MESSER
Gases for Life

view

Annual report of the Messer Group 2012

review

Annual report of the Messer Group 2012

Organization of the Messer Group

Messer Group GmbH, which has its registered office in Sulzbach, near Frankfurt am Main, and its postal address in Bad Soden am Taunus, acts as the management holding company of the Messer Group. Products, services and technologies are – regardless of protected brand-names for gases and applications – sold under the proprietary names of 'Messer' and 'ASCO'.

The Messer Group has its own operating facilities in each of the main European markets (with the exception of Great Britain and Scandinavia) as well as in Turkey, China, Vietnam, New Zealand, Algeria and Peru.

In Germany, Messer employs teams of experts that specialize in gas technologies, gas production and distribution. One highly specialized technical center handles applications in areas such as cold grinding, recycling and cryogenics and another is responsible for developments in the area of welding and cutting. The Group's Technical Center for application processes used in the manufacturing, metallurgy, heat treatment and burner engineering sectors is located in Austria. The Technical Center in France specializes in the development of processes used in the food-processing, pharmaceutical and biotechnology sectors.

In 2004, Stefan Messer brought the company back under family management. Since 2008, Messer has returned to the German market and – with the project “Independence” – set ambitious goals for itself concerning the construction of new production facilities for gases by 2012. Many of those goals were reached ahead of schedule.

re

That successful development puts us in a position to participate in the formulation of new megatrends and to extend the application of gases and expertise further into the areas of environment, research and sustainability.

view

review

In its classic form, the annual report of a company is the moment to look back over the business. Although we will meet that expectation, we would also like to “disappoint” you just a little.

We are pleased to look back on our successes. In 2004, we launched the “Independence” project, which formulated concrete objectives to be achieved by 2012. In that context, Messer invested more than one billion Euros in new production locations, which have served to establish a largely autonomous, independent product supply in Europe. In China, we have managed to increase turnover by more than 300 million euros – from 47.52 million euros in 2004 to 349 million euros in 2012.

But Messer prefers to look ahead, conquer new horizons, and envision challenging projects. Courageous steps are what constitute the character of Messer and determine our actions. In 2012, we set course accordingly and formulated new objectives. That’s why this annual report emphasizes our future prospects. It presents innovative products on which we have been working since 2012, and gives examples of the diversity and environmental friendliness of our gas applications.

The following pages offer you a look back over financial year 2012, but above all a strategic outlook. In other words: plenty of “re” but even more “view”.

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Key figures of the Messer Group at a glance

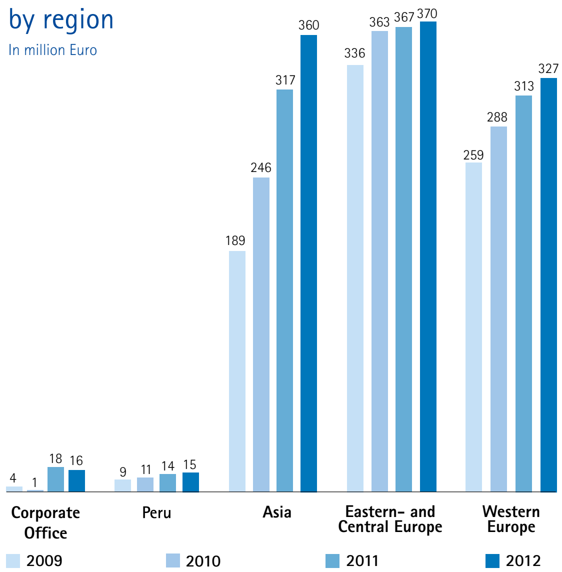
As of 31.12.2012

		2009	2010	2011	**2012**
Net sales	in million Euro	797	909	1,029	**1,088**
EBITDA	in million Euro	175	207	241	**237**
EBITDA margin	in per cent	22	23	23	**22**
Investments	in million Euro**	202	168	191	**184**
Employees*		5,211	5,288	5,251	**5,364**

* contractual employments ** incl. IFRIC4

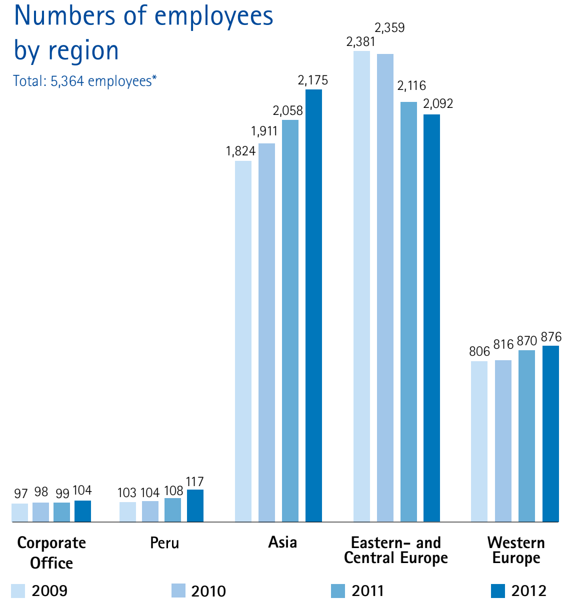
Net sales (consolidated) by region

In million Euro



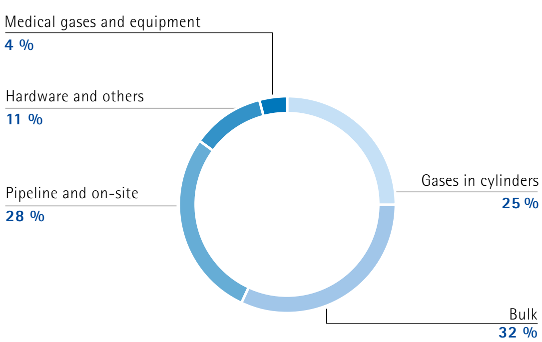
Numbers of employees by region

Total: 5,364 employees*



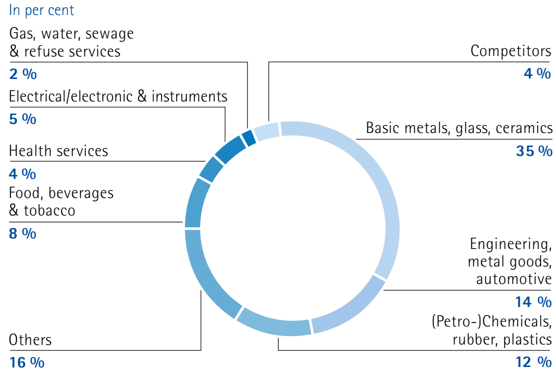
Net sales by product groups

In per cent



Net sales by industry segments

In per cent



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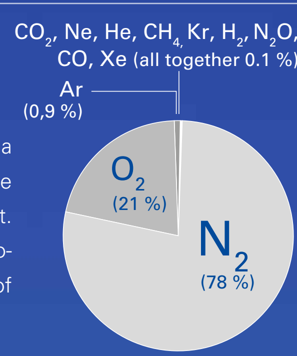
Gases for Life

What are industrial gases?

Industrial operations require oxygen, nitrogen, argon, xenon, neon and krypton, along with carbon dioxide, acetylene, hydrogen and helium, and a wide variety of gas mixtures. At Messer we call these gases **Gases for Life**. They are produced in large-scale industrial plants and are just as important as water and electric power for many manufacturing processes which make everyday products.

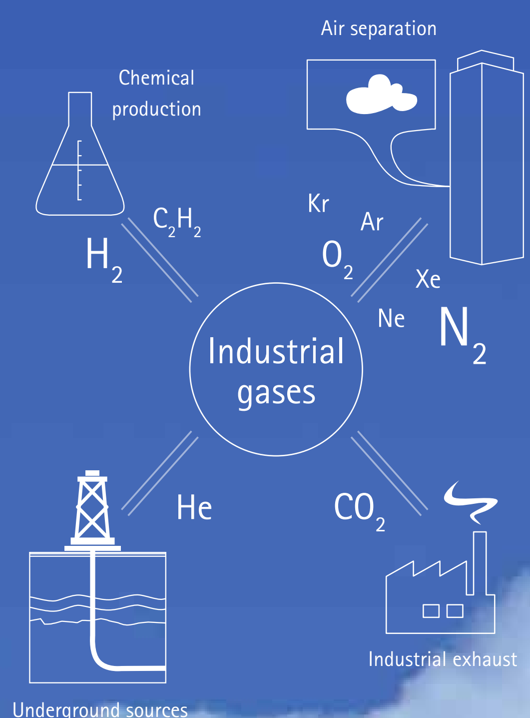
What is air?

What we generally refer to as air is a mixture of different gases which make up the atmosphere around our planet. For the most part, air consists of nitrogen and oxygen, plus a small quantity of argon and traces of other gases.



Where do they come from?

Oxygen, nitrogen, argon, xenon, neon and krypton are produced from the air. Carbon dioxide is primarily collected from the exhaust of industrial operations and cleaned. In some cases it is also produced from natural underground sources. Hydrogen and acetylene are produced chemically. Helium is produced from underground sources.



How are gases produced from air?

In order to produce these gases, we use air separation units which can reach 60 metres high or more. Inside them, a physical process takes place which separates the air into its components. That process, which is also known as low-temperature rectification, basically works like this:

- filtered (dust is removed) and compressed to about 6 bars
- pre-chilled with cooling water
- dried and stripped all of CO_2 in a molecular sieve
- cooled below -175 °C and liquefied in the main heat exchanger
- separated into liquid or gaseous oxygen and nitrogen in a separation column
- also separated into liquid argon

The gases are stored in tanks in liquid form.

We make gases out of air

How do Gases for Life reach the customer?

In smaller quantities, gases are stored in gas cylinders. When industrial gases are needed in large quantities, we install tanks at our customer's plant. Those tanks are used to store gases such as oxygen, nitrogen, argon or CO_2 in liquid form. Road or rail tankers are used to transport the gas from the production plants to the customer.

Major industrial concerns such as steel works or chemical companies need so much gas that they often have an air separation unit operating on their grounds. Sometimes pipelines also supply gases to one or more major facilities, such as in industrial parks.

The greater the quantity of gases which a consumer needs, the shorter the distance should be between the customer's site and the location where the gases are being produced. Generally speaking, gases are produced where they are needed: close to densely developed industrial areas.

Who needs Gases for Life?

Industrial gases are used in a variety of purity grades and for a wide range of purposes. Including as food gases and medical gases.

Industrial gases can make production processes safer and more cost-effective and improve product quality. They often contribute to environmental protection. Some processes and applications would even be inconceivable without the chemical processes of gases.

Typical user sectors include the automotive industry, the steel industry, environmental engineering, food and beverages, construction, metallurgy, glass and ceramics, medicine and pharmaceuticals, the chemical industry, and research and development.

Stefan Messer

As owner and CEO of the largest owner-managed industrial gases company, Stefan Messer is the driving force behind the strategies for the future which were established in 2012. Beyond the company's boundaries, he has demonstrated his commitment inter alia as president of the European Industrial Gases Association (EIGA) and as a member of the executive board of the Deutsche Universitätsstiftung (German University Foundation).

Dear Readers,

Globalisation is having a major impact on our lives. Economic crises and cycles are coming round ever faster. Our planet is navigating stormy seas with high waves as well as calmer waters on a charted course. We are under pressure to change our habits and make reforms.

Mega-trends such as continuing population growth, urbanisation, scarcity of resources and climate change present major challenges which we must master for the benefit of the coming generations.

The age pyramid in Western countries is getting top-heavy, the world’s young people are primarily coming from Asia, Africa and Latin America, and more and more people are moving to large cities. Natural resources are becoming scarcer, agriculture will have to become greatly more efficient to feed the earth’s growing population, and environmental pollution is changing our climate.

What’s more there are financial crises, such as that which we are currently experiencing in Europe. When one lives above one’s means all may be well for many years, but at some point one begins to feel the consequences. Europe must become more connected and grow together. Technologically, economically and culturally we are one of the strongest regions in the world and this development should not be hindered by national and state interests.

This poses a major challenge for us all and everyone needs to find his or her own opportunity to create the positive change necessary to support this process. Those who stand to gain are those who are ready to change the world and adapt to these new circumstances. Maintaining traditions can be only one basis for business activity. Much more importantly, products, production methods and services must be developed that deal with an ageing population, that save energy and that are environmentally friendly. Here at Messer we have also spent much time pondering this issue and will pursue strategies built on new technologies.

Despite these trying times of change and upheaval Messer has continued to do well in 2012, although not everything proceeded as we had expected. We are still standing with both feet planted firmly on the floor and are satisfied with what we have accomplished together this year.

Larger investment projects were completed this year too: new facilities in Europe and Asia have gone into operation. In the south-western French town of Lacq we began operating a new CO_2 plant with a capacity of 65,000 tonnes per year. In Slovakia, we started a new nitrogen generator to supply our client, Slovnaft.

Together with our partners in Estonia, we invested in a large air separation plant in Dnepropetrovsk, Ukraine, as well as two smaller plants in Liepaja, Latvia and Narva, Estonia. We inaugurated a new filling facility in Vomp, Austria and our filling facility in Budapest, Hungary was completely modernised. A smaller CO_2 facility began operating in Bosnia. Additional facilities in Austria, Spain, Poland and Serbia are currently under construction and will be completed in 2013/2014.

Once again, China was a focus of our expansion investments in Asia. We successfully started up our first krypton/xenon recovery plant in Hunan. Additional air separation facilities in Panzhihua (Szechuan), Yuxi (Yunan), Foshan (Guangdong), Xichang (Szechuan), and Xiangtan (Hunan) also began operations. In the southern part of Vietnam a CO_2 facility for food quality began operating and we started construction of a second air separation facility in the northern part of the country for the Hoa Phat steel mill. Messer celebrated 20 years with our subsidiaries in Poland, the Czech Republic and Slovakia, and 15 years in Peru and Vietnam.

A difficult issue for our industry is the continuing helium crisis. In summer we also had significant supply shortages of CO_2 due to several plant shutdowns, which affected our operating profit significantly.

The MEC Group has developed differently in various sectors and regions. While business with welding materials in Europe was difficult and depressed, North America and Asia developed very positively.

We were able to begin operation of a new press for brazing products with our joint venture company in Italy, Galliani. At our plant in Dublin, the fifth new wire mill for the production of flux-cored welding wire for the oil and gas industry was installed. New CastoLabs were opened in Monterrey, Mexico and Wiener Neudorf, Austria.

Messer Cutting Systems operated at high levels in Europe and North America, whilst business in China dropped dramatically. Construction of our new plant in India is going full steam ahead and will be completed by 2013.

Following successful acquisitions in California and France the BIT Group was further strengthened and is currently on a strong growth trajectory. As a result we were able to introduce a new blood analysis laboratory device onto the market for the DRG company in the autumn.

You can see what a big year this has been for the world of Messer. One can only be successful by sowing the right seeds for tomorrow whilst providing supplies and services to satisfied clients today. I think we have achieved this goal again this year, and I would like to thank you for your loyalty and support in our efforts to deliver the very best.

Kind regards,

Stefan Messer

renew

Company Conference 2012

Hvar, Croatia

Stefan Messer

Dr. Hans-Gerd Wienands

In order to pursue new paths successfully, everyone has to have the same objective. That's why our Company Conference 2012, which was held on the Croatian island of Hvar, gave the sense of laying out new courses together: new ideas were presented, discussed and evaluated in the plenary session. The result is our strategy for 2013 and for the following decade. As part of that strategy, all of the companies of the Messer World will focus on four megatrends. They are: "Changing demographics", "Globalisation and the markets of the future", "Challenges of climate change", and "Scarcity of resources".

Johann Ringhofer

Adolf Walth (middle)

Consensus-building with “swarm technology”

Dr. Uwe Bechtolf

Benefits of “swarm intelligence”

The company conference made use of “swarm technology.” When work was performed in groups, this computer-controlled system made it possible to collect, assess and present ideas in real time. During subsequent voting, each participant then made their global contribution to various measures virtually with a “signal card”.

During the company conference, the corresponding measures were developed in the plenary session or in small groups and decisions were taken democratically through open voting. Rather unusual for an industrial company, that procedure reflects the Messer philosophy: every single one of our managers accepts responsibility, actively participates in shaping the company’s evolution, and has the freedom to implement even unorthodox ideas. And it is often precisely those ideas which are the key extraordinary success.

Management Board and Supervisory Board of the Messer Group

The positive evolution of the company in recent years is also due to the close collaboration based on trust between the Supervisory Board and the Management Board. Since Messer began operating as an independent, family-owned business again in 2004, the members of the Supervisory Board have been providing guidance in support of the company's strategic and economic development.

Along with Stefan Messer as CEO and Dr. Hans-Gerd Wienands as CFO, the members of the Management Board control the areas of Strategy, Accounting and Controlling, Engineering and Production, and Sales and Marketing.

Supervisory Board of Messer Group:

Dr. Karl-Gerhard Seifert

Dr. Werner Breuers

Dr. Bodo Lüttge

Dr. Nathalie von Siemens

Dr. Jürgen Heraeus, Chairman

Peter Wilhelm Storm van's Gravesande

Management Board of Messer Group:

Stefan Messer, Chief Executive Officer

Dr. Hans-Gerd Wienands, Chief Financial Officer

Dr. Uwe Bechtolf, Strategy,
Executive Vice President Accounting & Controlling

Johann Ringhofer,
Executive Vice President Engineering & Production

Adolf Walth,
Executive Vice President Sales & Marketing

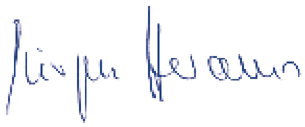
From left to right: Dr. Karl-Gerhard Seifert, Dr. Werner Breuers, Dr. Bodo Lüttge, Dr. Nathalie von Siemens

Supervisory Board Report

During the reporting period, the supervisory board has performed the tasks incumbent on it in accordance with the statutory provisions and the articles of association by providing support and advice to the management. The management has reported to the supervisory board, both verbally and in writing, concerning the performance and situation of the company within the framework of regular meetings on April 27, 2012 and November 20, 2012. 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 its decision. The supervisory board has satisfied itself in the plenum that the bookkeeping, the annual financial statement of Messer Group GmbH and the group accounts for the year ending December 31, 2012, as well as the management report from Messer Group GmbH and the Messer Group have been audited and certified by the auditing company KPMG AG Wirtschaftsprüfungsgesellschaft, Essen. The audit reports were discussed at the board meeting on April 16, 2013 with the assistance of the auditors. The supervisory board had no objections and is in agreement with the auditor's results.

The supervisory board would like to thank the management as well as all employees of the Messer Group for their efforts and successful work in the 2012 financial year.

Bad Soden, April 16, 2013
Supervisory Board



Dr. Jürgen Heraeus, Chairman

From left to right: Dr. Jürgen Heraeus, Stefan Messer, Peter Wilhelm Storm van's Gravesande, Dr. Hans-Gerd Wienands

Mission Statement

Our vision

Messer is an important industrial gases group in its core markets of Europe and China. Messer is and will remain an independent family-run business. We think and act decisively for a long term and measure ourselves by our sustained success. Together with our partners and associated companies in the field of wear, fusion, and cutting technologies as well as precision instrumentation we develop synergies and 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.

Our mission

As an owner-managed family business with a rich tradition we are focused on the future whilst taking into account the different conditions in our existing markets. We also use our experience and expertise to building up our position in new markets. Ranging from acetylene to xenon we offer our customers a wide range of technical and medical gases and food and specialty gases. Our product range is completed by our excellent services and state-of-the-art technical plants and 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. Our efficient and dedicated employees, our flexibility and the closeness we feel to our customers in local markets makes us their preferred partner. Through entrepreneurial flair, farsighted thinking and the continuous improvement of our processes, we create added value for our customers and so secure our mutual success in the long term. Solid finances and fair profits guarantee our independence and support sustainable growth.

Our values

Customer orientation

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

Employee orientation

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

Responsible behavior

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

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

Corporate responsibility

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

Exzellence

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.

Megatrends

Being proactive at all times is a "typically Messer" trait. That also includes the early recognition of new currents flowing in markets and society. In 2012, Messer identified four megatrends as developments which are highly relevant for the future: "Changing demographics", "Globalisation and the markets of the future", "Challenges of climate change", and "Scarcity of resources".

Megatrends offer opportunities and prospects

Increased urbanisation

Waste and water treatment, especially near "mega cities"

Higher demand for processed foodstuffs

Safer food transport

Higher safety/quality standards in the food chain

Ageing population

Increasing healthcare requirements

Higher demand for services

Ints Vikmanis/shutterstock.com

World population growth

Improved productivity in global food production

"Changing demographics"

"Challenges of climate change"

Environment

Search for environmentally friendly alternatives, funding initiatives

Compliance with stricter standards, recovery of pollutants

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Ecosystems

Stronger materials and more robust designs, increased wear

Need for efficient use of heat, cooling and insulation

CO_2-emissions

Recovery and reuse of CO_2

Improving energy efficiency

Renewable energies: manufacture and operation of wind turbines, photovoltaic cells, water power, biomass plants

relevant

Mega-trends

"Scarcity of resources"

Utilisation

Increasing demand for material recycling and recovery

More efficient use of materials, e.g. by means of optimised materials, surface treatment, shape, structure, component design, construction, connecting/bonding technologies

Increasing demand for resource-efficient processes, e.g. using O_2 to save natural gas (oxyfuel) or to increase the efficiency of chlor-alkali electrolysis: optimal use of energy (also heating/cooling)

Water stress, water purification

Intensification

Production of shale gas

Tertiary oil and gas production

LNG transport and distribution

Clean coal-fired power plants (CCS)

Replacement

Production of renewable liquid fuels

Waste incineration

Gasification of coal/ biomass

Reuse of CO_2 in the chemical industry

eyeidea/shutterstock.com

"Globalisation and the markets of the future"

Markets

High level of construction activity

Investment in transportation systems and infrastructure

China

New energies

Conservation of resources and environmental protection

Biotechnology

New materials

New IT solutions

High-end equipment and production

Low-pollution vehicles

Trade flows

Global trade, standards, procurement and traceability

violetkaipa/shutterstock.com

Corporate culture and employees

Corporate culture

In addition to commercial success, our guiding principles also take into account factors relating to the environment, mankind and society.

Within the owner-managed family company, cooperation is based on reliability, honesty, transparency and open communication. We respect and value the different cultural and social customs of all the countries in which we are represented. The Messer Group is committed to being open and honest so that customers, business partners and the general public can rightfully perceive the company as a trustworthy organization. Our mission statement is based on six core principles which are supplemented by guidelines applicable to all employees and a code of conduct which serves as the basis for all business processes within the Messer Group.

A further important aspect of our corporate culture is a close relationship between industry and science: a good example of this is the integration of our welding technology center in Germany into the facilities of the Hochschule Niederrhein in Krefeld. Working together with this university, the tenth largest in Germany, we are achieving synergy benefits in the field of joining technology. The proximity of our Krefeld site to the university and the latter's infrastructure provide good opportunities to cooperate in fields of joint interest. The close contact maintained with the university's Materials and Joining Technology department enables technical knowledge to be exchanged and facilitates joint work on innovative projects. The name Messer has stood for generations for corporate social responsibility. Many entities throughout the Messer world have become involved in social and ecological projects, whether in the form of cash or non-cash donations to social institutions, schools or hospitals, participation in action days or sponsoring. The range of projects is wide and tailored to the needs of each country. In Germany, this commitment is also demonstrated by the foundations set up by the Messer family. The Adolf Messer Foundation provides support for education and science. The Dr. Hans Messer Social Foundation gives donations worldwide to people who are in need or sick. These foundations derive their income from their capital endowments and from donations from employees on the occasion of events such as company anniversaries and "round" birthdays.

A Compliance Code is in place that is valid for all Messer Group employees. The Compliance Code comprises three parts: the Code of Conduct, Group Guidelines and the Compliance Guideline. The Compliance Guideline has been expanded, amongst other things, by a list of local compliance officers and a description of reporting procedures in the event of violations of the Compliance Code. Messer Group employees now have the opportunity to make contact with the relevant responsible person in the local national company on any issues relating to the Compliance Code or directly with the Corporate Compliance Officer (CCO) of the Messer Group. Managers are responsible for ensuring that the Compliance Code is known to all employees in their area and is complied with by them.

Our employees

The expertise and experience of our workforce of well-motivated and well-qualified employees provides the foundation for the Messer Group's success. They are constantly being required to rise to the practical challenge of highly demanding tasks and projects, at which stage they can also draw on the knowledge gained through regular attendance at internal and external training courses, specifically designed to meet their needs. This combined approach gives them the wherewithal to master the vast array of constantly changing work requirements, while at the same time enhancing the professional manner with which they go about their work. A transparent leadership style, based on an "open door" principle, allows for open communication and represents a core element of our management culture. Attractive remuneration systems and fringe benefits are also in place, including opportunities to participate in corporate pension plans.

We endeavor to make school pupils and students aware of the potential of the fascinating world of gases, also with an eye to winning well-trained staff in the future. It is considered to be a crucial aspect of business to develop employee skills from an early stage. The Messer Group is committed to providing educational and vocational training opportunities to young people, based on the tenet that investment in the next generation is essential for the future competitiveness and underlying strength of our business. In Germany we offer vocational training to ambitious school and college leavers in the areas of industrial business studies, mechatronics, IT data processing and IT support. Training takes place at various sites, in some cases supplemented by several weeks spent at international locations.

As well as gaining technical knowledge and a good understanding of work methodologies, the promotion of inter-cultural understanding and the opportunity to build up a network of contacts are also seen as success factors for an organization with international operations. With this in mind, all newly appointed executives and managers are required to spend an initial induction phase over a period of weeks working in, and getting to know, group entities at close quarters, establishing contacts for future cooperation and generally preparing for the tasks ahead. This process is subsequently continued at all levels in the form of regular international divisional meetings. As at December 31, 2012 approximately 91 % of our employees were working in non-German speaking countries.

The Messer Group had an average worldwide workforce in 2012 of 5,339 employees, each contributing to the success of the business with his or her extensive knowledge, ideas, know-how, motivation, active commitment and in many cases longstanding experience. The Group's average worldwide workforce in 2011 had been 5,214 employees. The increase in 2012 was due in particular to the growth market China, where new jobs continue to be created. By contrast, the average workforce in the Central Europe region decreased as a result of the ongoing reorganization process at Messer Austria.

Finest separation, gentlest treatment

High-pressure extraction, or SFE for short (Supercritical Fluid Extraction), makes it possible to separate substances from one another selectively and extremely gently. The process uses CO_2, which, under certain pressure and temperature conditions, exhibits the properties of both gases and liquids.

One particularly well-known application for SFE is the decaffeination of coffee. The process is able to extract the undesired caffeine from the coffee without affecting the many other components, such as the flavouring substances.

SFE is also used to produce liquid condiments and herbal extracts for cosmetics and naturopathic treatments, to regenerate activated carbon filters, to treat waste oil or pharmaceutical waste water and to decontaminate soil.

Mónica Csere, marketing consultant for Messer in Hungary, visited the High-Pressure Extraction research group at the Budapest University of Technology.

The extracts of oregano, coriander and lovage roots can also be specifically separated by means of SFE and are used for cosmetic products, for example.

Social commitment

For generations, the name Messer has stood for socially minded entrepreneurship. Entrepreneurial thinking and action have long been flanked by social and societal commitment as permanent components of Messer's value system. Together with vision and mission, they are the pillars of a set of corporate principles which function well all over the world – principles which also foster growth and job security. At Messer, many companies around the world are committed to social and ecological projects, whether through donations to community facilities, schools or hospitals, or through participation in "action days" or through sponsoring. In addition, Messer also sees a special challenge in participating in the promotion of education and science and in health promotion programmes along with employee motivation and the reinforcement of family ties.

Family involvement and motivation

Slovenia: Award for family-friendliness

For its family-friendly personnel policies, Messer Slovenija earned the "Family Friendly Enterprise" certificate in December 2012. This certificate is granted by the Slovenian Ekvilib Institute and recognizes Messer Slovenija as a family-friendly employer. Employees of the company also played a key role in the development of family-oriented measures. For its employees who have children, for example, the company offers special holiday leave when the children start kindergarten or during their initial acclamation to school. It also provides financial aid and company events with the families as well as programmes for the children during school holidays.

China: Focus on the family

Promoting togetherness – that was the theme of the children's day held on 15 September 2012 at the Messer Cutting Systems (MCS) machinery production site in Kunshan, China. This was already the seventh time that event has taken place. Every other year the management of MCS China traditionally invites the employees and their families to share time together playing games, having fun, dancing and singing. A great time not only among colleagues, but also especially for the kids.

Slovakia: Family excursion to Austria

Launched by Messer Tatragas in Slovakia in 2009, the family day for employees and their families is appreciated by one and all. In 2012, the excursion took them from Bratislava to the Technical Museum in Vienna, Austria. Along with insights into the world of technology, the 85 participants also toured the mine under the museum to learn about the working conditions of miners 100 years ago.

Germany: A professional home

In May 2012, pensioners gathered in Bad Soden under sunny skies – a meeting marked by very cordial relations and bundled professional expertise from all areas of the Messer World. Stefan Messer presented the impressive development of the still young company to Messer's former employees. It stands to reason: since the establishment of the Messer Group in 2004, not very many people have retired. So Messer invited the pensioners who have maintained continuous contact with their former employer. News of the festive reunion spread quickly by word of mouth, so the event attracted nearly 150 "Messerites" who enjoyed coffee and cake while engaged in lively exchange about the old days and the new ones. At the exhibition in the Adolf Messer Forum, the visitors, who served as coaches, had a few surprises for the young colleagues in their charge: more than a few of the interested guests were perfectly familiar with how the historical air separation unit operates, of course, or with welding and cutting processes. This exchange should become standard practice: we plan to hold more such gatherings and actions – not only to provide a professional home, but also to experience the future together.

Belgium: Open Day

On 21 April 2012, Messer Benelux opened the doors of its new filling plant in Zwijndrecht, Belgium, to its employees and their families along with pensioners and friends of the company. The family day was an ideal opportunity for all employees to show their family members where they work at Messer. The interested guests were treated, for example, to a cooking show with liquid nitrogen, demonstrations with CO_2 illustrating applications such as inert gas packaging for food, and guided tours through the plant.

China: Family visit

Since their recent relocation from Xichang to Panzhihua, 200 kilometres away, most of the employees of Panzhihua Messer (PMG) Xichang Branch only get to see their families on the weekend now. So the family day in Panzhihua on 25 February 2012 was a welcome surprise for employees and their families. During the visit by family members, who cannot be with them every day, the plant's workforce was able to show that they have everything they need, work in a modern, safe plant, and live in comfortable surroundings.

Health promotion

Germany: Team spirit put to the test

More than 68,000 runners participated in the "JP Morgan Corporate Challenge" corporate run on 14 June 2012 in Frankfurt am Main – and Messer was also there to show team spirit: 49 colleagues from six German companies of Messer and MEC ran in mixed teams. The employees who did not wish to run with them were invited to root for our team and celebrate afterwards: an offer which was very well-received by everyone concerned.

Macedonia: Football tournament for employees

In the spirit of the 2012 European Football Championship, the German-Macedonian Economic Council in Macedonia invited their members to participate in a football tournament for the first time. Messer Vardar Tehnogas also accepted the invitation and sent its own team to the competition on 9 June 2012 in the "Rabotnicki" sports centre in Skopje.

Switzerland: Athletes have a ball with sports

The football team "Messer United" from Messer Schweiz demonstrated true fighting spirit once again in 2012 at the FC Lenzburg football club's popular SWL company tournament. The company team delivered a first-class performance with six wins, two draws and only four losses. In May 2012, the company's employees got the chance to try a round of golf. Under the direction of colleagues Kurt von Allmen, Patrick Bodensohn and Richard Bouffé as well as a golf instructor, the 16-person Messer team played a round in groups of four on the nine-hole course in Bad Schinznach.

Bosnia-Herzegovina – Just-for-fun tournament spotlights humanitarian aid

Messer BH Gas in Bosnia-Herzegovina is also committed to social projects. One example of this is the charity football tournament of the Delegation of German Industry and Commerce in Bosnia-Herzegovina and of the Association for the Promotion of German-Bosnian-Herzegovinian Economic Relations. The two organisations hosted the just-for-fun tournament in May 2012 in Sarajevo already for the eighth time. Messer BH Gas and the German Embassy also participated. The proceeds from the event go to humanitarian organisations.

Training and Science

Germany – Hans Messer Prize awarded

On 7 February 2012 the Hans Messer Prize, which the Frankfurt Chamber of Commerce and Industry awards every year in honour of Dr. Hans Messer, went to Maya Bach and Daniel Radouan, two graduates of the Fachhochschule Frankfurt am Main University of Applied Sciences. The Bachelor graduate in Business Administration and the Master graduate in Computer Science and Engineering shared the prize and its 6000-euro endowment, which they received in recognition of the outstanding work they performed during their studies. Maya Bach compiled her graduate thesis with the title "Current development of subscription rights trading – possibilities and limits" and Daniel Radouan wrote his on the topic of "Component integration and qualification of acceleration sensors". Both papers earned the highest possible mark: 1.0.

Germany/Vietnam – We provide training in Vietnam

During his trip to Germany, the Deputy Prime Minister of Vietnam Prof. Dr. Nguyen Thien Nhan visited Messer in Bad Soden on 27 January 2012. Stefan Messer used the visit to present the dual education system that Messer and B. Braun Melsungen are planning together in Vietnam. The aim of the project is to train own employees to operate highly demanding technical plants. Instruction will also be given to prepare mechatronics specialists who will be employed by Messer and B. Braun Melsungen after successful completion of the two-year training course.

Humanitarian aid

Humanitarian donations

In a charity drive organised by Messer Ibérica de Gases in December 2012, employees donated 300 kilograms of food for the Banc dels Aliments Comarques de Tarragona (English: "Food bank of the Province of Tarragona"). The Spanish charity foundation provides support to poor people with meals and foodstuffs. Messer Ibérica de Gases also presented a monetary donation in the amount of 2,000 euros which will be used to maintain the fleet of vehicles which the foundation uses to deliver the food to the needy. Since 2009, Messer Ibérica has been supplying medical gases to seven private clinics of the Spanish Hospitales Nisa Group. The company has also been supporting the Hospitales Nisa foundation (which is part of the Nisa Group) since 2011. The organisation helps reintegrate brain damaged patients into working life, builds sports facilities for disabled persons, and sponsors animal-assisted therapies. The money donated by Messer will be used for research projects such as the training of patients and medical personnel and for social campaigns.

Photo: Andreas Lill

The municipal services of Rottenburg, Germany, use the Carix® process to supply more than 11,000 households with drinking water. Carix® is a registered trademark of VA TECH WABAG.

Gentle and efficient water softening

The quality of our drinking water is subject to strict regulations. In order to meet them, raw water must undergo several treatment steps. Extremely effective and environmentally friendly, the Carix® process uses carbon dioxide here to achieve impressive results.

The salts dissolved in the water are bound by means of an ion exchange process and water hardness is reduced at the same time. When the exchange units are saturated with ions, they have to be regenerated. Unlike other methods, the Carix® process needs no additional salts here. Rinsing with carbon dioxide is all it takes to release the bound ions from the exchange units once again. As a result, most Carix® system operators in Germany can let their rinse effluent drain to surface waters. Another environmental benefit is that most of the carbon dioxide used in the process can be recovered and reused.

Ideas management

Uniform guidelines relating to "ideas management" are in place throughout the Messer Group. One of the core objectives of these guidelines is to ensure that suggestions for improvement are implemented throughout the whole of the Group. All employees are encouraged to apply their experience and knowledge in order to make suggestions for improvement in areas outside their immediate area of responsibility. The clear intention is to promote the search for new opportunities in our business and the way that those opportunities are taken. An ideas management team was set up to investigate whether suggestions from the various group companies can be applied in other countries. Employees submitting suggestions can receive interesting rewards for their ideas.

Uniform employer branding

The Messer Group's "Employer Branding" project is an international program aimed at depicting a corporate culture that is easy to recognize and understand. On the one hand, it is seen as a way of tying in new and current employees more closely to the business, but also as a means of getting potential employees to be enthusiastic about us, our products and our solutions. One important component of our ability to communicate with employees and the outside world is our internet presence, which was partially revamped at a conceptional level in 2012 and is now entering the subsequent implementation phase. The process of coordinating the "Employer Branding" project with the "Gases for Life" campaign continues, including a redesign of the careers section of our website and optimization of our on-line presence in order to enhance the Messer Group's presentation both internally and externally. Further activities also include a "testimonial campaign" with employees from six countries, a new design for job ads and the creation of banner ads. All of these developments will enable the Messer Group to present itself as an international and versatile employer. New texts for job advertisements, containing clearly-defined employer branding messages, were introduced with great success during the fiscal year 2012.

New concept for a Academy Messer Group "Junior Circle"

In a move to expand the range of systematic development programs available to employees, the idea of a Academy Messer Group "Junior Circle" has been born as a module-based internal training concept. The focus will be the dissemination of knowledge by our own experts from various functions within the organization. Employees from different divisions will attend five one-week modules covering various fields of focus, including inter-cultural training. The principal objective of the Messer Group Academy will be to provide an insight into our products, technical solutions, structures and specific internal issues based on a comprehensive and practice-oriented approach. This ambitious project is designed for a period of two years and the first module is set to start in summer 2013. The first eighteen candidates from the whole of the Messer Group will be selected directly by executive management and invited to participate after a round of internal applications. Once the first wave has successfully passed through, the Academy Messer Group "Junior Circle" will be firmly implemented as a personnel development tool and repeated at intervals of two years.

Safety, environmental care and quality

Safety, environmental protection and quality are firmly embedded in Messer's guiding principles, as a family-owned company, and have a very high priority. Messer is committed to the protection of its employees, customers and other stakeholders. The primary focus therefore is on the safe production, use and handling of our products. The working standards employed are designed to ensure the health and well-being of each individual. The environment must be protected at all times and in all places. Safety standards are continually being improved in order to avoid dangers as far as possible for people or the environment. It will only be possible for us to achieve all of our work safety objectives in the future if we maintain a safe and healthy business environment, aimed at meeting the needs and requirements of our customers and employees and complying with all existing legislation.

The accident statistics for the financial year 2012 do not unfortunately reflect these endeavors. The accident rate of working accidents per million hours worked of 1.2 in 2011 could not be maintained and increased to 2.2 in 2012. The number of days lost through accidents, at 970 days, was also much higher than the previous year's level of 461 lost days. The severity of accidents, at 92.7 days lost per million hours worked, was significantly higher than the previous year's figure of 44.5. This means that both the number and severity of accidents increased in 2012.

At both the summer and the winter sessions of the European Industrial Gases Association (EIGA) in 2012, the Messer Group was presented, as in previous years, with various safety awards for exemplary work safety. Messer Tatragas spol. s.r.o., Slovak Republic, (Sala site), Messer Albagaz Sh.p.k., Albania, and Messer Technogas s.r.o., Czech Republic (Kladno site) all won a gold safety award in recognition of fifteen years of accident-free operations. A safety award (ten years of accident-free operations) went to Messer Iberica des Gases S.A., Vilaseca, Spain.

Bronze awards (five years of accident-free operations) were received by Messer Bulgaria EOOD, Bulgaria (for two sites) and Messer Slovenjia d.o.o., Slovenia (for the Črnuče site).

During the financial year 2012, eleven internal SHEQ-Audits were conducted in six countries and five risk analyses carried out in China. Since most of the products sold by the Messer Group are transported by road, increasing safety awareness and achieving a greater understanding of risks are objectives which can be considered just as important as improving safety measures. Activities to improve safety on the roads have become an integral part of our corporate philosophy.

The Messer Group attaches great importance to using resources efficiently and in an environmental friendly way. Many of our products and systems help customers to increase the energy efficiency of their own products. The new air separation plants are constructed very much with energy efficiency in mind. We are working permanently on reducing the average energy consumption of such plants, helping us to protect the environment as much as possible on the one hand and improve the Group's efficiency on the other. Messer's commitment to the environment is also reflected in various management systems in place throughout the Group which have been certified in accordance with ISO 9001 and ISO 14001 for twelve Messer entities. These systems serve as tools which are used continuously to enhance relationships with customers and employees and to develop measures that help to protect the environment.

Further SHEQ audits, risk analyses at subsidiaries, cooperation projects with other corporate departments (such as safety training) and the preparation of documentation are planned for 2013. A catalog of measures has been put in place to counter the high number of accidents. Plans are also under way with Human Resources to set a new focus on "Health" in general. The depth of our commitment in this area reflects our understanding of the fact that safety and environmental care will continue to represent a focal point of industrial activities in the coming years.

IT environment within the Messer Group

All IT support work for the Messer Group is handled by Messer Information Services GmbH ("MIS"), a joint venture set up together with the Messer Eutectic Castolin ("MEC") Group which is based in Groß-Umstadt. This IT company covers the complete range of requirements of both groups. Running and further developing the IT infrastructure for the Messer Group and the MEC Group are central to MIS's daily operations.

In the financial year 2012, MIS had an average of 70 employees, with responsibility for operating the IT center on the one hand and continuing the process of developing and maintaining the harmonized SAP / BaaN system on the other.

As part of the strategic IT project "Server Based Computing Rollout", further group entities have been integrated into the MIS's global infrastructure which covers the various national companies of the Messer Group and the MEC Group. The consolidation of databases and tools and the use of a standardized office landscape for the Citrix technologies used by Messer entities help to save costs whilst at the same time optimizing the IT security and infrastructure of the whole Group. In the period since the start of the project in 2005, more than 2,500 employees in both groups use their IT applications via the Citrix infrastructure.

In terms of infrastructure, both the coverage and scope of the networks were expanded to further entities. Additional line capacities were added and further security standards implemented. The IT center continued the ongoing process of improving capacities, reducing down-times and increasing system security. The success of these efforts was confirmed in January 2013 with re-certification in accordance with IAS 27001. Security updates and Microsoft updates are distributed from the center and infrastructure improvement measures taken at individual sites.

Another focus is on the harmonization of SAP applications used throughout the Messer Group. Further companies were taken into the newly harmonized SAP system during the year 2012. Additional SAP modules were brought on line for Messer Group GmbH and Messer Schweiz AG. By the end of 2012, approximately 1,200 users were working on the harmonized platform. In the meantime, a total of 38 accounting units are reflected in the harmonized SAP system.

The harmonized Customer Relationship Management (CRM) program was rolled out successfully to France, Spain and Slovenia in 2012. By the end of 2012 more than 450 users from twelve entities are utilizing the CRM program provided centrally by MIS. Using this new, web-based tool, all specific business processes can be made available centrally via Messer Information Services' IT center, including business processes for sales and marketing. This enables all sales processes – including customer acquisition and the provision of an improved range of services - to be managed centrally.

As part of the "e-Invoicing" project, further European Messer Group companies have converted during the course of 2012 to a billing system under which customers receive invoices electronically via e-mail, rather than in printed form. At present, some 22,000 customers use this service. This system has considerable advantages both for the Messer Group and its customers whilst also benefiting the environment. Customers can access and process invoices at any time of day.

Employer Branding

The concept of employer branding has been developed in recognition of the fact that employees will not strive to maximise value creation for the company unless they identify with their employer and their tasks. The objectives of employer branding are to address the "right" candidates, to fill vacant positions rapidly and optimally, and to retain the company's qualified employees over the long term.

A good atmosphere creates a healthy work climate: Krisztina Lovas (r.) and Csaba Szögi of Messer Hungarogáz

The people who work for Messer represent a valuable corporate asset. Their competence, motivation, teamwork and dedication are indispensable prerequisites for our success. But how can we find and retain people who offer precisely these traits? One answer lies in the special characteristics of Messer as an authentic employer brand.

Over the past two years, Messer has developed its own employer branding and formulated its corporate culture. Along with the conversion of processes in the employee development area, internal and external communication played a major role in the implementation. Specific measures have already been successfully started, such as continuing education programmes, actions in schools and universities, the company's own idea management system, and a health promotion programme.

In order to promote Messer's attractiveness as an employer brand further, the heads of Human Resources from the local subsidiaries of Messer held a meeting in 2012 together with the 40 communication officers (Com-Managers) of Messer and MEC. The participants focused on such things as the presentation of Best Practice models, a workshop on burnout prevention, and the design of effective communication strategies. The latter led, among other things, to a new recruiting ad campaign which highlights successful employees who enjoy working for Messer.

recruit

The Messer employer brand

Advertising motifs from Messer's current employer branding campaign, in which the employees show their motivation.

Review of economic development

Global economic environment

The pace of global economic growth slowed down further in 2012 according to data published by the International Monetary Fund (IMF)[1] and the World Bank[2]. The IMF figures indicate that global GNP grew overall by only 3.2 % in 2012, with developed industrial states (+ 1.3 %) and emerging markets (5.1 %) again faring very differently. The overall rate of growth was therefore down by 0.7 percentage points on a year-on-year comparison. Emerging and developing markets were unable to avoid the impact of the slow-down, and recorded a growth rate 1.2 percentage points lower than in the previous year.

European economies were again negatively impacted by the euro debt crisis, which had started in autumn 2011 and flared up again in 2012. The ensuing austerity measures implemented in a number of the region's countries in an attempt to consolidate public sector budgets pushed the eurozone back into recession for the first time since 2009 (IMF: -0.4 % GDP 2012). According to the Organisation for Economic Cooperation and Development (OECD)[3] , this applied in particular to the European countries most affected by the sovereign debt crisis e. g. Italy, Slovenia and Spain.

Growth rates in China also fell compared to the previous year, but nevertheless remain at a high level compared to the global growth rate. The pace of investment slowed down perceptibly, in particular during the second half of 2012 as various economic stimulus programs come to an end and uncertainty emerged in conjunction with the change of leadership in the ruling party and the new Five-Year Plan. Despite these factors, China nevertheless remained the mainstay of the global economy in 2012 with a GDP growth rate of 7.8 % (based on IMF data).

Messer's performance in relation to economic conditions

The financial year 2012 was again dominated by the euro debt crisis which had reared its head for the first time back in autumn 2011 and re-emerged in 2012. The outcome was a renewed spate of austerity measures aimed at improving public-sector budgets in various countries which combined to ensure that Europe's economy only performed very modestly in 2012. The eurozone itself dropped back into recession in 2012. Economic conditions also deteriorated in China during the second half of the year, bringing with it a perceptible slow-down in economic growth and, quite noticeably, a sharp downturn in steel production.

In line with expectations and fully reflecting prevailing economic conditions, the rise in the Messer Group's global sales in 2012, at 6 %, was less pronounced than in the previous year (+13 %).

[1] World Economic Outlook, Update January 23, 2013
[2] Global Economic Prospects, Update January 2013
[3] OECD Economic Outlook – No.92, Update December 4, 2012

Cool transport for hasty treats

The term "convenience food" covers a wide range of small, prepared meals to satisfy every taste. The spectrum extends from gourmet sandwiches to organic "maultaschen" (pasta pockets) to healthy mixed salads. They all have one thing in common: in order to remain fresh until they reach the consumer, they require an unbroken cold chain.

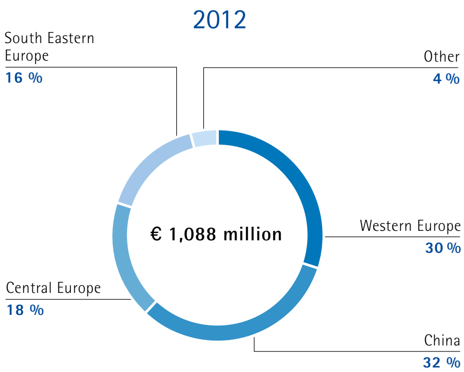
The conventional approach uses cool boxes which can also be transported in non-refrigerated vehicles. But the cooling elements of such boxes have to be precooled, and that makes the system less flexible to use.

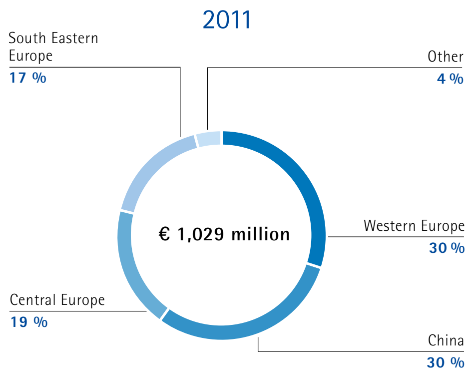
The Siber system, which Messer developed in collaboration with a leading manufacturer of refrigerated containers, takes a different approach: the Siber containers are cooled by a dry ice charge with a temperature of minus 78 degrees Celsius. The low temperature is generated when liquid carbon dioxide under high pressure is filled into the refrigerated container's reservoir. Under normal pressure, the liquid gas expands and turns into dry ice, which provides continuous cooling for at least 24 hours. Data loggers ensure seamless traceability of the cooled goods in compliance with food legislation and HACCP (Hazard Analysis and Critical Control Points).

Nicole Pichler, technical sales employee with Messer in Austria, enjoys freshly packaged salads which have been transported to the supermarket's refrigerated display case in Siber containers.

Earnings performance

Messer Group generated worldwide sales of K€ 1,088,275 in 2012 (2011: K€ 1,028,602) which can be analysed by region as follows:





The Messer Group recorded sales growth of 6 % in the financial year 2012 despite the ongoing adverse economic situation in Europe and the slowdown in China which became apparent from mid-year onwards. This performance was helped, among other things, by hardware sales and that fact that many currencies – in particular the Chinese renminbi – gained ground against the euro over long stretches of the year. Business developed in the various regions as follows:

Western Europe

Sales rose by 5 % compared to one year earlier, with most of the increase due to business activities in Germany and Spain, where sales went up by 14 % and 10 % respectively compared to the previous year. Liquefied gases and cylinder gases business in Germany and pipeline business in Spain made important contributions to the sales performance. All lines of business in Western Europe reported year-on-year sales increases with the exception of industrial gases operations in Belgium, where sales were slightly down.

Central Europe

Compared to the previous year, sales recorded for the Central Europe region went up by 6 %. A nitrogen generator went into operation at Messer Slovnaft s.r.o., Slovakia, during the financial year 2012 and, in line with the requirements of IAS 17 (in conjunction with IFRIC 4), resulted in a one-off sales impact of approximately € 7 million. Sales in Austria and Poland grew at an almost identical rate (+ 6 %); only the Czech Republic reported a lower growth rate.

South Eastern Europe

In contrast to all other regions, the Messer Group’s sales in South Eastern Europe fell by 4 %, influenced by the weakness of various currencies against the euro during the year (particularly relevant for the Serbian dinar and the Romanian leu). Business operations in Slovenia, Macedonia and Bosnia-Herzegovina recorded growth rates approximating an average of 3 %, while sales generated by industrial gases business in Turkey climbed by 13 % compared to the previous year. After adjustment for exchange rate factors, sales in Serbia and Romania were at a similar level to previous year. By contrast, sales in Bulgaria, Croatia and Hungary – also adjusted for exchange rate factors – fell by 3 % to 4 %

China

The rapid growth rate of the Messer Group's sales in China continued, rising 14 % compared to the previous year, of which 11 percentage points were attributable to the appreciation of the Chinese renminbi against the euro. The impact of a slowdown in the pace of growth became increasingly evident from mid-2012 onwards in the form of production cutbacks by our steel manufacturing customers. Two air separation plants went into service at the Sichuan Pangang Messer Gas Products Co. Ltd. and Xichang Pangang Messer Gas Products Co. Ltd. (both joint ventures) in February and September 2012 respectively and, in line with the requirements of IAS 17 (in conjunction with IFRIC 4), resulted in a one-off sales impact totalling approximately € 66 million. This compares with a comparable IFRIC 4 transaction in the previous year, in connection with which sales of € 66 million were recognized for the turn-key construction of an air separation plant.

Other countries

Sales in Vietnam rose once again in 2012 by more than 10 % compared to the previous year, helped by good production capacity utilization for liquefied gases in the north of the country and by cylinder gases business in the south. Sales in Peru also improved on a similar scale, whereby sales revenue here also benefited from the appreciation of the Peruvian sol against the euro.

Messer Group

Overall the Messer Group recorded a group net profit (including profit attributable to minority interests) of K€ 62,617 for the financial year 2012. The gross profit amounted to K€ 458,336 (42 % of sales) and the operating profit amounted to K€ 110,320 (10 % of sales). Compared to the previous year, the operating profit improved by K€ 12,675. In the previous year's the operating profit had included gains of K€ 23,193 (reported in other operating income) resulting from changes in the group reporting entity and an expense of K€ 15,000 relating to impairment losses recognized on property, plant and equipment. In the financial year 2012, the operating profit includes income of K€ 9,489 arising on the application of IFRIC 4 (in conjunction with IAS 17) to specific gas supply contracts, and an expense for impairment losses on property, plant and equipment totalling K€ 12,420. Impairment losses on goodwill totalled K€ 4,348, compared to K€ 20,103 in the previous year, and related mainly to entities which have so far only recovered slowly from the finance and economic crisis and whose outlook has been rendered uncertain by the re-emergence of the euro debt crisis in 2011/12. For this reason, forecasts of future net cash inflows for these entities were revised down. Profit before tax and minority interests is stated after a net interest expense of K€ 25,509 which deteriorated by K€ 4,005 due to the higher level of debt during the year and a slight increase in the average interest rate paid. The financial result in 2012 includes losses on interest rate swaps, for which fixed interest rates were higher than current market rates. This negative impact was partially offset by lower exchange rate losses. Taking into account all of the above factors, the group net profit after deduction of profit attributable to minority interests totalled K€ 39,904 and was therefore K€ 5,612 higher than the adjusted figure reported for the previous year.

Net assets position

The consolidated financial statements have been drawn up in accordance with International Financial Reporting Standards (IFRS). The balance sheet total (total assets/ total equity and liabilities) as at December 31, 2012 amounted to K€ 2,033,714, of which the largest proportion (81 %) related to non-current assets (2011 adjusted: 78 %). Long-lived assets (tangible and intangible assets) accounted for 70 % of total assets, similar to the previous year's level. Non-current lease receivables and cash at banks account for 7 % and 6 % respectively of total assets.

At 56 %, the equity ratio (including minority interests) was slightly higher than the adjusted ratio for the previous year. Gross debt accounted for 28 % of the balance sheet total and increased by K€ 27,595 compared to one year earlier. Net debt increased by K€ 20,057 from K€ 429,437 at December 31, 2011 to K€ 449,494 at the end of the reporting period.

Capital expenditure

Capital expenditure is aimed at safeguarding existing business and opening up opportunities for growth. In accordance with normal business principles, the Messer Group invests primarily in projects which will secure supply capabilities and/or which create opportunities for profitable growth.

Capital expenditure on property, plant and equipment and financial investments worldwide totalled € 167.4 million in 2012, equivalent to 15.4 % of revenue. Also worthy of mention is an amount of € 17.5 million invested in production facilities for customer supplies which are required to be treated as a finance lease arrangement in accordance with IAS 17 (in conjunction with IFRIC 4). A large proportion of capital expenditure in 2012 related, as in the previous year, to the upgrading of production plants.

Capital expenditure in Europe is currently focused on investment in distribution channels and selected growth projects, the latter including the construction of an air separation plant (plus related capacity expansion) in Austria and the successful commissioning of a nitrogen generator for an existing on-site customer in Slovakia. Messer France also strengthened its CO_2 business by investing in a new 65,000 tons per year CO_2 production plant, helping it to consolidate its strategic position as number two on the French CO_2 market. Construction of a 15,000 Nm^3/h liquefaction plant at the Tarragona site enabled the Messer Group to increase its share of the liquefied gases market in Spain. With effect from January 1, 2013, Messer Croatia acquired the "Technical Gases" unit of the Osijek Waterworks (Vodovod Osijek) in East Slavonia, Croatia, and accordingly strengthened its already strong market position in this region. ASCO Carbon Dioxide Ltd, based in Romanshorn, Switzerland, and a wholly owned subsidiary of Messer Schweiz AG, entered into a long-term cooperation via its 17.6 % participation in HTC Purenergy Inc., based in Regina, Canada. In conjunction with these cooperation arrangements and the implementation of HTC- carbon dioxide separation processes, ASCO will, in future, be able to reduce energy consumption in its CO_2 plants by more than 50 %.

Messer is pushing ahead with several investment projects in China, so as to enable it to follow the expansion strategies of its on-site customers and participate in the general growth of this market. Our joint venture partner Pangang opened a new steel works in Xichang, south of the city of Chengdu in Sichuan province, where Messer is now operating two new air separation plants. A second new air separation

Oxygen optmises thermal processes

Fire needs oxygen. But the gas only makes up barely 21 % of air – and that limits the maximum flame temperature in industrial combustion processes. Supplying pure oxygen makes combustion significantly hotter and nevertheless reduces the quantity of fuel required. And the higher combustion temperature – about 1,550 degrees Celsius – improves the efficiency of the melting process. These benefits are exploited by an extremely wide range of industrial sectors – including the ceramics and metal industry, for example.

The gas can be fed into a furnace by various means, such as combustion air enrichment or direct oxygen injection into the flame. One particularly advantageous option is the oxyfuel process developed by Messer. It introduces fuel and oxygen together via the "flameless" Oxipyr burner into the combustion chamber, where they burn with practically no adverse side effects. At equivalent burner capacity, the process reduces the waste gas volume by 70 to 80% and the fuel demand by up to 60 %.

The "flameless" Oxipyr burner from Messer operates with pure oxygen. At temperatures of 1,550 degrees Celsius, the furnace achieves maximum combustion efficiency.

plant with a capacity of 40,000 Nm^3/h is currently being constructed at Pangang's principal site in Panzhihua. A third air separation plant has been constructed for our on-site customer in Yuxi. As well as supplying products for the Chinese steel industry, Messer is also focussing on the medium-term expansion of liquefied gases business in China. Construction work on new plants for the bulk gases market is being carried out at several suitable sites; for example, the new joint venture Chongqing Pangang Messer Gas Products Co. Ltd. is investing in an air separation plant at a new chemical park in Changshou in Chongqing province. This will be Messer's first air separation plant in Chongqing province, and will open up opportunities to forge new business relations with chemical sector clients and generally benefit from the market potential of this province. In addition to other new developments, the third air separation plant was taken into service at our existing production site in Foshan, thus allowing us to participate in the dynamically growing liquefied gases market in Guangdong province. We are also making investments to broaden the base of our operations in China e.g. by entering the CO_2 business. We have, for instance, commenced the construction of the first CO_2 plant in Mianyang in Sichuan province with the joint venture, Sichuan Meifeng Chemistry Co. Ltd., a Chinese stock exchange-listed company in the chemicals sector.

Messer Binh Phuoc Industrial Gases Co., Ltd. was founded in Vietnam during the financial year 2011 and has invested in a CO_2 plant next to a new bio-ethanol plant in the south of Vietnam. Messer's role there will be to extract, purify and then liquefy the carbon dioxide by-product. The Messer plant in Vietnam went into service in September 2012 and is the first to provide CO_2 suitable for use in foodstuffs in compliance with the quality standard of the International Society of Beverage Technologists. In addition, a second air separation plant is being constructed for the on-site customer, Hoa Phat, which will also provide production capacities for the liquefied gases market in the north of Vietnam. This plant is scheduled to be taken into service by the end of 2013.

Change in net working capital

Net working capital comprises inventories, advance payments from customers, trade receivables and trade payables. At December 31, 2012 net working capital stood K€ 92,780 (2011: K€ 124,379), whereby the decrease was attributable, among other things, to the commissioning of two air separation plants relating to finance lease arrangements and which, as a result of the application of IAS 17 (in conjunction with IFRIC 4) were included in inventories (K€ 52,991) at the end of the previous year. The ratio of inventories less advance payments from customers plus receivables on the one hand and trade payables on the other in therefore approximately 2:1; the ratio of net working capital to sales went down from 12 % to 9 %.

Improved receivables management and higher sales enabled us to reduce DSO (Days of Sales Outstanding) from 62 days at December 31, 2011 to 57 days at December 31, 2012.

We use the performance indicator return–on-capital-employed (ROCE) to analyze and optimize our net assets position. We measure our performance on the basis of ROCE and draw up our forecasts and capital expenditure plans in the light of it. For the purpose of our computations, our "return" is based on EBIT adjusted for amortization/impairment losses on goodwill. Capital employed represents the interest-bearing operational capital carried on the balance sheet that Messer Group needs to sustain.

Return-on-Capital-Employed (ROCE)	Jan. 1 – Dec. 31 2012	Jan. 1 – Dec. 31 2011
EBIT	110,320	97,645
+ amortization/impairment losses on goodwill	4,348	20,103
EBIT adjusted	**114,668**	**117.748**
: Capital employed	1,341,206	1,266,064
ROCE in %	**8.55 %**	**9.30 %**
Derivation of capital employed from the balance sheet		
Other intangible assets and property, plant and equipment	1,099,304	1,058,596
Finance lease receivables	149,122	83,089
Net working capital	92,780	124,379
Capital employed	**1,341,206**	**1,266,064**

Financial position

Messer's liquidity is adequately secured by stable cash flows, unused credit lines of € 76.1 million and high cash balances.

Financing

In 2005 the Messer Group took up a US Private Placement ("USPP I") amounting to a total of USD 252 million with various investors. The creditors for this placement are Messer Finance S.A. ("Messer Finance"), Luxembourg, and Messer France S.A.S. ("Messer France"), France. An amount of USD 116.5 million fell due on August 2, 2012 and an amount of USD 135.5 million (subject to an interest rate of 5.46 % p.a.) falls due on August 2, 2015.

The US Private Placement ("USPP II") dated June 8, 2011 amended July 11, 2012 is in place between Prudential Investment Management Inc. ("Pricoa") (€ 80.0 million at 4.55 % p.a.), Metropolitan Life Insurance Company ("MetLife") (€ 80.0 million at 4.6975 % p.a.) and ING Investment Management ("ING") (USD 57.0 million at 4.86 % p.a.) on the one side and the entities Messer Group and Messer Finance on the other. The USPP II has a term of ten years and falls due for repayment at the end of the term.
The Revolving Facility Agreement ("RFA") dated June 8, 2011 for an amount of € 150.0 million has been made available by UniCredit Bank AG, Bayerische Landesbank, ING Bank N.V., Frankfurt Branch, and Landesbank Hessen-Thüringen Girozentrale and has a term to August 2, 2015. Interest is based on IBOR (Inter Bank Offered Rate) in the currency in which amounts are drawn down plus a margin depending on the ratio of net debt / EBITDA.

On August 2, 2012 the Messer Group refinanced the portion of the USPP I that fell due on that date. The following terms and conditions apply to the credit arrangements in conjunction with the refinancing: US Private Placement ("USPP III") between MetLife and affiliated companies on the one hand and the entities Messer France and Messer Finance on the other for an amount of USD 100 million and € 46.3 million between Pricoa on the one hand and Messer Finance and Messer Group on the other. USPP III falls due for repayment at the end of the term.

Gases and expertise in the limelight

Truss frame systems undergoing final quality control inspection

Training classes for gases customers also include hands-on experience.

They have to be durable, economical and visually flawless – welded joints must satisfy a wide range of demanding requirements. And that also applies to the manufacture of stage truss frames which are used – at rock concerts, for example – to form the load-bearing framework for spotlights, speakers, ramps and walkways.

Depending on the system, a section of truss frame may have as many as 20 pipe weld joints per metre. They are made manually by tungsten inert gas (TIG) welding. Along with the required gases and gas mixtures, Messer also supplies the welding expertise: on request, experts lecture on metallurgical principles, special process-related technical aspects, the selection of shielding gases, and typical problems associated with the processing of aluminium. They also provide support during the practical training.

The direct contact with the customer offers an additional benefit: many measures used to optimise welding technology applications in manufacturing have already been derived from the extensive discussions held within the framework of training classes.

The following table shows how USPP III is spread over individual lenders, along with the corresponding interest rates and due dates:

Borrower	Interest rate p.a.	Amount	Lender	Maturity
Messer Group	3.680 %	K€ 23,148	Pricoa	August 02, 2022
Messer Finance	3.680 %	K€ 23,148	Pricoa	August 02, 2022
Messer Finance	4.040 %	K'USD 12,500	MetLife	August 02, 2022
Messer Finance	4.160 %	K'USD 25,000	MetLife	August 02, 2024
Messer Finance	4.430 %	K'USD 25,000	MetLife	August 02, 2027
Messer France	4.040 %	K'USD 37,500	MetLife	August 02, 2022

The USD-denominated amounts were fully hedged by Cross Currency Interest Rate Swaps at a rate of € 1: USD 1.32626, therefore giving an equivalent of K€ 75,400.

USPP III is secured by the same collateral given to secure existing credits. In this context, shares in individual group entities have been pledged and guarantees provided by individual group entities. USPP I and the RFA fall due for payment on August 2, 2015. If all covenants are being complied with at that date, the USPP II and USPP III lenders will release the collateral given.

Consolidated Cash Flow Statement

Abbreviated version in K€	Jan 1 - Dec 31 2012	Jan 1 - Dec 31 2011 (adjusted)
Profit before tax	**83,556**	**70,535**
Cash flows from operating activities	181,965	143,405
Cash flows from investing activities	(159,122)	(125,614)
Cash flows from financing activities	(14,296)	(13,262)
Change in cash and cash equivalents	**8,547**	**4,529**
Cash and cash equivalents at the beginning of the period	**107,489**	**101,762**
Currency translation impact on cash and cash equivalents	(1,009)	6,171
Change in cash funds relating to change in group reporting entity	-	(4,973)
at the end of the period	**115,027**	**107,489**

At K€ 181,965, the total of cash flows from operating activities was higher than in the previous year. In the previous year, operating cash flow was negatively impacted by a number of items, most important of which was a K€ 32,493 increase in finance lease assets due to the application of IAS 17 (in conjunction with IFRIC 4). Following construction completion, the corresponding assets were sold in 2012 as part of finance lease arrangements, with the consequence that cash outflows for the construction of air separation plants were lower overall in the fiscal year 2012.

Net cash outflows for investing activities again reflect high levels of investment (in total K€ 17,328 higher than in the previous year). This was offset by proceeds from the sale of tangible and intangible assets totalling K€ 6,348. Proceeds from the sale of subsidiaries and the reduction of loans was K€ 18,623 lower than one year earlier, so that the net cash outflow for investing activities increased overall by K€ 33,508. Cash flows from financing activities resulted in a net cash outflow of K€ 14,296. New debt raised amounted to K€ 19,815, and was more than offset by interest payments, refinancing costs and dividend payments to other shareholders.

At December 31, 2012 the Messer Group had cash and cash equivalents totalling K€ 115,027 (December 31, 2011: K€ 107,489).

In 2013, the Messer Group will require further capital to fund its expanding business operations and scheduled capital expenditure and to repay loans and interest as they fall due, even though our focus in the medium-term will be to consolidate net debt levels relating to operations outside China. These funds will be generated out of cash flows from operating activities, existing funds and credit lines available to the Group. The Messer Group's strong position in the various markets in which it already operates, combined with expansion into new markets, will enable us to maintain our robust financial position.

LAES – energy in the air

The technical term for energy storage through air liquefaction is "liquid air energy storage" – or LAES for short. Experts believe that this system has the potential to provide the power grid operator with energy on an as-needed basis at all times and prevent supply bottlenecks.

retain

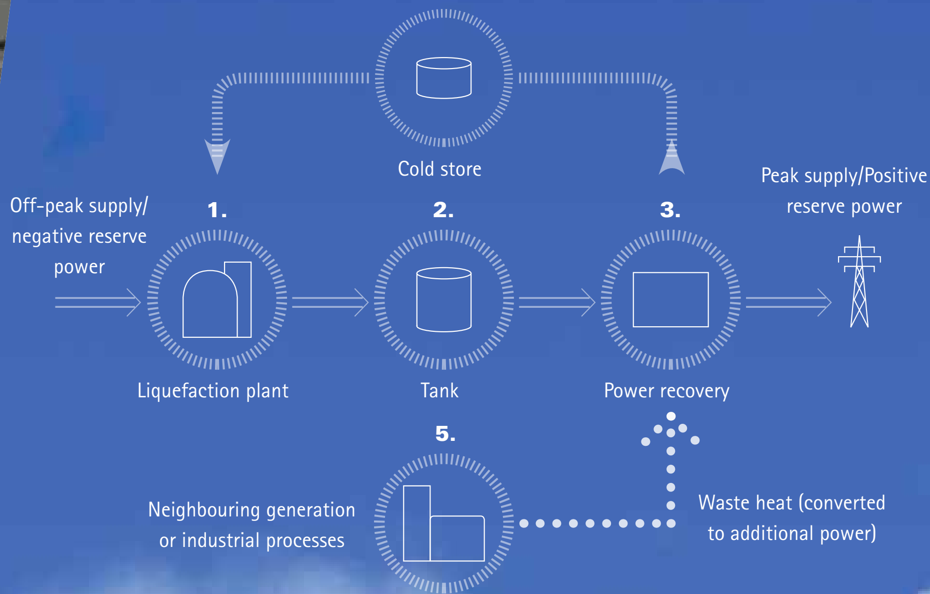
Energy storage through air liquefaction

Highview pilot plant

With the growing need for revolutionary innovations, the field of energy storage today is more highly "charged" with expectation than ever. As the German Advisory Council on the Environment (SRU) wrote in a special report in January 2011: "With the German power supply's growing share of renewable energies, the need for additional energy storage capacities will increase – everyone involved agrees on this." But how will that need be met? Energy storage through air liquefaction might lead to viable solutions. This flexible technology can be implemented everywhere and is based on one of Messer's core competences.

In order to develop the concept and put it into commercial operation, Highview Power Storage and the Messer Group have established a strategic partnership. Highview first built a small pilot plant for energy storage in the form of liquid air near Heathrow, Great Britain. Together the partners want to place a demonstration project that is ten times larger. In the future, the technology may be one of the few which can store hundreds of megawatt-hours of energy. But one thing is already clear: creative ideas can be used to combine proven components with novel processes to produce genuine innovations.

Highview and Messer want to work together to drive the development of such systems, so that they can be integrated within industrial gas production plants. For Messer, the major benefit of the Highview technology is that it potentially offers a new competitive edge in the energy-intensive processes used to manufacture industrial gases.



Risk and opportunities management

Risk report

As an international supplier of industrial gases, the Messer Group is exposed to opportunities and risks which inevitably arise in connection with entrepreneurial activities. It is the task of all concerned to take advantage of opportunities when they arise, whilst at the same time ensuring that risk is kept to a minimum and pro-actively managed. Future earnings will depend both on the operating performance of the gases business and on the state of the economies in individual countries.

The main risks which could be significant for the net assets, financial and earnings position of the Messer Group are as follows:

Risks arising from general economic trends

The industrial gases business is subject to intense competition. The level of competition is increasing in conjunction with the process of globalization. This highly competitive environment could reduce Messer's earnings and cash flows in the future. The Messer Group operates globally, making it susceptible to local political, social and economic conditions and to the resulting risks arising in each market. Eastern European currencies have come under pressure in the wake of the financial crisis; exchange rate fluctuations have therefore gained even more importance. The re-occurrence of crisis situations within oil-producing countries, the growing demand for energy in emerging economies, particularly in China and India, give reason to believe that long-term oil and energy prices will continue to rise with a corresponding impact on supplies and primary products necessary for the Messer Group's business. Purchase prices of some important bought-in products, such as helium, fluctuate considerably. Although Messer is often able to pass on cost increases partially to its customers via price escalation clauses or reduce the risk by entering into long-term purchase agreements, it is possible that price increases for energy and bought-in items could adversely affect the profitability of the Messer Group.

Market risks

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 in Europe and up to 30 years in Asia. A significant reduction in market demand in any one of these key industries or sectors could adversely affect future earnings and impair future growth prospects. Our strong position in China also means that this region makes an above-average contribution to our earnings, and conversely, any economic downturn on this market would have a negative impact on earnings. The integration of new member states into the EU entails risk in that many previously state-run businesses will need to be privatized and restructured in accordance with EU and International Monetary Fund requirements. The number and scale of state grants could be drastically reduced, culminating is numerous closures and mergers in these countries, and an adverse impact on the Group's sales. In these circumstances, the downward pressure on selling prices would probably increase.

Operational risks

Expansion in various markets involves greater demands being placed on the Group's infrastructure. We endeavour to avoid business interruptions for our customers through regular maintenance and monitoring of equipment. In the event of breakdowns or defects, emergency plans and instruments are in place to reduce the financial consequences of a business interruption at one of our customers. The Messer Group is currently expanding its supply structure to ensure that supplies to customers are safeguarded even in emergency situations.

The Messer Group is continually developing new strategies. As well as expanding and strengthening our existing business and continually optimizing our sourcing and logistics processes, we are intent on achieving growth both organically and through other means such as acquisitions and joint ventures. Our aim is to consolidate operations on existing markets and to divest non-core business operations. The sale of entities or business activities can, however, result in retrospective risks for the Group. Whenever a risk is probable, appropriate provision is recognized in the consolidated financial statements. When deciding to make acquisitions or entering into new partnerships there is always a risk that future market potential and the feasibility of projects being put into action may have been wrongly predicted. The Messer Group therefore has internal committees which highlight the development potential of a project prior to its approval and analyze any information which has a bearing on decisions which need to be made. In order to be as certain as possible that M&A projects have future development potential, due diligence investigations are carried out by experienced staff in specialist departments before any acquisitions are made in connection with M&A projects. Risk is also reduced by including relevant terms of agreement in sales contracts.

The range and quality of our products depend on the availability of bought-in hardware and on the production equipment used (e. g. cylinders, tanks) on the one hand and on the quality of service/products of our suppliers and business partners on the other. Many of the projects in which we are involved relating to the construction of air separation plants and on-site plants are organized on the basis of joint arrangements. There is therefore a risk that some projects do not fully meet the expectations placed in them. This is frequently not due to technical problems or lack of personnel-related or financial resources, but rather to joint arrangement constellations, in which the parties do not always deliver the necessary level of continuity, priority-setting and determination demanded by complex projects. This situation often leads to long delays in completing a project.

IT risks

The importance of information technology for day-to-day work is constantly growing. Our IT center in Germany gives us the scope to create a modern and efficient infrastructure and to improve our business processes where necessary. This concentration does, however, mean that there is a greater risk of business interruption due to natural hazards or human error. In order to avoid this risk, our IT center applies its own IT risk management system, including ongoing testing of the system architecture.

Financing risks

We require funding to finance our growth and ambitious capital expenditure program. We are therefore dependent on the finance sector remaining stable and liquid. 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 Group has recognized goodwill in the consolidated balance sheet. The application of IAS 36 (i.e. the performance of impairment tests) could result in the requirement to recognize impairment losses on goodwill, if the business and market prospects of a group subsidiary or cash generating unit deteriorate compared to the original date of measurement. Impairment losses could have a significant adverse impact on earnings and on balance sheet/ performance ratios. The shares of the largest customer of our Serbian subsidiary, Messer Tehnogas A.D., were taken over by the Serbian state in January 2012. The customer operates a steel manufacturing plant at the Smederevo site in Serbia, on the same site where we operate air separation plants for the steel works and for the Serbian market. For the purposes of the impairment test performed for the Serbian CGU we assumed – on the basis of assertions made by the Serbian state – that the operations of the steel works will not be discontinued.

There is always a risk that financial and debt crises could result in global economic downturns or slowdowns. The Messer Group will continue to observe developments very closely. Cost reduction measures and capital expenditure programs initiated and implemented in recent years have helped to counter the negative impact of previous financial and economic crises. Many of these programs remain in place. The potential future deterioration in the creditworthiness of our customers increases the risk of bed debts and delay of joint projects. The structure of the Messer Group's receivables is disclosed in the notes to the consolidated financial statements.

Legal and contractual risks

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

Our international operations are subject to a wide range of country-specific environmental legislation and regulations in areas such as gas emissions, groundwater pollution, the use and treatment of dangerous substances as well as ground surveys and decontamination. This can give rise to liability risks in conjunction with either past or current operations. New environmental requirements, partially resulting from the adoption of EU directives in the new EU member states, necessitate that our existing environmental standards (which are already at a very high level) are brought into line with the new requirements. This may result in higher production costs and modifications to the production process. The financial year 2012 shows, however, that the implementation of stricter environmental regulations often results in a more efficient production process and a higher quality product. For information relating to litigation risks, we refer to the comments in note 33 to the consolidated financial statements.

Overall conclusion

The risks presented above are not the only ones to which the Messer Group is exposed. Some risks, which have not yet been identified or which are not considered to be significant from today's perspective could have an adverse impact on the Messer Group if general business or economic conditions were to change. However, no risks were identified in 2012, either individually or in aggregate, which could have a material adverse impact on the going concern status of the Messer Group. From today's perspective, no such risks are pending in the foreseeable future. The principal risks during the period under report encompassed market developments and production processes. Organizational measures are in place to identify potential risks at an early stage. Our vigil risk management system and pro-active management of risks enable us to reduce risk.

Opportunities

Opportunities arise for the Messer Group from the multifarious usages of industrial gases to produce products needed in all fields of life. Our broad customer base and diversified product portfolio enable us to overcome a weaker economic phase without losing sight of our long-term objectives. Through investment, we have the opportunity to respond to tougher competition and to maintain/ strengthen our market position. We are taking advantage of the opportunities arising from internationalization – in particular in the light of positive developments on the emerging economies and the eastwards expansion of the EU – by purposefully expanding our facilities in these regions. This also enables us to engage in new markets with long-term growth potential. We encourage the identification of new opportunities by embedding employee motivation in the Group's values and by fostering ideas management.

Risk management

The principles that dictate our approach to risk management are stipulated by the Executive Management. Risk management is directed at safeguarding the going-concern status of group entities and increasing the value of the business; for this reason it plays a crucial role in all decision-making and business processes. The existing management structure and the 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 at an early stage to mitigate any business and/or financial risks. Risk managers have been designated at each of the subsidiaries with responsibility for ensuring the proper functioning of local reporting systems. Working together with local risk managers, the group risk manager prepares a risk report for the Messer Group as a whole at the start of each year which is discussed by the Executive Management and communicated to the Supervisory Board of the Messer Group in good time. The risks recorded in the risk report are categorized by nature and classified by probability of occurrence.

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 scale of insurance coverage is continuously optimized in response to the specific situation of Group companies.

Messer Group GmbH's internal audit department was back to full strength with effect from the beginning of February 2012 and conducted status audits at five of the Messer Group's European entities. In China, the local central organization carried out internal audits during the year (most of them relating to tax matters) and some status audits. These included testing compliance with corporate guidelines and sample testing of controls applied to accounting documents within the various business processes, in order to check the effectiveness and commercial viability of processes as well as the accuracy and reliability of financial reporting. Findings were clarified and recommendations made to improve the transparency of business processes. Recommendations made by the Internal Audit department were prioritized and implemented in good time.

responsible

Environmentally-friendly and sustainable applications for gases

Gases we produce from ambient air offer special advantages: they are natural components of our environment and have properties which, in many industrial applications, make them a “green” alternative to conventional processes.

Injecting pure oxygen is an environmentally-friendly method to significantly increase the efficiency of water treatment plants.

The use of carbon dioxide in the production of drinking water can eliminate the need for additional salts.

CO_2 recovery

A modern CO_2 liquefaction plant in Zwijndrecht, Belgium, which recovers about 20 tonnes of CO_2 per hour from industrial waste gas.

Water purification

@istockphoto/Eduard Shelesnjak

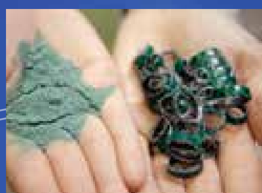
Double-glazed windows use argon, xenon or krypton as fill gases to ensure optimal insulation.

Energy savings

Higher quality and lower power consumption through the use of nitrogen in the manufacture of flat electronic assemblies.

Carbon dioxide and ozone make the recycling of waste paper much more environmentally-friendly.

Recycling



In the recycling of garden hoses, liquid nitrogen prevents materials from sticking together during the shredding operation.

Nitrogen cooling makes it possible to recycle refrigerators without releasing environmentally harmful CFCs; cold grinding with nitrogen optimises the recycling of composite materials.

Because carbon dioxide neutralises waste water in the construction industry, it is an environmentally friendly alternative to neutralisation with mineral acids.

In paper production, carbon dioxide, oxygen and ozone eliminate the need for large quantities of chemicals.

Substitution

CO_2 snow is a solvent-free alternative for removing grease from components before painting.

The Group's Safety, Health, Environment, Quality (SHEQ) department continues to carry out audits and risk analyses in order to reduce the accident ratio.

State-of-the-art technologies are employed in the IT area in order to keep the risk from electronic data processing to a minimum. 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 and improved. Messer's security concept also includes a detailed emergency plan. In order to minimize risks, the various technologies employed by the Messer Group are regularly tested to ensure that IT-based business processes are safe.

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.

It is essential that we ensure compliance with the covenants attached to the USPP I, II and III and to the RFA financing arrangements. One point worthy of mention is that the net debt (i.e. gross debt less liquid funds)/EBITDA covenant has now been expanded to include a computation for the Messer Group excluding China. Financial risks can also arise for the Messer Group from changes in exchange and interest rates. The management of interest rate, currency and liquidity risks is carried out by Group Treasury based on guidelines laid down by management. Group Treasury identifies, measures and hedges these financial risks. Treasury guidelines contain general risk management principles and specific rules for defined areas such as the exchange rate risk, interest rate risk, the use of derivative financial instruments and the investment of surplus cash.

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

Management concludes, on the basis of an overall assessment of the risk profile, that risks are limited and manageable and that they do not endanger the Messer Group's going concern status. Risk perception in the current selling environment has exacerbated the risk profile of Messer Group entities in the financial year 2012 compared to the previous year.

Outlook

The situation on global financial markets eased somewhat during the final three to four months of 2012, as the pressure from the euro debt crisis began to let up following the initial implementation of reforms and European Central Bank (ECB) measures and as political uncertainties and changes in China became less of an issue. Due to these factors, a feeling of "cautious optimism" emerged for global prospects in 2013. This was evident in the forecasts published at the beginning of 2013 by the world's leading economic institutes, among them the International Monetary Fund (IMF)[4] and the World Bank[5]. These forecasts now predict that the growth rate will be slightly higher than in 2012 in view of the fact that some of the more acute risks have receded. The IMF forecasts that global GNP will improve by 0.3 % percentage points in 2012 to 3.5 %, while the World Bank predicts that the GNP growth rate will at least stabilize at the previous year's level. Both institutes identify the eurozone and its reform endeavors as a major risk factor for a further drop in global economic growth in the near future. Both the IMF and the World Bank expect the eurozone to remain in recession in 2013, before returning to positive growth in 2014. The improved situation on international capital markets suggests that capital flows may once again increase, at least in the direction of emerging and developing markets, which – propped up by slow economic recovery in the industrialized countries – should help to raise the pace of global growth. The IMF and the World Bank estimate that economic output in developed industrial countries will increase by a good 1 %, whereas the emerging and developing markets will see a rise of more than 5 %. The world economy remains nevertheless vulnerable, above all because of the fragile financial and sovereign debt situation, primarily in the eurozone but also in the USA and Japan. The identification and rigorous implementation of a medium-term strategy to reduce debt levels – just as importantly for the USA and Japan as for the eurozone – appear to be a vital necessity if economic growth is to become more stable in the future. As with the forecasts for the growth rate, raw material prices are expected to develop moderately for the time being.

The main focus in Europe will be on further exploiting the production capacities created in recent years, in particular in Belgium, Germany, France, Spain and Turkey. Future investment decisions will be taken in line with the stated strategy of consolidating net debt levels in the medium term.

The Chinese economy stalled somewhat in the second half of 2012, but nevertheless remained well above the average global growth rate for 2012. We remain confident in our prediction that the market will continue to burgeon in this region. We will participate in this growth through our own companies and through the long-term business relationships we have with a large number of important local industrial companies. In addition, we intend to expand our bulk market capacities and enter into/build up our activities on the local markets for special gases and CO_2 over the coming years.

Thanks primarily to our long-term purchasing strategies and the structure of our contracts with customers, we do not expect that energy costs – although of great significance for the industry – will have an over-burdening impact on earnings.

We will continue to forge successful alliances with our customers and business partners in order to sell our products and technologies.

Our focus in the medium-term is to consolidate net debt levels relating to operations outside China. As well as the pursuit of investment activities at a level conducive to achieving this aim, we also intend to raise sales at a pace appropriate for the prevailing economic conditions and to take advantage of opportunities, wherever they arise, in order to stabilize or improve the profitability of the Messer Group. This also includes efficiency improvement measures and ongoing activities to optimize production and transportation processes.

[4] World Economic Outlook, Update January 23, 2013
[5] Global Economic Prospects, Update January 2013

Diagnosis, therapy and research

When it comes to our health, gases show their strengths in many applications: liquid nitrogen cools superconducting magnets in magnetic resonance imaging (large photo), oxygen is used in respiratory therapy, and nitrogen cooling enables new forms of treatment such as the cryosauna, which maintains temperatures of -140 degrees Celsius.

Messer equips hospitals with complete gas supply systems, the lines of which often cover several kilometres and extend directly to the hospital rooms. In operating rooms, medical gases are used for anaesthesia and artificial respiration.

Medical laboratories need nitrogen, carbon dioxide and argon to work with cell cultures and prepare biological samples for biochemical analyses. These gases are also used in mass spectrometry studies and in the storage of samples.

Extremely cold liquid nitrogen is used to store biological samples.

Snowleopard1@ istockphoto.com

The China region accounted for 32 % of sales and 41 % of the EBITDA of the Messer Group in 2012. The net debt/ EBITDA ratio for the China region is only 0.23 (Messer Group: 1.9), underlining the importance of Chinese operations for the sales, profitability and internal financing of the Messer Group. Given the flat economy in Europe, it seems likely that significance of the China region will continue to rise considering unabated rapid pace of growth of the Chinese industrial gases market. The fact that our core operating business (i.e. excluding IFRIC 4 sales) did not grow for the first time in the financial year 2012 demonstrates our heavy dependency on the Chinese steel industry, which was weighed down by a stagnating steel economy in China and by persistently high raw material prices. Our budget for the year 2013, drawn up in September 2012, assumes that the Chinese steel industry will not recover in 2013. Under this scenario, budgeted sales are still expected to rise in 2013 in the China region due to the commissioning of various new air separation plants. At the same time, we forecast that EBITDA for the region will drop to € 83 million and that net debt will rise accordingly. Recent forecasts for the Chinese economy give reason to believe that the year 2013 will proceed significantly better than was assumed in the budget. We have decided upon a substantial package of measures aimed at reducing the high level of dependency of our Chinese operations on the local steel industry over the coming years. As part of this process, we will focus on on-site chemical liquefaction projects (including coal gasification), on expanding our liquefied and special gases business and on setting up CO_2 business operations.

Our forecasts for the main key performance indicators of the Messer Group for the financial years 2013 and 2014 are as follows:

	2013	2014
Sales growth rate[1]	1 %	7 %
EBITDA margin	20 %	21 %
CapEx / net sales	21 %	11 %
Net working capital[2] / net sales	9 %	11 %
Debt / balance sheet total	29 %	29 %

1) Excluding exceptional effects of applying IAS 17 (in conjunction with IFRIC4), currency factors and changes in the group reporting entity.
2) Inventories, trade receivables/payables and advance payments from customers

Events after the reporting period

On March 7, 2013 the Upper Administrative Court, a court of cassation, again revoked the ruling against Messer Polska Sp.z.o.o. made on October 4, 2010 and appealed by Messer Polska Sp.z.o.o. with respect to the taxation of acetylene and referred the case back to the Administrative Court. The Administrative Court concurs with our interpretation that the taxation is not permitted under Polish law and that legislation does not cover the computation of a tax burden in this case: existing consumption tax legislation contains neither a clear definition of the tax measurement basis nor a tax rate.

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

Consolidated Balance Sheet

of Messer Group GmbH, Sulzbach/Taunus, as at December 31, 2012 (in K€)

in K€		Jan 1 – Dec 31. 2012	Jan 1 – Dec 31. 2011 (adjusted)
Assets	Intangible assets	439,058	444,065
	Property, plant and equipment	983,023	936,723
	Investments accounted for using the equity method	59,023	50,712
	Investments in other companies and financial investments	3,775	2,780
	Deferred tax assets	14,268	12,294
	Other non-current receivables and assets	144,923	82,356
	Non-current assets	1,644,070	1,528,930
	Inventories	52,048	93,809
	Trade receivables	172,654	177,737
	Income tax assets	2,327	1,990
	Other receivables and other assets	47,452	47,761
	Cash and cash equivalents	115,027	107,489
	Current assets	389,508	428,786
	Non-current assets held for sale	136	137
	Total assets	**2,033,714**	**1,957,853**
Equity and Liabilities	Share capital	100,000	100,000
	Reserves	817,783	790,577
	Profit after income tax	39,904	34,292
	Other comprehensive income	25,920	26,725
	Equity attributable to shareholders of the parent company	983,607	951,594
	Minority interests	148,362	135,006
	Equity	1,131,969	1,086,600
	Provisions for employee benefits	37,443	27,890
	Other provisions	9,125	12,120
	Non-current financial debt	479,665	375,023
	Deferred tax liabilities	39,425	40,858
	Other non-current liabilities	13,438	13,232
	Non-current liabilities	579,096	469,123
	Other provisions	19,474	21,280
	Current financial debt	84,856	161,903
	Trade payables	129,014	143,468
	Income tax liabilities	5,593	4,018
	Other current liabilities	83,712	71,461
	Current liabilities	322,649	402,130
	Non-current liabilities held for sale	–	–
	Total equity and liabilities	**2,033,714**	**1,957,853**

Consolidated Income Statement

of Messer Group GmbH, Sulzbach/Taunus, for the Year Ended December 31, 2012 (in K€)

in K€	Jan 1 – Dec 31. 2012	Jan 1 – Dec 31. 2011 (adjusted)
Net sales	1,088,275	1,028,602
Cost of sales	(629,939)	(594,738)
Gross profit	**458,336**	**433,864**
Distribution and selling costs	(273,225)	(264,194)
General and administrative costs	(86,783)	(88,686)
Other operating income	23,352	44,720
Other operating expenses	(7,012)	(7,956)
Impairment losses on goodwill	(4,348)	(20,103)
Operating profit	**110,320**	**97,645**
Result from equity method investments	3,978	3,514
Other investment results, net	(56)	(7)
Interest income	2,435	2,101
Interest expense	(27,944)	(23,605)
Other financial result, net	(5,177)	(9,113)
Financial result, net	**(26,764)**	**(27,110)**
Group profit before income taxes	**83,556**	**70,535**
Income taxes	(20,939)	(16,657)
Group net profit for the year	**62,617**	**53,878**
Of which attributable to:		
shareholders of the parent company	39,904	34,292
minority interests	22,713	19,586

Consolidated Cash Flow Statement

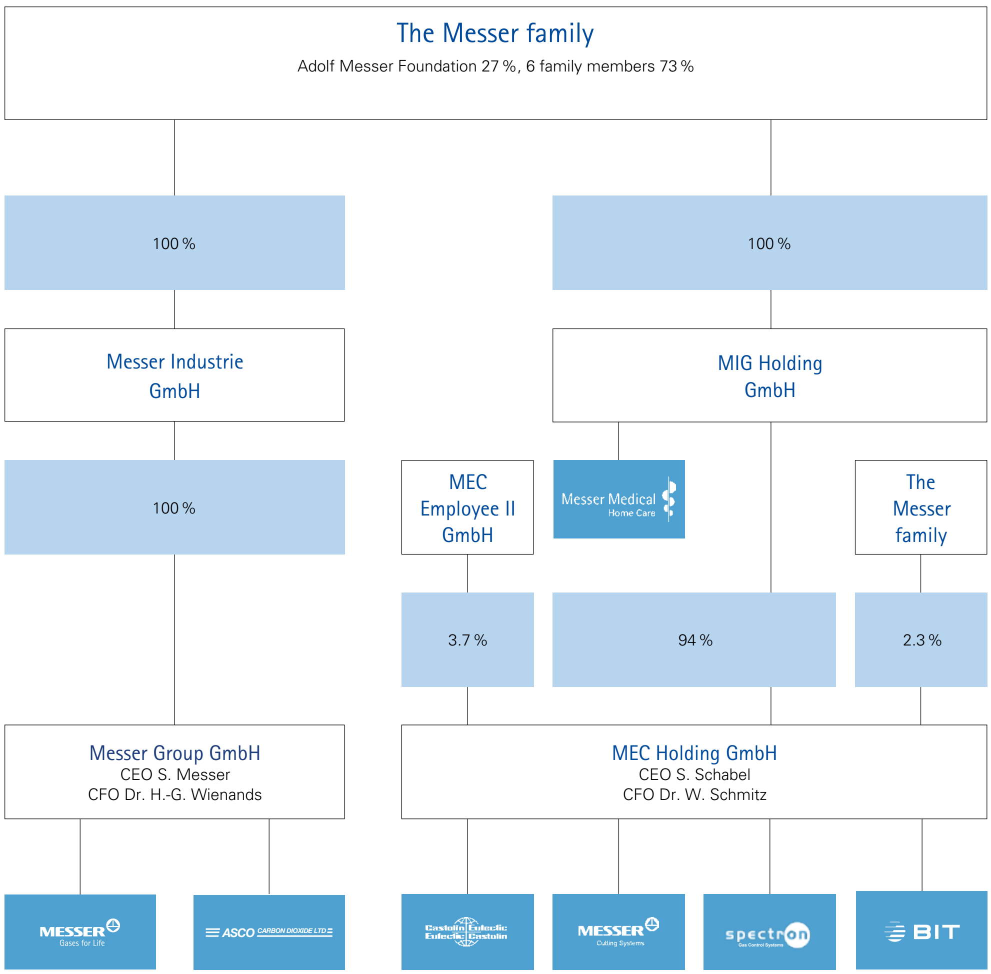
of Messer Group GmbH, Sulzbach/Taunus, for the Financial Year 2012 (in K€)

in K€	Jan 1 – Dec 31. 2012	Jan 1 – Dec 31. 2011 (adjusted)
Group net profit for the year	**83,556**	**70,535**
Income taxes paid	(19,679)	(21,254)
Depreciation and amortization of property, plant and equipment and intangible assets	126,359	143,303
Gains arising on change in group reporting entity	–	(25,251)
Loss / (gains) on disposals of fixed assets	(1,059)	(772)
Changes in investments in associated companies	(3,978)	(3,514)
Interest result, net	25,509	21,504
Other non-cash financial result	4,403	9,113
Changes in assets resulting from finance lease arrangements	(20,194)	(52,687)
Changes in inventories	(3,818)	16,294
Changes in receivables and other assets	7,969	(11,704)
Changes in provisions	(3,806)	1,324
Changes in trade payables and other liabilities	(13,297)	(3,486)
Cash flow from operating activities	**181,965**	**143,405**
Purchase of property, plant and equipment and intangible assets	(162,910)	(130,274)
Purchase of investments and other non-current assets	(4,889)	(19,123)
Acquisition of subsidiaries	–	(974)
Acquisition of shares of minority shareholders	(58)	(158)
Proceeds from disposals of property, plant and equipment and intangible assets	6,348	4,029
Proceeds from disposals of investments and loans	(50)	18,573
Interest and similar income	2,437	2,313
Cash flow from investing activities	**(159,122)**	**(125,614)**
Changes in capital by shareholders of Messer Group GmbH	–	(8,000)
Proceeds from non-current financial debt	127,321	218,049
Proceeds from current financial debt	25,713	72,233
Repayments of non-current financial debt	(22,104)	(215,557)
Repayments of current financial debt	(111,115)	(46,701)
Dividends paid to minority shareholders	(8,291)	(7,041)
Contributions by minority shareholders	337	1,022
Interest and similar expenses paid	(24,793)	(22,719)
Other financial result, net	(1,364)	(4,548)
Cash flow from financing activities	**(14,296)**	**(13,262)**
Changes in cash and cash equivalents	8,547	4,529
Cash and cash equivalents at the beginning of the period	107,489	101,762
Exchange rate impact on cash and cash equivalents	(1,009)	6,171
Cash relating to changes in group reporting entity	–	(4,973)
Cash and cash equivalents at the end of the period	115,027	107,489

Messer World

Along with Messer and ASCO Carbon Dioxide, “Part of the Messer World” also includes the sister companies Messer Cutting Systems, Castolin Eutectic, BIT Companies and Spectron Gas Control Systems – and Messer Medical Home Care, which has been independent since 2011. They all offer application-specific expertise and products which help optimise manufacturing processes, extend the life of production equipment and materials, or significantly enhance quality.

Organisational structure



ASCO Carbon Dioxide

Technology focus

In 2012, ASCO focused on technology: besides launching various new products related to dry ice production, we concentrated above all on CO_2 recovery. The new ASCOSORB flue gas recovery technology converts waste gas, which previously remained unused, into a profitable source of CO_2. And the system offers tremendous energy savings over conventional flue gas recovery technologies. ASCO also offers units for recovering CO_2 from sources with higher purity (e.g. for alcoholic fermentation processes or ammonia production).

Sustained effects

The plant and equipment construction business of ASCO Carbon Dioxide Ltd, Switzerland, was still marked by the sustained effects of the previous year's global economic crisis and of exchange rate volatility. As a result, turnover was slightly below forecast.

Broad product portfolio

ASCO Carbon Dioxide is a provider of customised and complete CO_2 solutions. Our product portfolio includes automatic dry ice production machinery, CO_2 production plants and recovery systems, dry ice blasting equipment, CO_2 storage tanks, CO_2 cylinder filling plants, CO_2 vaporisers and other CO_2 accessories. Product development and service are built on two solid foundations: the first is our more than 80 years of practical experience in everything pertaining to CO_2 and dry ice, and the second is our highly qualified and dedicated workforce. This unique combination of extensive expertise and broad product portfolio provides our customers with complete and customised solutions from a single source.

The entire Messer Group relies on ASCO as its competence centre for CO_2 and dry ice.

www.ascoco2.com

Complete CO_2 and dry ice solutions from a single source

The headquarters of ASCO Carbon Dioxide in Romanshorn, Switzerland

Under the ASCOJET brand, ASCO also offers complete customised solutions in the field of dry ice blasting technology.

Messer Medical Home Care

Strategic objectives in 2012

In 2012, Messer Medical Home Care Holding (MMHCH) presented various product lines of medical devices, because this sector continues to promise high growth potential. We are profiting from partnerships with suitable manufacturers here.

Further enhancement of the cooperation with the subsidiaries of the Messer Group was another strategic objective for 2012. The main focus was on accelerating the positive evolution and expanding the number of companies in MMHCH.

Focus on home care

Within the Messer World, Messer Medical Home Care Holding (MMHCH) concentrates on the activities in the area of home-based care. In the past these activities were integrated separately in the Messer Group, which made it difficult to focus and align them clearly.

MMHCH regards itself as a service provider which looks after patients in the home environment. The focus here is on COPD patients, people who suffer from obstructive sleep apnoea, and patients who rely on respiratory support. Diagnostic solutions for doctors and hospitals are further integrated components of the corporate strategy.

In the future we will develop and market innovative solutions for patients, doctors and health authorities. That will assure us of a sustainable and competitive position in the healthcare sector, which is becoming increasingly important. MMHCH has 80 employees working on this.

www.messer-medical.at

Diagnostic solutions for doctors and hospitals

Messer Medical Home Care helps people who need respiratory support.

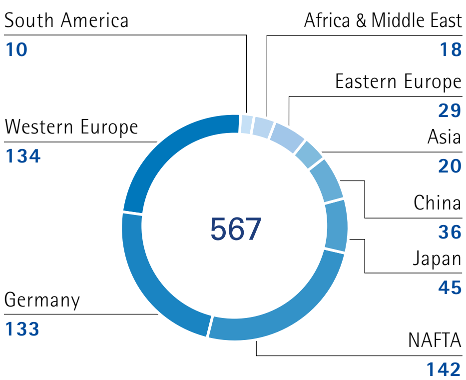
Messer Eutectic Castolin Group

Based on growth in turnover and earnings, 2012 was another very successful financial year for the MEC Group. It managed to increase turnover from EUR 535 million in the previous year to EUR 567 million (+ 6 %). A good earnings result was also achieved once again in 2012, albeit slightly below the excellent earnings posted for the previous year. In the future, we will continue to extend our market position in all business areas through service and customer focus and through our high quality products and technical applications.

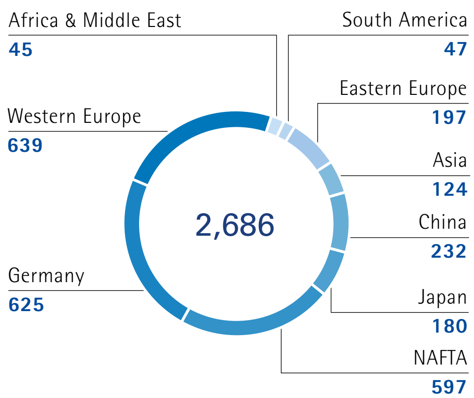
www.mcc-holding.com

Key figures 2012

Net sales of MEC Group by region in million Euro



Numbers of employees of MEC Group by region



Spectron Gas Control Systems

BIT Companies

Messer Cutting Systems

Castolin Eutectic

BIT Companies

Further growth

The BIT Group posted significant growth once again in 2012. The financial year featured considerable investments in own platform solutions which can be tailored to the needs of our industrial customers on request. Despite the increasingly scarce funding of many countries' healthcare systems, we were able to increase our turnover worldwide by about 10 %. Significant investments in product development and increasing competitive pressure abroad, however, had a negative impact on the growth of our net profit margin. BIT will also continue to focus on sustainable growth and on the expansion of customer service in the future, both in Europe and in the growth markets of the USA and Asia.

Comprehensive services

BIT is the leading complete service provider for a broad spectrum of diagnostic and medical technology devices. Our range of services includes the contract development and manufacturing of medium-to-complex instrumentation systems along with tailor-made automation solutions. We also provide after-sales service for the medical, diagnostic and industrial devices of OEM manufacturers. In Europe and the USA, we are an independent market leader for high quality IVD analysis systems in the high-end OEM market. Our longstanding customers include young companies and world market leaders.

With locations in Germany, France, Japan, the USA and China, BIT has an international presence and employs 335 people worldwide.

www.bit-companies.com

Technologies for medical OEM customers

BIT Kaizen culture

Proven system development

Castolin Eutectic

Strong turnover and revenue growth

In financial year 2012, Castolin Eutectic managed to increase both turnover and net profit. The share of CastoLab service activities contributed more and more to the company's net profit and represents an important element of our core strategy. In the future we will also continue to place particular emphasis on expanding those service activities, especially in important key industries.

Specialist for wear and joining

Castolin Eutectic is the world's leading provider of professional solutions in the areas of repair, maintenance and wear protection. We complement our products with application engineering expertise and earn awards for our service-oriented customer support every year. More than 100 years of experience in the fields of welding technology, soldering and thermal spraying ensure professional and innovative solutions.

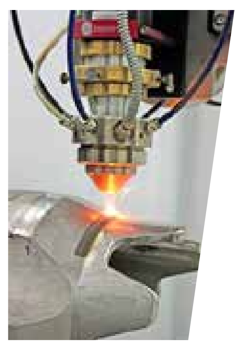
Solutions from a single source

Our products and services extend the service life of machines and equipment, raise productivity and reduce costs. Castolin Eutectic provides solutions from a single source and the most comprehensive product offering in the industry – including maintenance work and prepared parts. We focus our application engineering expertise on industry. Castolin Eutectic employs over 1,450 people in more than 100 countries with more than 700 well-trained engineers and field-based application specialists throughout the world.

www.castolin.com
www.eutectic.com

Professional applications are implemented in our CastoLab® workshops.

Extensive Castolin Eutectic product portfolio



Repair and wear protection with superior precision.

Spectron Gas Control Systems

Turnover and revenue growth

Due to its importance for the Messer Group, Spectron was first spun off as an independently operating business unit in 2011. Our activities also developed well in 2012, but we were not quite able to match the excellent revenue and high level of turnover of the previous year.

Broad spectrum of products

Spectron Gas Control Systems is the specialist for gas supply systems. Our large family of products comprises just the right instruments for a broad spectrum of gases. They cover the full range of applications extending from a simple valve all the way to gas cylinder cabinets for semiconductor gases. Spectron also includes alarm and control systems for gas applications and gas purification systems for ensuring the purity of gases. Our goal is to provide our customers with the highest levels of performance, quality, reliability and technical expertise. With an additional production site in Great Britain and a worldwide network of distributors, Spectron is globally well-positioned and always close to its customers.

At the Achema 2012 industrial trade fair, we presented many newly developed products for ultra-high-purity gases. In so doing, Spectron reinforced its image as a leading and innovative manufacturer and supplier of fittings and systems designed to handle gases efficiently and safely in a wide range of applications.

www.spectron.de

Pressure control panel with automatic change-over function, BM55-2U

Tapping points for technical gases

Gas cylinder cabinet for the photovoltaics industry

Messer Cutting Systems

World of excellence

As expected, our business operations showed very positive development during the first half of the year. In the second half of the year, we experienced a downturn in Europe, Brazil and India. Nevertheless, we managed to exceed the objectives set for 2012 significantly. China is on course to regain lost sales volumes. Demand in the NAFTA region remains strong and has reached an all-time high in nearly all areas. Our success, our market leadership and our multicultural diversity are based on that growth and will also provide numerous opportunities in the future.

We anticipate declining demand in Europe, India and Brazil in the first half of 2013, but assume that we will be able to compensate for a large share of lost sales by signing contracts at an increasing rate in the second half of 2013. Resolution of the debt crisis in Europe will have a decisive impact on the further development of the company. Confidence in business and state institutions will play a key role in this connection. As a result of measures already implemented, Messer Cutting Systems is ideally prepared for the future.

Partner for cutting systems

A global provider of products and services for the metalworking industry, Messer Cutting Systems sets standards worldwide. As a pioneer in the sector, we supply complete solutions and concentrate on advising our customers and on customer-focused innovations. Employing more than 800 people at five main locations with production facilities, Messer Cutting Systems is represented in over 50 countries. The product portfolio includes oxyfuel, plasma and laser cutting systems ranging from manually operated machines to special machines for shipbuilding along with machinery and equipment for oxyfuel welding, cutting, soldering and heating. Spare parts, repairs, modernisation, maintenance and service together with the appropriate environmental engineering services round off the programme. Software solutions from MesserSoft optimise production and business processes. We focus on intensive dialogue with our customers. Our modern training centre, the Messer Cutting Systems Academy, clearly supports that claim.

www.messer-cs.com

Much more than competence and experience: employees from all departments proudly present the largest SicoMat ever built by Messer Cutting Systems.

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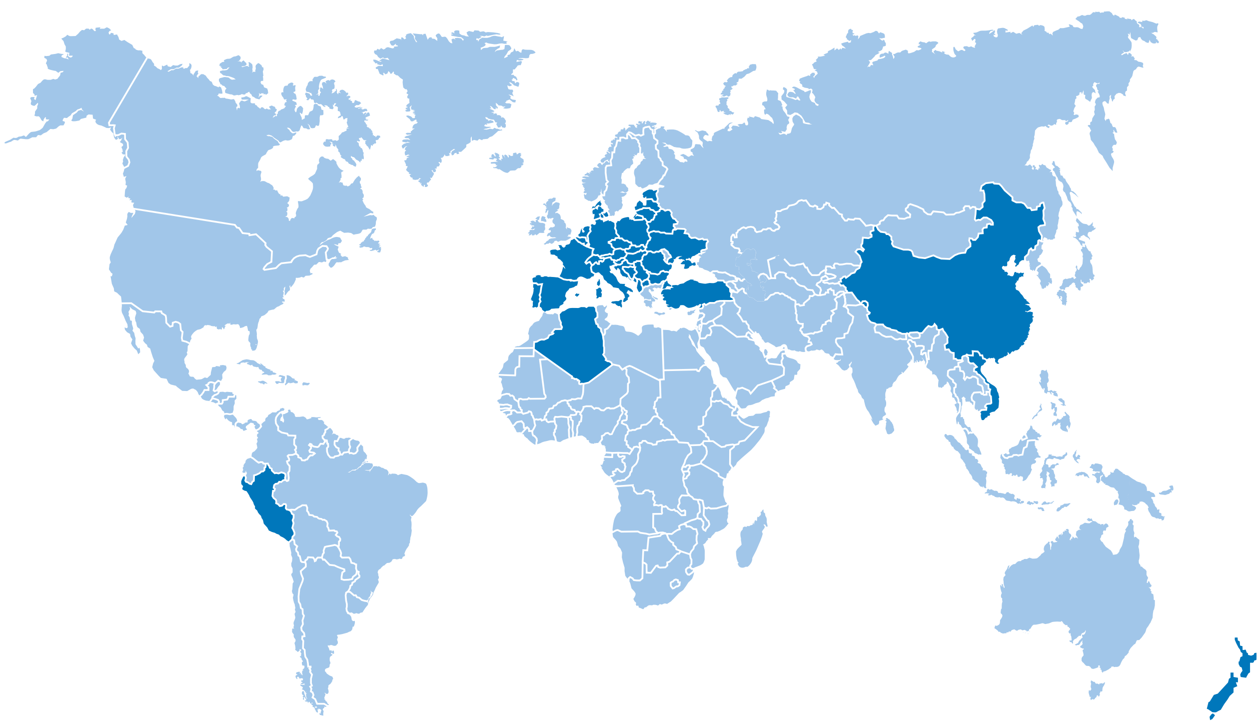

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