to software licenses with useful lives of 3 to 5 years.

	Goodwill	Other intangible assets	Total
Acquisition cost			
Balance as at May 7, 2004	**377,462**	**199,988**	**577,450**
Additions	—	4,746	4,746
Disposals	—	(160)	(160)
Translation differences	(6,554)	903	(5,651)
Balance as at December 31, 2004	**370,908**	**205,477**	**576,385**
Accumulated write-downs			
Balance as at May 7, 2004	**—**	**(25,055)**	**(25,055)**
Additions	—	(8,879)	(8,879)
Disposals	—	155	155
Translation differences	—	232	232
Balance as at December 31, 2004	**—**	**(33,547)**	**(33,547)**
Carrying amounts as at May 7, 2004	**377,462**	**174,933**	**552,395**
Carrying amounts as at December 31, 2004	**370,908**	**171,930**	**542,838**

Messer Holding GmbH, as Messer Group's "grandparent" company, made a so-called "hidden contribution" of K€ 35,938 to a subsidiary of Messer Group on April 27, 2004; according to the resolution taken by Messer Holding GmbH, this contribution was intended to be used to increase additional paid-in capital at the level of both Messer Group's subsidiary and Messer Group itself.

In the previous reporting period in the separate financial statements of Messer Group and in the consolidated financial statements as at December 31, 2004, this so-called "grandparent subsidy" was not recognized as an increase in the cost of investments in the subsidized entity nor as an increase in the goodwill relating to this subsidiary. This "grandparent subsidy" did, however, result in an increase in Messer Group's net assets from a consolidated point of view. In addition, the increase in net assets also resulted in a corresponding increase in future earnings value at the level of Messer Group's subsidiary. This was therefore an error as defined by IAS 8.41 et seq.

In accordance with IAS 8.43, such an error is required to be corrected by retrospective restatement of the previous period. It has therefore been necessary to correct the error by retrospectively restating the opening consolidated balance sheet as at May 7, 2004 and the consolidated balance sheet as at December 31, 2004. Goodwill has therefore been increased by K€ 35,938 with retrospective effect as of May 7, 2004 and, as part of the purchase price allocation at the same date, allocated in full as goodwill to the relevant cash-generating units. As a result of the restatement, recognized goodwill plus currency effects and additional paid-in capital reported for the Group as at December 31, 2004 are K€ 35,938 higher than in the previous year's published figures.

In addition, in accordance with IAS 8.43, the allocation of goodwill to the various acquired entities at May 7, 2004 was restated retrospectively in 2005. The restated allocation was necessary as a result of the application of the following erroneous methodology in the previous reporting period:

1) Contrary to IAS 36.80, goodwill was not allocated to all cash-generating units or subsidiaries that, as a result of future earnings prospects, are expected to contribute profits in future over and above a level commensurate with the net assets allocated to those units measured at their fair value.

2) The future earnings prospects of the various acquired subsidiaries were computed using a method which diverged from the discounted cash flow method stipulated by IAS 36.

The restated allocation of goodwill resulted in the following changes to allocated goodwill for the principal subsidiaries:

	May 7, 2004 (before restated allocation)	May 7, 2004 (after restated allocation)
Messer Austria GmbH	41,930	18,782
Messer France S.A.S	77,022	10,614
Messer Hungarogáz Kft.	41,125	53,484
Messer Croatia Plin d.o.o.	12,157	23,090
Messer Belgium N.V.	41,943	13,978
Messer Polska Spólka z.o.o.	29,156	17,772
Messer Carburos S.A.	21,914	592
MG Odra Gas spol.s.r.o.	10,722	18,516
Messer Tatragas s.r.o.	14,623	14,788
Messer Technogas s.r.o.	16,927	11,049
Messer Tehnogas AD	5,591	49,545
Hunan Xianggang Messer Gas Products Co., Ltd.	—	36,386
Yunnan Messer Gas Products Co., Ltd.	—	17,951
Messer Slovnaft s.r.o.	6,126	19,202
Other	58,226	71,713
	377,462	**377,462**

Impairment test on goodwill allocated to cash-generating units The separate legal entities of the Messer Group operating in various countries have been identified as the smallest group of assets generating cash flows that are largely independent of the cash inflows from other assets or groups of assets.

The following table shows the analysis of goodwill at December 31, 2005:

	Dec. 31, 2005
Messer Austria GmbH	18,782
Messer France S.A.S	10,614
Messer Hungarogáz Kft.	53,215
Messer Croatia Plin d.o.o.	23,353
Messer Belgium N.V.	13,978
Messer Polska Spólka z.o.o.	22,181
MG Odra Gas spol.s.r.o.	20,829
Messer Tatragas s.r.o.	15,818
Messer Technogas s.r.o.	12,429
Messer Schweiz AG	10.921
Messer Slovenija d.o.o.	10,673
Messer Slovnaft s.r.o.	20,540
Messer Tehnogas AD	40,020
Hunan Xianggang Messer Gas Products Co., Ltd.	37,738
Yunnan Messer Gas Products Co., Ltd.	18,618
Messer Romania Gaz S.R.L.	1,302
Messer Energo Gaz S.R.L.	2,393
Messer Magnicom Gaz S.R.L.	2,586
Elme Messer Gaas A.S.	8,099
Messer MOL Gáz Kft.	3,881
Messer Vardar Tehnogas d.o.o.e.l.	941
Messer Mostar Plin d.o.o.	1,564
Messer Sarajevo Plin d.o.o.	4,279
Messer Algérie SPA	9,163
Wujiang Messer Industrial Gas Products Co., Ltd.	5,109
Messer Sunshine (Ningbo) Gas Products Co., Ltd.	6,736
Messer Carburos S.A.	592
	376,354

The recoverable amount computed for each operating entity is derived from its value in use, which is defined as the present value of the future cash flows expected to be derived from the operating entity. The value in use is higher than the fair values less costs to sell. Cash flow forecasts are based on the most recent forecasts of the relevant cash-generating units approved by management. Using past actual results as the starting point, the sustainable future profit of each of the entities was measured on the basis of detailed forecasts up to 2010. The future profit for periods subsequent to the detailed forecasting period were based, as a general rule, on the final period of the detailed forecasts, without applying a growth rate at this stage. The forecast cash flows during the detailed planning phase were discounted using a discount factor of 7.08 % p.a. and the cash flows for the later phase were discounted using a discount factor of 6.45 % p.a. By reducing the interest rate used for the later phase to take account of growth and computing the perpetual annuity with an interest rate of 6.45 % p.a., effectively a growth rate assumption of 9.7 % p.a. has been applied.

In the case of a few operating entities, the value in use computed using the above-described principles was lower than the carrying amount of the fixed assets of these cash-generating units. However, in each of these cases, the fair value of the fixed assets allocated to these cash-generating units less costs to sell was higher than the current carrying amount. The fair value of the fixed assets was measured on the basis of up-to-date quotes for real estate, traded market prices or estimated replacement costs. Since these entities did not have any goodwill allocated to them, it was not necessary to recognize any impairment losses.

The comparison of the recoverable amounts of assets of each entity at December 31, 2005 with their carrying amounts gave rise to an impairment loss of K€ 1,500 on the assets of the Greek subsidiary. This impairment loss was recognized in the income statement on the line "Impairment losses on intangible assets and property, plant and equipment". The impairment loss arose because of the poor performance of the entity in 2005 and subdued future prospects.

An impairment loss of K€ 5,021 was recognized on the goodwill of three different cash-generating units following the recognition of deferred tax assets for the same amount on temporary differences and unused tax losses relating to Messer Gases del Peru. We refer also to Note 8 Income tax expense.

The impairment test carried out in 2005 did not give rise to the recognition of any further material impairment losses.

Impairment test on brand-name "Messer" The impairment test on the brand-name Messer was performed using the same model as for the impairment test on goodwill allocated to cash-generating units. There was no requirement to recognize an impairment loss at December 31, 2005.

11. Property, plant and equipment

	Land and buildings	Plant and machinery	Other equipment, fixtures and fittings	Advance payments and construction in progress	Total
Acquisition cost					
Balance as at January 1, 2005	**163,132**	**708,418**	**181,631**	**34,943**	**1,088,124**
Additions	2,472	35,522	6,141	56,881	101,016
Disposals	(3,278)	(12,199)	(5,026)	(933)	(21,436)
Reclassifications	1,221	46,546	(9,569)	(38,240)	(42)
Translation differences	1,196	21,032	3,325	2,025	27,578
Balance as at December 31, 2005	**164,743**	**799,319**	**176,502**	**54,676**	**1,195,240**
Accumulated depreciation					
Balance as at January 1, 2005	**(63,077)**	**(435,682)**	**(92,043)**	**(2,030)**	**(592,832)**
Additions	(5,111)	(49,935)	(13,935)	(3)	(68,984)
Disposals	2,709	7,328	4,858	308	15,203
Reclassifications	—	(5,322)	3,386	1,936	—
Translation differences	(467)	(9,437)	(1,719)	(218)	(11,841)
Balance as at December 31, 2005	**(65,946)**	**(493,048)**	**(99,453)**	**(7)**	**(658,454)**
Carrying amount at January 1, 2005	**100,055**	**272,736**	**89,588**	**32,913**	**495,292**
Carrying amount at December 31, 2005	**98,797**	**306,271**	**77,049**	**54,669**	**536,786**

	Land and buildings	Plant and machinery	Other equipment, fixtures and fittings	Advance payments and construction in progress	Total
Acquisition cost					
Balance as at May 7, 2004	**158,746**	**697,734**	**168,203**	**29,881**	**1,054,564**
Additions	5,007	22,135	12,576	25,753	65,471
Disposals	(201)	(15,320)	(5,331)	—	(20,852)
Reclassifications	887	14,590	3,330	(18,807)	—
Translation differences	(1,307)	(10,721)	2,853	(1,884)	(11,059)
Balance as at December 31, 2004	**163,132**	**708,418**	**181,631**	**34,943**	**1,088,124**
Accumulated depreciation					
Balance as at May 7, 2004	**(60,230)**	**(428,341)**	**(85,410)**	**(2,309)**	**(576,290)**
Additions	(3,480)	(28,989)	(10,687)	—	(43,156)
Disposals	142	14,870	4,748	—	19,760
Translation differences	491	6,778	(694)	279	6,854
Balance as at December 31, 2004	**(63,077)**	**(435,682)**	**(92,043)**	**(2,030)**	**(592,832)**
Carrying amounts as at May 7, 2004	**98,516**	**269,393**	**82,793**	**27,572**	**478,274**
Carrying amounts as at December 31, 2004	**100,055**	**272,736**	**89,588**	**32,913**	**495,292**

The useful lives of property, plant and equipment were changed with effect from January 1, 2005 in the light of new information about the utilization of those assets within the Group. This gave rise to a positive effect of K€ 281 on the result for the year compared to the amortization expense which would have arisen had the same useful lives been applied as in the previous year.

Based on its investigations to date, the Company is not yet able to comment conclusively on the applicability of IFRIC 4. It is thought however that, in particular with regard to the material items of the Group's property, plant and equipment (principally air separation plants), IFRIC 4 will not be applicable. In 2006, the Company will carry out a detailed investigation of contracts that potentially fall within the scope of IFRIC 4.

The Company leases items of property, plant and equipment under operating and finance lease arrangements. Assets capitalized under finance leases and reported as property, plant and equipment comprise the following:

	Dec. 31, 2005	Dec. 31, 2004	May 7, 2004
Land and buildings	5,085	4,750	5,007
Machinery and equipment	4,826	3,289	3,464
	9,911	**8,039**	**8,471**
Accumulated depreciation	(4,720)	(3,851)	(4,184)
Total	**5,191**	**4,188**	**4,287**

Depreciation on property, plant and equipment recognized as assets under finance leases is included in depreciation expense.

During the year under report, an impairment loss of K€ 1,500 was recognized on property, plant and equipment in accordance with IAS 36. We refer to Note 10.

12. Equity method investments

The following investments in associated companies are stated on the basis of Messer's interest in the equity of the relevant entity at December 31, 2005:

Name and registered office of company	Shareholding (%)
Sangang Messer Shanghai Gas Products Co., Ltd., Shanghai, China	47.99
Messer Information Services GmbH, Groß-Umstadt, Germany	50.00

The following table shows summarized financial information for the investments in associated companies:

	Jan.1 - Dec. 31, 2005
Net sales	15,917
Operating profit	1,376
Net income	1,427
Property, plant and equipment	10,581
Current liabilities	2,428
Non-current liabilities	—
Equity	26,565
Total assets	28,993

Investments in associated companies developed as follows:

Acquisition cost	
Balance as at January 1, 2005	**16,323**
Additions	795
Disposals	(2,441)
Change in group reporting entity	(3,994)
Translation differences	2,181
Balance as at December 31, 2005	**12,864**

Accumulated write-downs	
Balance as at January 1, 2005	**—**
Additions	(2,443)
Disposals	—
Change in group reporting entity	—
Translation differences	—
Balance as at December 31, 2005	**(2,443)**
Carrying amount at January 1, 2005	**16,323**
Carrying amount at December 31, 2005	**10,421**

Disposals include the sale of Foshan Messer Griesheim Co. Ltd., Foshan, Guangdong, China.

The change in the group reporting entity results from the fact that Elme Messer Gaas A. S., Tallinn, Estonia, has been fully consolidated from January 1, 2005 onwards. Since that date, Messer has the majority in the company's supervisory board and therefore controls the company.

Changes due to additions include the Group's share of profit of these investments.

The Company acquired further shares in Foshan MS Messer Gas Co. Ltd, China, in 2005, this increasing the shareholding from 3 % in 2004 to 43.44 % in 2005. The company is, however, not accounted for as an associated company. Since the Company only has a 14 % representation in the Board of Directors at December 31, 2005, it does not have significant influence over the financial and operating policy decisions of Foshan MS Messer Gas Co. as stipulated in IAS 28.6 to 28.10 and therefore the assumption of significant influence as defined by IAS 28.6 has been rebutted. It is therefore accounted for as an investment at cost.

The following table shows summarized financial information for Foshan MS Messer Gas Co. Ltd.:

	Jan. 1 - Dec. 31, 2005
Net sales	5,838
Net income	1,662
Current liabilities	3,466
Non-current liabilities	1,047

13. Investments in other companies

The item investments in other companies comprise investments in various entities that are not consolidated or accounted for using the equity method.

Acquisition cost	
Balance as at January 1, 2005	**5,006**
Additions	6,516
Change in group reporting entity	(723)
Disposals	(261)
Translation differences	12
Balance as at December 31, 2005	**10,550**

Accumulated write-downs	
Balance as at January 1, 2005	**—**
Additions	(464)
Disposals	60
Translation differences	—
Balance as at December 31, 2005	**(404)**
Carrying amount at January 1, 2005	**5,006**
Carrying amount at December 31, 2005	**10,146**

Acquisition cost	
Balance as at May 7, 2004	**4,209**
Additions	2,924
Disposals	(2,166)
Translation differences	39
Balance as at December 31, 2004	**5,006**

In accordance with the agreement dated December 30, 2005, Messer Tehnogas AD, Serbia-Montenegro, acquired 78.36 % of the shares of Progas AD, Podgorica, Montenegro, with immediate effect. This company has not been consolidated in 2005 due to immateriality and the fact that the acquisition was made shortly before the balance sheet date. The new subsidiary will be consolidated from January 1, 2006 onwards. In conjunction with the consolidation of this company, the purchase price will be allocated within 12 months of the acquisition date, as required in IFRS 3.62. In accordance with IFRS 3.69, attention is therefore drawn to the fact that the accounting treatment used for the business combination in the consolidated financial statement as at December 31, 2005 is only provisional for the reasons given above and will be changed in 2006.

Messer Friuli S.R.L., Italia, which was included in this line at the end of the previous year, was merged with Messer Italia with effect from January 1, 2005.

14. Other non-current financial investments

Other non-current financial assets developed as follows:

Balance as at January 1, 2005	**13,400**
Additions	5,599
Change in group reporting entity	78,192
Disposals	(2,886)
Translation differences	315
Balance as at December 31, 2005	**94,620**

Accumulated write-downs	
Balance as at January 1, 2005	**(2,742)**
Additions	(4,887)
Change in group reporting entity	(78,190)
Disposals	250
Translation differences	1
Balance as at December 31, 2005	**(85,568)**
Carrying amount at January 1, 2005	**10,658**
Carrying amount at December 31, 2005	**9,052**

Other non-current financial assets comprise mainly loans receivable from non-consolidated associated companies, from other companies in which the Group holds investments and from Stefan Messer GmbH.

15. Inventories

Inventories consist of the following:

	Dec. 31, 2005	Dec. 31, 2004	May 7, 2004
Raw materials and supplies	5,807	6,103	5,624
Work in progress	1,302	962	1,334
Finished goods and goods for resale	16,954	14,642	15,003
Total	**24,063**	**21,707**	**21,961**

Write-downs on inventories decreased from K€ 1,690 in 2004 to K€ 1,532 in 2005.

16. Trade accounts receivable

	Dec. 31, 2005	Dec. 31, 2004	May 7, 2004
Trade accounts receivable (current)	137,682	125,289	133,559
Allowance for doubtful accounts	(20,072)	(20,248)	(20,293)
Trade accounts receivable, net	**117,610**	**105,041**	**113,266**

Trade accounts receivable do not bear interest and generally fall due within 30 to 60 days. Credit risk was taken into account by recognizing appropriate allowances to cover significant specific risks. In addition, flat-rate specific allowances were also recognized on the basis of the age-structure of trade accounts receivable and relevant past experience.

17. Held-for-sale assets

	Dec. 31, 2005	Dec. 31, 2004	May 7, 2004
Held-for-sale assets	**3,979**	—	—

The line "Held-for-sale assets" comprises primarily the fair value of the investment in Goyal MG Gases Pvt. Ltd., India , which is required to be reported at the balance sheet date as a non-current financial asset held for sale.

18. Other receivables and other assets

	Dec. 31, 2005	Dec. 31, 2004	May 7, 2004
Tax receivables	10,330	8,547	10,254
Prepaid expenses	3,080	2,384	5,308
Receivables from employees	2,690	2,656	2,604
Sundry receivables from operating activities	2,572	2,167	1,954
Current marketable securities	2,180	3,696	3,325
Advance payments to suppliers	1,995	1,313	2,233
Receivables from related parties	1,575	5,717	36,171
Other loans	1,118	1,945	3,584
Receivables in conjunction with consolidated tax filing arrangements with Messer Industrie	917	—	—
Derivative financial instruments	320	2,490	—
Other	3,763	3,644	4,451
Total	**30,540**	**34,559**	**69,884**

Most of the receivables from related parties are receivables from Messer Holding GmbH.

Derivative financial instruments include the fair values of interest rate caps concluded by Messer Finance SA, Luxembourg. Since no hedging relationship as defined by IAS 39 is in place for these interest caps, the instruments are classified as held for trading and measured at their fair value, with gains and losses recognized in accordance with IAS 39.46 in the income statement.

19. Cash and cash equivalents

Cash and cash equivalents are defined by Messer as cash and demand deposits as well as short-term, high liquid investments that are readily convertible to cash.

20. Provision for pensions and similar obligations

	Dec. 31, 2005	Dec. 31, 2004	May 7, 2004
Pension provisions	10,206	8,774	2,432
Provisions for similar obligations	4,716	4,087	4,200
Total	**14,922**	**12,861**	**6,632**

Pension benefits are provided to employees in a number of countries through both defined benefit and defined contribution pension plans. The benefits vary according to the legal, fiscal and economic circumstances in each country. Plan benefits are generally based on years of service and the level of employee compensation. Provisions for similar obligations relate mainly to company or statutory severance benefits and early retirement benefits.

Some of the obligations for defined benefit pension plans are covered by plan assets held in independent trust funds. The net assets of these funds are invested primarily in real estate, fixed-income securities and marketable equity securities.

Pension provisions are derived as follows:

	Dec. 31, 2005		Dec. 31, 2004	
	German plans	Foreign plans	German plans	Foreign plans
Present value of unfunded obligations	10,882	16,515	6,763	5,240
Fair value of fund assets	—	(13,442)	—	(3,343)
Present value of obligations	**10,882**	**3,073**	**6,763**	**1,897**
Unrecognized actuarial gains (losses)	(3,511)	(238)	(382)	496
Obligations for defined benefit pension plans	**7,371**	**2,835**	**6,381**	**2,393**

The following table reconciles the funded status of defined benefit pension plans with the amounts recognized in the consolidated financial statements at December 31, 2005:

	Dec. 31, 2005 German plans	Dec. 31, 2005 Foreign plans	Dec. 31, 2004 German plans	Dec. 31, 2004 Foreign plans
Change in the present value of pension obligations:				
Present value of defined benefit plan obligations at beginning of year	6,763	5,240	—	5,526
Pension obligations transferred to the Group	207	—	5,982	—
Translation differences	—	(1)	—	(21)
Service cost	428	985	213	176
Interest expense	355	540	186	123
Employee contributions	—	229	—	23
Actuarial losses (gains)	3,129	(295)	382	(496)
Benefits paid	—	(177)	—	(91)
Classified as defined contribution plan in the previous year	—	9,994	—	—
Present value of defined benefit plan obligations at end of year	**10,882**	**16,515**	**6,763**	**5,240**
Change in plan assets				
Fair value of plan assets at January 1, 2005 / May 7, 2004	—	3,343	—	3,133
Return on plan assets	—	(111)	—	73
Employer contributions	—	516	—	181
Employee contributions	—	253	—	47
Benefits paid	—	(177)	—	(91)
Unrecognized plan assets surplus	—	187	—	—
Classified as defined contribution plan in the previous year	—	9,472	—	—
Translation differences	—	(41)	—	—
Fair value of plan assets at end of year	**—**	**13,442**	**—**	**3,343**

The total cost for defined benefit pension plans comprises:

	Jan. 1 - Dec. 31, 2005 German plans	Jan. 1 - Dec. 31, 2005 Foreign plans	May 5 - Dec. 31, 2004 German plans	May 5 - Dec. 31, 2004 Foreign plans
Service cost	428	985	213	176
Interest expense	355	540	186	123
Expected return on plan assets	—	(265)	—	(89)
Amortization amount – loss (gain)	—	(5)	—	—
Pension cost	**783**	**1,255**	**399**	**210**

The amount of unrecognized actuarial gains and losses exceeding 10 % of the present value of the defined benefit obligation of each relevant plan is amortized over the average remaining working lives of the employees participating in the plans.

The following table shows the principal actuarial assumptions used for these plans (expressed as weighted averages):

	Dec. 31, 2005 German plans	Dec. 31, 2005 Foreign plans	Dec. 31, 2004 German plans	Dec. 31, 2004 Foreign plans
	%	%	%	%
Discount rate	4.00	3.92	5.25	4.25
Expected rate of salary increases	2.50	1.51	2.75	1.55
Expected return on plan assets	—	4.25	—	4.25
Expected rate of pension increases	1.75	2.50	1.25	—

The cost of defined contribution plans for the financial year was K€ 162.

21. Other provisions

	Jan. 1, 2005	Utilized	Allocated	Reversed	Change in group reporting entity/ reclassifications	Translation differences	Dec. 31, 2005
Non-current							
Investment risks	3,800	—	—	(3,800)	—	—	—
Environmental risks	4,608	(114)	—	—	—	—	4,494
Purchase and sales contracts	1,155	(4)	106	(351)	—	—	906
Personnel costs	922	—	99	(15)	—	13	1,019
Legal disputes	4,600	(32)	99	(400)	—	17	4,284
Other	1,846	—	115	—	—	(56)	1,905
Total	**16,931**	**(150)**	**419**	**(4,566)**	**—**	**(26)**	**12,608**

We refer to the comments in Note 30 "Contingent liabilities and other financial commitments" regarding the reversal of the provision for investment risks. Environmental risks relate primarily to land in Belgium for which recultivation obligations exist and which could materialize in 2011 at the earliest. We refer to the comments in Note 32 "Litigation" for information about legal disputes.

	Jan. 1, 2005	Utilized	Allocated	Reversed	Change in group reporting entity/ reclassifications	Translation differences	Dec. 31, 2005
Current							
Personnel costs	5,919	(4,387)	5,802	(205)	65	49	7,243
Litigation	300	(303)	10	(33)	189	7	170
Purchase and sales contracts	68	(4)	—	—	(65)	1	—
Other	5,776	(2,849)	5,572	(1,419)	(189)	2	6,893
Total	**12,063**	**(7,543)**	**11,384**	**(1,657)**	**—**	**59**	**14,306**

Non-current employee-related provisions at December 31, 2005 relate primarily to obligations for long-service awards and pre-retirement part-time working arrangements. Current provisions for personnel costs reported at December 31, 2005 related mainly to bonuses and holiday pay.

22. Financial liabilities

Up to August 2005, the Messer Group was financed in the form of the long-term Senior Facilities Agreement (dating from May 2004) with a volume of € 525 million. On August 2, 2005, under the lead of Bayerische Hypo- und Vereinsbank AG and ING Bank NV, the previous credits were fully refinanced by means of a new Senior Facilities Agreement with a volume of € 260 million and a US Private Placement (long-term bonds placed with US American insurance companies) with a volume of US$ 252 million.

The refinancing was made possible partly by the reduction in debt and the positive EBITDA development in 2004/2005, which, together, resulted in a significantly improved rating by the banks, and partly by developments of the capital markets. The main objectives of the refinancing were to reduce borrowing costs and simplify collateral structure.

The new Senior Facilities Agreement (SFA) comprises 2 tranches: a loan (Term A Loan) of € 110 million to be repaid in half-yearly instalments, equivalent to 5 % of the loan and a final instalment of 55 %. In addition, a revolving credit of € 150 million has been made available which falls due at the end of the credit period. Both credit tranches run for 5 years.

The US Private Placement (USPP) comprises 2 series: Series A for US$ 116.5 million, which is subject to an interest rate of 5.24 % p.a. and has a 7 year term and Series B for US$ 135.5 million, which is subject to an interest rate of 5.46 % p.a. and has a 10 year term. Both series are due at the end of the term and fully hedged by cross currency interest rate swaps.

Unused credit lines at December 31, 2005 amounted to € 123.2 million (December 31, 2004: € 175.2 million).

Loan balances and maturities at December 31, 2005 were as follows:

Description	Interest rate	Credit line	Actual balance	Due
	p.a.	(in € million)	(in € million)	
$ 116.5 million US Private Placement [1]	5.240%	98.7	98.7	August 2, 2012
$ 135.5 million US Private Placement [2]	5.460%	114.9	114.9	August 2, 2015
€ 110.0 million Term Facility A [3]	4.536%	110.0	110.0	August 2, 2010
€ 140.0 million Revolving Facility [4]	—	116.2	—	August 2, 2010
€ 3.2 million Ancillary Facility [5]	—	1.1	—	October 27, 2006
€ 5.0 million Ancillary Facility [6]	—	4.1	—	July 31, 2007
€ 1.0 million Ancillary Facility	—	1.0	—	August 31, 2008
€ 0.8 million Ancillary Facility	—	0.8	—	November 11, 2006
Other local credits [7]	5.316%	37.1	37.1	until further notice
			360.7	
Capitalized transaction costs			(5.1)	
		483.9	**355.6**	

(1) The US$ interest rate has been hedged by a cross currency interest rate swap over the whole term with a € fixed interest rate of 3.886 % p.a.; US$ amounts are translated at an exchange rate of € 1: US$ 1.1797
(2) The US$ interest rate has been hedged by a cross currency interest rate swap over the whole term with a € fixed interest rate of 4.357 % p.a.; US$ amounts are translated at an exchange rate of € 1: US$ 1.1797
(3) Variable weighted interest rate (€, CHF, HUF, PLN) at December 31, 2005; foreign currency amounts translated using the closing rate at December 31, 2005
(4) € 23.8 million used as a guarantee facility
(5) € 2.1 million used as a guarantee facility
(6) € 0.9 million used as a guarantee facility
(7) Variable weighted interest rate at December 31, 2005; foreign currency amounts translated using the closing rate at December 31, 2005

Capitalized transaction costs relate to the arrangement fees paid to the financing banks and various legal and advisory costs directly attributable to the new Senior Facilities Agreement and US Private Placement. These costs are being recognized as expense over the terms of the liabilities using the effective interest method in accordance with IAS 39.47. Transaction costs relating to the Revolving and Ancillary Facilities (unused to date) are not being amortized at present.

In accordance with the provisions of the SFA and USPP, interest rate hedges were concluded in the form of cross currency interest rate swaps, interest rate caps and interest rate swaps in order to hedge the interest on at least € 215.7 million or 66.67 % of the debt under the Senior Facility Agreement and the US Private Placement against interest rate risks through to August 2007.

The following disclosures are made in accordance with IAS 32.58 with regard to the cross currency interest rate swaps which have been entered into in order to hedge obligations under the US Private Placement. These swaps are treated for accounting terms as 100 % effective cash flow hedges so that fair value gains and losses arising on them are recognized, net of deferred taxes, in the fair value reserve for cash flow hedges:

1) As a result of the four swaps concluded, there is no exposure to a currency risk on the US Private Placements (denominated in US$) nor to an interest rate risk.

2) The conditions of the hedging relationship match the maturity, payment schedule, currency and amount of the respective conditions of the US Private Placement, so that it can be assumed that the hedging relationship is 100 % effective.

3) Cash flows relating to the hedging relationships will arise in the periods through to August 2012 and August 2015.

4) At December 31, 2005, the derivative instruments had a negative fair value of K€ 3,745.

The following table gives an overview of Messer's financial liabilities:

	Dec. 31, 2005	Dec. 31, 2004	May 7, 2004
Non-current			
Liabilities to banks/ insurance companies	315,093	302,087	229,283
Finance leases	580	482	462
Other	—	4,113	5,483
Capitalized transaction costs	(4,154)	—	—
	311,519	**306,682**	**235,228**
Current			
Liabilities to banks	43,626	26,226	15,811
Finance leases	613	982	1,302
Other	765	1,457	3,770
Capitalized transaction costs	(942)	—	—
	44,062	**28,665**	**20,883**
Total financial liabilities, net	**355,581**	**335,347**	**256,111**
Liabilities with a fixed interest rate	213,620	—	
Financial liabilities with variable interest rates (hedged)	43,000	250,265	
Financial liabilities with variable interest rates (not hedged)	104,057	85,082	
Total financial liabilities, gross	**360,677**	**335,347**	
The weighted average nominal interest rates for debt are:			
Due to banks/ insurance companies (including hedges)	4.52% p.a.	6.22% p.a.	
Finance leases	5.44% p.a.	8.28% p.a.	
Other loans	4.75% p.a.	7.77% p.a.	

The average interest rate on debt (including interest rate swap agreements) at December 31, 2005 was 4.52 % p.a.

Financial liabilities (excluding transaction costs) fall due as follows:

2006	45,004
2007	13,113
2008	11,046
2009	10,995
2010	66,723
After 2010	213,796
	360,677

The Company is subject to various covenants under the provisions of the SFA and USPP. For example, the ratio of net debt to operating profit before interest, tax, depreciation and amortization (EBITDA) is not permitted to exceed a predefined level.

In addition, EBITDA as a ratio of consolidated net interest is not permitted to exceed an agreed level. Furthermore, equity is not permitted to go below a predefined minimum amount.

Messer also has obligations under long-term leases. Future lease payments are as follows:

	Dec. 31, 2005	
	Finance leases	**Operating leases**
2006	669	3,402
2007	258	2,958
2008	181	2,438
2009	86	1,934
2010	50	1,670
After 2010	17	—
Total minimum lease payments	**1,261**	**12,402**
Interest portion	**(68)**	
Obligations under finance leases	**1,193**	
Obligations due within one year (excluding interest)	**627**	

Rental and operating lease expense for the financial year 2005 amounted to K€ 8,448.

Receivables from finance leases, in which the Company or one of its subsidiary companies acts as the lessor, amounted to K€ 256.

23. Other current liabilities

	Dec. 31, 2005	Dec. 31, 2004	May 7, 2004
Tax liabilities	7,217	7,461	7,836
Interest payable	6,192	4,870	157
Payroll liabilities	5,945	5,990	4,871
Fair value of derivative financial instruments	4,144	886	—
Other liabilities to customers	3,263	3,483	5,996
Deferred income	3,011	2,629	1,429
Social security payable	2,451	2,327	1,785
Advance payments from customers	805	364	422
Bills of exchange payable	57	233	227
Liabilities to related parties	—	86,000	224,944
Liabilities to non-consolidated group companies	—	166	512
Other liabilities	12,352	12,686	12,156
Total	**45,437**	**127,095**	**260,335**

Liabilities to related parties at December 31, 2004 amounting to K€ 86,000 included a conditional liability of K€ 80,000 to Messer Griesheim Vierte Vermögensverwaltungs GmbH (Messer Group GmbH's shareholder). In accordance with the agreement dated September 28, 2004, Messer Griesheim Vierte Vermögensverwaltungs GmbH waived a receivable of K€ 80,000, which could be reinstated if various conditions contained in the agreement are met; this conditional liability was therefore recognized as debt capital at the end of the previous reporting period. In accordance with the resolution taken by the shareholder of Messer Griesheim Vierte Vermögensverwaltungs GmbH, on October 10, 2005, the shareholder confirmed that Messer Group GmbH will not be called upon by the shareholder to meet any obligations as a result of the agreed conditions. As a consequence, the shareholder has definitively waived the amount K€ 80,000. The amount of K€ 80,000 was therefore transferred directly to additional paid-in capital, since the original agreement, dated September 28, 2004, had envisaged that the amount be transferred to additional paid-in capital in accordance with § 272 (2) no. 4 of the German Commercial Code (HGB).

With regard to the fair values of derivative financial instruments, we refer to the comments on the hedging of financial liabilities and the description of derivative financial instruments.

24. Equity

Share capital and additional paid-in capital The Company's share capital was increased in 2005 out of the Company's own funds by K€ 99,975 to K€ 100,000. The increase was made by transferring a corresponding amount from additional paid-in capital. In addition, distributions to the shareholder of K€ 51,300 were paid. The shareholder definitively waived a receivable of K€ 80,000 from Messer Group and this amount was transferred to additional paid-in capital; we refer to the note on other current liabilities. As described under point 9 "Paid and proposed dividends" an interim dividend of K€ 51,300 was paid to the shareholder in the fiscal year 2005. Based on the shareholder's resolutions of July 11, 2005, and of December 6, 2005, this amount was transferred from the additional paid-in capital. In order to offset a loss carry forward the amount of K€ 12,184 was transferred from the additional paid-in capital, from which was also transferred the amount of K€ 2,999 in order to offset the net loss for the financial year 2005, both of which were reported in the statutory financial statements of Messer Group GmbH. The amount of the additional paid-in capital was restated as at May 7, 2004. At that date, Messer Group had indirectly made a hidden contribution to one of its subsidiaries which it did not recognize as an increase of additional paid-in capital. In accordance with IAS 8, this was an error requiring retrospective correction. During the period from January 1 to December 31, 2005, Messer Group acquired further shares (approximately 14 %) of Tehnogas AD, Serbia-Montenegro, from the minority shareholders of that entity. This gave rise to an excess of the acquirer's interest in the net fair value of the identifiable assets and liabilities over cost amounting to K€ 5,905 which was recognized as other reserves. For more information about this transaction, we refer to the description of consolidation principles.

25. Minority interests

This item comprises the portion of third party shareholders' interest in the equity of consolidated subsidiaries. Significant minority interests are held by third party shareholders in Serbia-Montenegro, the Czech Republic and China.

Balance as at January 1, 2005	**61,507**
Dividends paid	(3,081)
Income after tax	9,805
Additions	4,357
Disposals	(14,208)
Translation differences	3,448
Balance as at December 31, 2005	**61,828**

26. Discontinued operations

The following table shows summarized financial information for Schweisstechnik AG, Switzerland and Progas spol.s.r.o., Slovakia being held for sale at December 31, 2005.

	Dec. 31, 2005
Net sales	12,326
Operating profit	303
Income before income taxes	188
Tax expense	(45)
Net income	143
Cash flow from operating activities	535
Cash flow from investing activities	(333)
Cash flow from financing activities	(113)

The investment in Messer Schweisstechnik AG was sold with effect from January 1, 2006 for a consideration of K€ 1,618, resulting in an immaterial gain on disposal.

Progas spol.s.r.o. was sold by the Group with effect from February 10, 2006, for a consideration of K€ 1,602. Since Progas spol.s.r.o.'s equity at December 31, 2005 stood at K€ 1,606, there was no profit on disposal.

27. Personnel expense

Personnel expense comprises wages, salaries, social security and pension costs.

	Jan.1 - Dec. 31, 2005	May 7 - Dec. 31, 2004
Personnel expense	101,886	65,772

28. Research and development costs

There were no research and development costs requiring to be capitalized in accordance with IAS 38.

29. Average number of employees (annual average)

The average number of employees was as follows:

	Jan.1 - Dec. 31, 2005	May 7 - Dec. 31, 2004
Western Europe	683	666
Eastern Europe	2,318	2,141
China, Peru	917	880
Corporate office	87	75
Total number of employees	**4,005**	**3,762**

30. Contingent liabilities and other financial commitments

Financial and other guarantees Obligations from issuing guarantees were as follows:

	Dec. 31, 2005		Dec. 31, 2004	
in € million	Maximum potential obligation	Amount recognized as liability	Maximum potential obligation	Amount recognized as liability
Financial guarantees	39.7	—	36.3	3.8

Financial guarantees relate mainly to commitments to cover the contractual obligations of principal debtors. Pledges given to secure the liabilities of group companies were eliminated on consolidation and are thus not included in the above amounts.

In conjunction with a divestiture program carried out in the years 2001 to 2002, the then Messer Griesheim GmbH (in the meantime Air Liquide Deutschland GmbH) gave typical warranties to acquirers for the accuracy of various assertions and guarantees, these warranties were passed through to Messer Group (along with the provisions of K€ 3,800 recognized in this connection) on the sale of Messer Griesheim GmbH to Air Liquide. The warranties are valid for periods of up to 60 months. The maximum guaranteed amount is K€ 10,213. No claims have been made in conjunction with the warranties to date and there are no indications that there are any risks for the remaining term of the warranties. The provision of K€ 3,800 recognized at December 31, 2004 was therefore reversed in 2005 with income effect. The income from the reversal is included in the income statement on the line "Other investment income, net", since the provision related to disposals in connection with the divestiture program.

In addition, Messer Group has assumed guarantee obligations of former shareholders to Messer Holding GmbH (K€ 16.506), resulting from the acquisition of shares in Messer Holding GmbH by Messer Industrie on May 6, 2004.

A guarantee has also been provided to Air Liquide Deutschland GmbH exempting it from obligations under existing guarantee obligations connected to an earlier export transaction of a former associated company of Messer Griesheim GmbH (K€ 6,756).

Other financial obligations The Group has committed to purchase or invest in the construction and maintenance of various production facilities. Obligations under these agreements represent commitments to purchase plant and equipment at market prices in the future. At December 31, 2005, purchase and capital expenditure commitments amounted to K€ 18,882.

In conjunction with the refinancing arrangements involving a syndicated bank loan (Senior Facilities Agreement) and a US Private Placement put in place in August 2005, the Group has pledged shares in principal subsidiaries as collateral. In addition, Messer Griesheim Vierte Vermögensverwaltungs GmbH's shares in Messer Group were also pledged as collateral.

31. Derivative financial instruments

IAS 39 requires that entities recognize derivative financial instruments in their financial statements as assets or liabilities, measured at their fair value. The accounting treatment of changes in fair value (i. e. fair value gains or losses) of a derivative financial instrument depends on whether it is formally intended as a hedging instrument and on the nature of the hedge. In the case of derivative instruments which qualify as a hedge, the entity must determine on the basis of the hedged items whether the hedging instrument relates to a fair value hedge (i. e. hedging a the fair value of an asset or liability), a cash flow hedge (i.e. hedging a cash flow) or the hedge of a net investment of a foreign operation.

In conjunction with the US Private Placement arranged in August 2005 with a volume of US$ 252 million for terms of 7 and 10 years, the Group concluded four cross currency interest rate swaps with matching amounts and terms to hedge interest rate and currency risks.

Fair value gains and losses on these cross currency interest rate swaps and on the related foreign currency liabilities were recognized directly in equity with a negative amount of € 3.9 million (net of deferred taxes of € 1.8 million) due to the effectiveness of the hedges.

In addition to these hedges, the Group has other interest rate hedges in the form of interest rate caps and interest rate swaps for existing and forecast liabilities amounting to € 250.5 million. These do not meet the criteria set out in IAS 39 and were therefore recognized as expense (K€ 139) at the level of Messer Finance SA.

The nominal amounts and fair values of these derivative instruments at the balance sheet date were as follows:

	Nominal amounts	Fair value
Cross currency interest rate swaps	213,620	(3,745)
Interest rate caps	200,519	320
Interest rate swaps	50,000	(399)

An amount of K€ 574 was recognized as a gain on one cancelled cross currency interest rate swap.

32. Litigation

Various lawsuits are pending in India related Goyal MG Gases Pvt. Ltd. and a shareholder group working with the Goyal family. As a consequence of the Sale and Purchase Agreement with Air Liquide, Messer Holding GmbH assumed indemnification obligations for some of these disputes. The lawsuits are being pursued by Messer Group in agreement with Air Liquide.

The pending proceedings revolve primarily around the Indian company's refusal to register Air Liquide Deutschland GmbH's shares in Messer Group's name. In addition, the Indian company is demanding compensation in arbitration proceedings for alleged infringement of various contractual agreements.

Messer Group is currently endeavouring to settle some of the proceedings by transferring the shares held by Air Liquide Deutschland GmbH on behalf of Messer Group to the remaining shareholders of the Indian company. The relevant shares were offered to them for sale in December 2005. We refer to Note 34 Events after the balance sheet date.

33. Related parties

Messer Industrie and Stefan Messer GmbH At December 31, 2005, a receivable balance of K€ 917 is due from Messer Industrie, primarily in connection with the consolidated tax filing status in place with that entity for value added tax purposes.

Stefan Messer is a Director (Geschäftsführer) of Messer Industrie, Messer Group and Stefan Messer GmbH. At December 31, 2005, a loan receivable of K€ 2,256 is due from Stefan Messer GmbH. The receivable balance bears interest at a rate of 5.5 % p.a. and is being repaid through to April 2007.

Messer Eutectic Group (MEC Group) The Carlyle Group, a private equity company, signed a contract with Messer Industrie on November 8, 2004 for the sale of its 100% investment in MEC Acquisition GmbH, which, in turn, held 51 % of the shares of MEC Holding GmbH. As a result of this transaction, Messer Industrie, which acts as the holding company for the Messer family and has its registered office in Königstein, increased its investment in the MEC Group to 74.8 %, with a co-investor holding the remaining 25.2 %. The MEC Group was founded in October 2000 to amalgamate the businesses of the Messer Cutting & Welding Group and the Swiss Castolin Eutectic Group. Messer Industrie had contributed the Messer Cutting & Welding Group to MEC Holding GmbH as a contribution in kind. At the same time, MEC Holding GmbH had acquired the Castolin Eutectic Group via a leveraged buy-out transaction.

During the course of 2005, Messer Industrie spun off its investment in the MEC Group to its identical sister company MIG Holding GmbH, which will continue to run the business of the MEC Group as the majority shareholder. All transactions of the MEC Group with Messer entities are therefore deemed to be related party transactions.

At December 31, 2005, trade accounts payable to and receivable from the MEC Group amounted to K€ 312 and K€ 13 respectively. Net sales to the MEC Group amounted to K€ 86.

During the course of 2005, Messer Group and MEC Holding GmbH, a MEC Group entity, founded Messer Information Services GmbH, in which they each hold 50 % of the shares.

Messer Holding GmbH At December 31, 2005, current receivables of K€ 672 are due from Messer Holding GmbH.

34. Events after the balance sheet date

At the turn of 2005/2006, Messer Group sold its shares in the South Korean Messer Myung Sin Gas Ltd. This entity was not consolidated at December 31, 2005 due to immateriality.

With effect from January 1, 2006, Messer Group sold its shares in Messer Schweisstechnik AG, Switzerland, to a related party (Castolin Eutectic International S.A., Switzerland). The shares were transferred by way of endorsement in February 2006. The transaction gave rise to an immaterial gain for the Group in 2006.

Progas spol.s.r.o., Slovakia, was sold in February 2006.

Cryogenic Engineering GmbH was founded on January 23, 2006. This is a joint venture with Hangzhou Hangyang Co. Ltd., the Chinese manufacturer of air separation plants. Cryogenic Engineering GmbH has been allocated the task of selling plants and managing turn-key projects.

Air Liquide Deutschland GmbH's offer, dated December 22, 2005, to the remaining shareholders of Goyal MG Gases Pvt. Ltd., to purchase the shares held by Air Liquide Deutschland GmbH on behalf of Messer Group was accepted contractually on January 11, 2006. The purchase agreement was completed on February 20, 2006 on payment of the purchase price of K€ 3,736, at which stage the shares were transferred. Messer Group's investment in Goyal MG Gases Pvt. Ltd., India is therefore required to be classified as a non-current held-for-sale asset in accordance with IAS 39.9. Since it has not been possible to measure the fair value of the investment in Goyal MG Gases Pvt. Ltd., it had been recognized previously with a zero value. Based on the offer, dated December 22, 2005, which was accepted on January 11, 2006, it was necessary to measure the fair value of the investment at December 31, 2005 on the basis of the purchase consideration of K€ 3,736. Due to its classification as a non-current held-for-sale asset, the increase in the carrying amount of the investment (K€ 3,736) was recognized directly in the fair value reserve in accordance with IAS 39.55.

In conjunction with the sale of the shares in Goyal MG Gases Pvt. Ltd, it is also necessary to consider the recoverability of the guarantee claims of Air Liquide Deutschland GmbH (held on behalf of Messer Group) against Goyal MG Gases Pvt. Ltd. amounting to K€ 3,800. Air Liquide Deutschland GmbH has, as guarantor of a loan granted to Goyal MG Gases Pvt. Ltd., been called upon by Citibank to pay a partial amount of US$ 4.8 million. In February 2006, Air Liquide Deutschland GmbH obtained title (also enforceable in India) through the High Court of England. Various lawsuits are still pending in this context, which Messer Group has taken into account in accordance with IAS 37 by recognizing a provision of K€ 3,800. Messer Group currently considers that no further income or expenses will need to be recognized other than those recognized at December 31, 2005. In the estimation of management, all risks which are deemed to be probable (as defined by IAS 37) are covered.

35. Supervisory Board and Management Board

The Management Board (Geschäftsführung) of Messer Group during the reporting period comprised the following:

- Stefan Messer, Industriekaufmann, Königstein im Taunus
- Dr. Hans-Gerd Wienands, Attorney, Kerpen

Executive directors total benefits amount to K€ 1,836 in fiscal year 2005.

Thereof fixed supplements including remuneration in kind and other payments amounted to K€ 865. Variable Bonus amounted to K€ 790 and is oriented to the achievement of defined targets. Pension provisions have increased by K€ 181.

Messer Group's Supervisory Board (Aufsichtsrat) during the reporting period comprised the following:

- Dr. Jürgen Heraeus, Entrepreneur, Chairman of the Supervisory Board of Heraeus Holding GmbH,
- Dr. Bodo Lüttge, Deputy Chairman, Dipl.-Kaufmann,
- Dr. Alexander Dibelius, Managing Director, Goldman Sachs & Co. oHG,
- Dr. Karl-Gerhard Seifert, Chemist, Chairman of the Executive Board of Alessa Chemie GmbH,
- Wilhelm Peter Storm van's Gravesande, Consultant

The remuneration of the Supervisory Board during the reporting period amounted to K€ 144.

36. Previous year's financial statements

The Supervisory Board approved the consolidated financial statements as at December 31, 2004 on April 20, 2005.

Sulzbach, March 10, 2006

Stefan Messer

Dr. Hans-Gerd Wienands

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