2005 2006 2007

Annual Report 2004

What matters.

Innovation. Internationality. Performance.

Linde

LeadIng.

Linde highlights →

Linde Financial Highlights

in € million

		2004	2003	Change
Share				
Closing price	€	46.06	42.70	7.9%
Year high	€	49.10	43.40	13.1%
Year low	€	40.50	22.80	77.6%
Market capitalization		5,496	5,092	7.9%
Per share				
Earnings	€	2.30	0.91	n/a
Dividend	€	1.25	1.13	n/a
Cash flow from operating activities	€	10.47	10.74	n/a
No. of shares (in 000s)		119,327	119,262	n/a
Group				
Sales		9,421	8,992	4.8%
Incoming orders		9,637	9,079	6.1%
EBITA before special items		785	683	14.9%
EBITA		785	556	41.2%
Earnings before taxes on income (EBT)		518	287	80.5%
Net income		274	108	153.7%
Return on capital employed (ROCE) before special items		9.5%	7.7%	n/a
EBITA return on sales before special items		8.3%	7.6%	n/a
Capital expenditure (excluding financial assets)		987	856	15.3%
Cash flow from operating activities		1,249	1,281	–2.5%
Equity		4,081	3,886	5.0%
Total assets		**11,591**	**11,915**	**–2.7%**
Number of employees at December 31		41,383	46,164	–10.4%

Business segments 2004

in € million

	Sales	Incoming orders	EBITA	Capital expenditure[1]	Number of employees
Gas and Engineering	5,406	5,394	684	511	21,787
Linde Gas	4,003	4,007	640	528	17,570
Linde Engineering	1,581	1,525	69	13	4,217
Material Handling	3,372	3,442	191	428	18,878
Refrigeration	578	733	9	17	–

1) Excluding financial assets.

Company profile

Linde Group

Linde is an international technology group which has a leading market position in both its business segments, Gas and Engineering and Material Handling. After the sale of the Linde Refrigeration business segment at the end of the third quarter, we achieved sales in fiscal 2004 of €9.421 billion with around 41,000 employees worldwide.

We will continue to concentrate on the expansion of our international business and pursue with vigor our strategy of earnings-based growth. With forward-looking products and services, we are well-positioned not only in our core markets of Germany and Europe but also in the growth markets of Asia, the United States and Eastern Europe.

Gas and Engineering

The Gas and Engineering business segment comprises our activities both in industrial and medical gases and in plant construction. Both these areas benefit from mutual exchanges of expertise on major projects in all regions of the world. An example of this successful co-operation is our on-site business, where Linde Gas and Linde Engineering work together to supply major industrial consumers with industrial gases from plants installed directly on the customer’s own site.

As a leading international supplier of industrial and medical gases, we are also focusing on expanding our fast-growing Healthcare section and are in the vanguard of the development of environmentally-friendly hydrogen technology.

Linde Engineering, with its technological focus on promising market segments such as hydrogen, oxygen and olefin plants and natural gas processing plants, is successful throughout the world. In contrast to virtually all our competitors, we have extensive process engineering know-how in the planning, project development and construction of turnkey industrial plants.

Material Handling

With its three brands, Linde, STILL and OM Pimespo, as well as its strategic partner Komatsu, our Material Handling business segment is one of the biggest manufacturers of industrial trucks in the world. Very few of our competitors are able to offer, as we do, a complete range of products: engine-powered forklift trucks, electric trucks and warehouse equipment. Our business success in this segment is based on products at the cutting edge of technology and an extensive range of service options from financing to full fleet management, and we are strengthening our position as a leading service-provider in all areas of intralogistics.

What matters.

Innovation	The ability to recognize potential. Seeing interrelationships in a new light and redefining them. Setting new standards. And opening up new horizons.
Internationality	The courage to take our expertise to all four corners of the world. To explore unfamiliar markets. To devise solutions tailored to the needs of the market. And to use those solutions to convince others throughout the world.
Performance	The awareness that performance is the key to our corporate culture. Which goes without saying. It requires clearly-defined goals and objectives. And constant attention.
Lead**Ing.**	Aspiring every day to find the best solution. For our customers. For our shareholders. For our staff. Because that is our responsibility.

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Executive Board

Members of the Executive Board

Dr. Wolfgang Reitzle
Born in 1949
Doctorate in Engineering Science (Dr.-Ing.)
Degree in Engineering (Dipl.-Ing.)
Degree in Economics and Engineering (Dipl.-Wirt.-Ing.)
Member of the Executive Board since 2002
President of the Executive Board and Chief Executive Officer since 2003

Dr. Peter Diesch
Born in 1954
Doctorate in Economics (Dr. rer. pol.)
Degree in Economics (Dipl.-Volkswirt)
Finance, Labor Director
Member of the Executive Board since May 17, 2004

Dr. Aldo Belloni
Born in 1950
Doctorate in Engineering Science
Business Segment Gas and Engineering
Member of the Executive Board since 2000

Hubertus Krossa
Born in 1947
Degree in Business (Dipl.-Kfm.)
Business Segment Material Handling

No longer a member of the Executive Board:

Hero Brahms
Born in 1941
Degree in Business (Dipl.-Kfm.)
Finance, Labor Director
Member of the Executive Board since 1996
Retired on June 30, 2004

From left to right:
Dr. P. Diesch, Dr. W. Reitzle, Dr. A. Belloni, H. Krossa

Letter to shareholders

Ladies and Gentlemen,

For Linde, as for most international companies, 2004 was a year of both light and shade.

In the previous year, the global economy had started to show the first signs of dynamism for three decades. The recovery was caused principally by the growth markets in Asia, especially in China, and in the United States. Europe and Germany could not quite keep pace with global trends, even though the German economy grew for the first time in three years.

However, there is no reason to cheer just yet. The sharp increase in the price of oil in the past few months is currently putting the brakes on the world economy and, what is more, it seems that the short boom in the regions where the economy has been growing, the US and China, has now peaked. The pundits are once again predicting limited economic growth in Germany and the European market in 2005. Despite the strong euro, exports are proving to be the only positive influence, given continuing weak domestic demand in Germany.

The analysis given above means that in future Linde must position itself internationally across a wider area than before, so that we can take greater advantage of the opportunities in the regional markets and so that we are better able to steer clear of economic fluctuations. We will also have to make strenuous efforts to adapt our internal structures to meet the challenges of international competition.

We reached an important milestone on this journey last year when we made the painful yet economically imperative decision to sell the Refrigeration business segment, the acorn from which the business originally grew. By concentrating on the two key pillars of the Group, Gas and Engineering and Material Handling, we have concentrated our efforts on areas where we can create the greatest added value. Current business trends within the Group demonstrate that this was the correct decision.

Linde is a profitable technology group, a world leader in all its operating areas, which has a high level of earning power. Operating profit (EBITA) rose in 2004 by 14.9 percent to €785 million and net income for the year increased from €108 million to €274 million. Group sales climbed 4.8 percent to €9.421 billion, while incoming orders of €9.637 billion increased 6.1 percent when compared with the previous year.

We want our shareholders to benefit from these increased earnings. The Executive Board and the Supervisory Board will therefore propose to the Shareholders' Meeting to be held on June 8, 2005 that the dividend be increased to €1.25 per share.

In fiscal 2005, we see further opportunities for growth in all the operational areas of the Group. We will therefore continue to pursue with great vigor the optimization programs – which are running to plan – and to improve further our structures and processes. Our objective is clear. By the end of 2005, we want all our performance indicators to once again exceed those of the previous year.

Our aim is to be an exemplary company in every respect, one which deserves the epithet "leadIng". A Group which enjoys the utmost confidence of its investors and the confidence of its employees, customers and of the Company itself. To achieve this objective, as from the year 2005, we will make ever greater efforts to incorporate our belief in corporate responsibility as a key element of our business culture. We will be even more aware of the need for us to assume responsibility for the environment, our staff and the Company. A visible sign that we want to provide the public with information about our strategy and the various activities associated with these areas will be the publication for the first time in Fall 2005 of a Corporate Responsibility Report. The new publication, which together with the Annual Report will provide comprehensive information about what Linde stands for, is also the reason that we have not included in the current Annual Report separate sections outside the management report on important issues such as research and development, employees and safety, quality and environmental protection. In future, we will cover these issues in detail in our Corporate Responsibility Report.

Ladies and gentlemen, the Annual Report before you has the ambitious title "What matters". Ambitious because we at Linde are making it clear what is important for us today and what will be important tomorrow and are prepared to be judged by these measures. Innovation, internationality and performance are the three key concepts which will make us distinctive and successful in the markets of today and the markets of tomorrow. Every day, we work hard to modernize the 125 year old Linde company while remaining heedful of tradition. This process will ensure that the name Linde will become synonymous throughout the world with the best engineering work, the highest level of skill and exceptional quality – in everything we do. This is what matters for us in the long term and will reward you our shareholders.

Dr. Wolfgang Reitzle
President of the Executive Board
of Linde AG

Supervisory Board

Members of the Supervisory Board

Dr. Manfred Schneider
Chairman
Chairman of the Supervisory Board of Bayer AG

Hans-Dieter Katte*
Deputy Chairman
Chairman of the Works Council, Linde Engineering Division, Linde AG, Höllriegelskreuth Works

Michael Diekmann
Second Deputy Chairman
Chairman of the Executive Board of Allianz AG

Dr. Josef Ackermann
Spokesman for the Executive Board and Chairman of the Group Executive Committee of Deutsche Bank AG

Dr. Karl-Hermann Baumann
Chairman of the Supervisory Board of Siemens AG
(until January 27, 2005)

Dr. Gerhard Beiten
Attorney-at-Law,
Member of the Executive Board of Landesverband Bayern der Deutschen Schutzvereinigung für Wertpapierbesitz e.V. (DSW)

Siegried Friebel*
(from November 9, 2004)
Chairperson of the Works Council of Linde-KCA-Dresden GmbH

Gerhard Full
Former Chairman of the Executive Board of Linde AG

Gernot Hahl*
Chairman of the Works Council, Linde Gas Division, Linde AG, Worms Works

Joachim Hartig*
Chairman of the Works Council, Linde Material Handling Division, Linde AG, Aschaffenburg Works

Thilo Kämmerer*
Trade Union Secretary on the Executive Board of IG Metall Frankfurt

Klaus-Peter Müller
Spokesman for the Executive Board of Commerzbank AG

Kay Pietsch*
Chairman of the Works Council, STILL GmbH, Hamburg Works

Prof. Dr. Jürgen Strube
Chairman of the Supervisory Board of BASF Aktiengesellschaft

Wilfried Woller*
(from October 16, 2004)
Trade Union Secretary of IG Bergbau, Chemie, Energie,
Manager of the Moers District

Frank Zukauski*
Production Director, STILL GmbH

Supervisory Board committees

Standing Committee:
Dr. Manfred Schneider (Chairman)
Hans-Dieter Katte*
Michael Diekmann
Gerhard Full
Joachim Hartig*

Audit Committee:
Dr. Manfred Schneider (Chairman)
Dr. Karl-Hermann Baumann
Gerhard Full
Joachim Hartig*
Hans-Dieter Katte*

Mediation Committee in accordance with § 27(3) German Codetermination Law:
Dr. Manfred Schneider (Chairman)
Hans-Dieter Katte*
Michael Diekmann
Joachim Hartig*

Members who have retired from the Supervisory Board in fiscal 2004:

Rüdiger Bouillon*
(Retired on October 15, 2004)
Former Department Head of Main Executive Committee of IG Bergbau, Chemie, Energie, responsible for humanization of collective bargaining policy

Hans-Gerhard Bude*
(Retired on October 1, 2004)
Deputy Chairman of the Works Council, Linde Kältetechnik GmbH & Co. KG, Cologne-Sürth Works

* Employees' representative

Memberships of other German supervisory boards and of comparable German and foreign boards are shown on pages 185 to 187.

Report of the Supervisory Board

Dear shareholders,

During the fiscal year 2004, the Supervisory Board has been involved in detailed reviews of the company's situation and future prospects. We have carried out our duties in accordance with legal provisions, company statutes and company bylaws. These duties involve advising the Executive Board on the running of the company and monitoring executive management. The Executive Board provided us with regular, comprehensive and up-to-date personal and written reports at our four meetings on the state of the business as well as the economic situation of the company and its subsidiaries. The Chairman of the Supervisory Board was kept informed by the Executive Board of all significant developments and decisions taken. The Chairmen of the Supervisory and Executive Boards shared information and ideas with one another throughout the year and held regular consultations on the Group's strategic direction and its risk management.

The main focus of consultations with the Supervisory Board

In our meetings, in addition to reviewing current business developments, we also dealt with the risk position and those individual transactions which are of fundamental importance for which the Executive Board requires our approval. All necessary approvals were granted. In addition, two decisions were effected in written procedures. In November 2004, we approved the Linde Group's capital expenditure program for 2005.

The consultations between the Supervisory and Executive Boards focused on the strategic direction of the company, the extent to which the strategy had been adopted, the Executive Board's plans to develop the business portfolio, the measures being taken by the Executive Board to increase the profitability of operations and the outlook for the Group and its individual divisions, as well as the medium-term corporate plan, including financial, capital expenditure and personnel plans. The Executive Board gave us detailed explanations and supplied reasons where there were discrepancies between corporate targets and actual performance.

Other key issues reported to and discussed with the Supervisory Board were the effects on the sales and earnings of the company of the rise in value of the euro against the dollar and increases in the prices of raw materials and other materials. The Supervisory Board was also consulted on the challenges and opportunities presented by particular geographical regions, product segments and strategic partnerships.

Moreover, at our meetings, the Executive Board kept us informed about the progress of the sale of the Refrigeration business segment.

It also set out in detail the successes achieved in the Material Handling business segment and in the Linde Gas division of the cost-reduction and process-optimization programs introduced previously. The measures being taken are having an effect. The programs are being stepped up, especially in the Material Handling business segment.

Corporate governance and declaration of compliance

On March 14, 2005, the Executive Board and the Supervisory Board issued an updated declaration of compliance with § 161 of the German Stock Corporation Law and made it available to shareholders on a permanent basis on the company's website (*www.linde.com*). Additional information about corporate governance at Linde is to be found in the report prepared by both the Executive Board and the Supervisory Board in the pages following this report.

Committee meetings

The Supervisory Board's standing committee held two meetings. It dealt mainly with personnel matters relating to members of the Executive Board as well as the amount and structure of remuneration payable to the Executive Board, and determined those components of the remuneration of the Executive Board that were based on bonuses or shares. It also passed two resolutions in telephone proceedings regarding the issue of a five-year convertible bond.

The audit committee held three meetings in 2004. In the presence of the auditors, the President of the Executive Board and the Chief Financial Officer, it discussed the annual financial statements of Linde AG and the Group financial statements, the management reports and the proposed appropriation of profits. It also issued the audit mandate to the auditors, determined key audit issues, agreed the audit fees and monitored the independence of the auditors. Moreover, the audit committee obtained information about the recording and monitoring of risk in the company.

The mediation committee, formed under § 27 (3) of the German Codetermination Law (MitbestG), had no occasion to meet during the year.

Reports on the work of the committees were regularly presented at the plenary meetings of the Supervisory Board.

Financial statements

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main, audited the financial statements for the year ended December 31, 2004 for Linde AG and the Linde Group, as well as the management reports for Linde AG and the Linde Group in accordance with the principles set out in the German Commercial Code (HGB) and, in the case of the Group financial statements, in supplementary compliance with International Standards on Auditing (ISA). The auditors have given unqualified audit opinions on the above statements. The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The auditors have confirmed that the Group financial statements and the Group management report meet the requirements for exemption from preparing these documents in compliance with German law.

The documents relating to the financial statements and the audit reports were issued to all members of the Supervisory Board in good time. The audit committee carried out a preliminary examination of the financial statements, the accompanying management reports and the proposal for the appropriation of profits. At the meeting of the Supervisory Board to approve the financial statements on March 14, 2005, the documents relating to the financial statements and the audit reports were examined in detail. The auditors presented the main results of their audit at this meeting. The Supervisory Board's own examination of the financial statements and related documents presented by the Executive Board and the auditors revealed no grounds for objection. We concur with the results of KPMG's audit. We hereby approve and adopt the financial statements of Linde AG and the Linde Group for the year ended December 31, 2004 as drawn up by the Executive Board; the annual financial statements of Linde AG are hereby final. We also approve the Executive Board's proposal for the appropriation of profits.

Membership of the Supervisory Board and Executive Board

During the fiscal year, Rüdiger Bouillon and Hans-Gerhard Bude retired from the Supervisory Board. On October 16, 2004, Wilfried Woller was appointed as the legal successor to Rüdiger Bouillon. Siegried Friebel took over Hans-Gerhard Bude's seat on the Board on November 9, 2004, as his legal successor. We thanked those retiring for their contribution to the Supervisory Board.

On June 30, 2004, Hero Brahms retired from the Executive Board for reasons of age. We appointed Dr. Peter Diesch as his successor, as a full member of the Executive Board with effect from May 17, 2004 and as Personnel Director of Linde AG from July 1, 2004. We expressed our special thanks to Hero Brahms for the dedication he had shown the Group during his eight years with Linde and on the Executive Board, and for the successes he achieved in his work.

The Supervisory Board would like to thank the Executive Board and all Linde employees throughout the world for their high level of commitment and their hard work in the past year.

Wiesbaden, March 14, 2005
For the Supervisory Board

Dr. Manfred Schneider
Chairman

Corporate Governance

Responsible corporate management and supervision and the achievement of sustainable value added have always been important objectives for Linde. They create transparency, thereby promoting the trust of our investors, our business partners, our employees and the general public.

Corporate governance

Linde AG continues to welcome the German Corporate Governance Code produced by the Government Commission and last updated in May 2003. It creates transparency for our national and international investors, our business partners, our employees and the general public in the legal environment of corporate management and supervision in Germany.

The corporate goals of good responsible management and supervision and the achievement of sustainable value added have traditionally been central to the strategy of Linde AG. Our success has always been based on close and effective cooperation between the Executive and Supervisory Boards, consideration of the interests of shareholders, an open style of corporate communication, proper accounting and audit procedures and a responsible approach to risk. We understand that corporate governance is a continuous process and we will monitor future developments carefully.

Further information about corporate governance

Detailed information about the activities of the Supervisory Board and its committees and about the cooperation between the Supervisory and Executive Boards is given in the Report of the Supervisory Board and on our website (*www.linde.com*).

Linde AG is obliged to comply with the principle of equal treatment of all shareholders. Transparency plays an important role in our company and we always aim to provide shareholders and the public with comprehensive, consistent and up-to-date information.

In addition to information about corporate governance, we also publish on our website company reports (annual reports, financial statements, interim reports), a financial calendar with details of all important dates and publications, ad-hoc announcements, press releases and directors' dealings. Information about transactions entered into by the company during fiscal 2004 which were required to be disclosed under § 15a of the German Securities Trading Law and about shareholdings subject to the disclosure requirements of No. 6.6 of the German Corporate Governance Code is given in the Notes to the Group financial statements on page 173.

Declaration of compliance with the German Corporate Governance Code

On March 14, 2005, we made the following declaration of compliance with § 161 of the German Stock Corporation Law and made it available to shareholders on a permanent basis on the company's website at *www.linde.com*:

"Since its last declaration of compliance on March 15, 2004, with the deviations set out therein (no individualized figures disclosed for compensation paid to members of the Executive and Supervisory Boards), Linde AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code as amended on May 21, 2003.

Linde AG will also comply in future with the recommendations of the Code with these deviations.

The compensation paid to members of the Executive and Supervisory Boards is disclosed in the Notes to the Group financial statements, subdivided into fixed fees, performance-related components and, if applicable, components based on long-term performance."

Suggestions made in the German Corporate Governance Code

Linde AG complies with the suggestions made in the Code, with the exception of the deviations referred to below.

That part of the Shareholders' Meeting which precedes the general discussion is transmitted on the Internet. This means that Linde is complying with only part of the suggestion made in the Code.

The current chairmanship of the audit committee is held by the Chairman of the Supervisory Board. However, we do not wish to rule out the possibility that these duties may be discharged in future by another member of the Supervisory Board who is a shareholder representative.

Furthermore, the period of office for members of the Supervisory Board is five years. A shorter term of office can be determined at the Shareholders' Meeting for members of the Supervisory Board who are shareholder representatives. We consider that the suggestion that the election or re-election of members of the Supervisory Board take place at different dates and for different periods of office is inappropriate for a Supervisory Board which is constituted in accordance with the German Codetermination Law. As the employee representatives are elected for five years, this would result in the unequal treatment of the shareholder representatives.

Moreover, the performance-related compensation paid to members of the Supervisory Board is merely linked to the Linde AG dividend.

Emoluments of the Executive and Supervisory Boards

The emoluments of the Executive Board are performance-related and comprise both fixed and variable amounts. The remuneration scheme of the Executive Board consists of cash remuneration and share options. As regards the issue of share options to members of the Executive Board, it is stipulated that, with effect from the annual tranche granted in 2004, the Supervisory Board can resolve to restrict the exercise of options if the Linde share price is affected by exceptional unforeseen developments. The cash remuneration is based on an annual target income, 40 percent of which is paid to the Board member in fixed monthly amounts. 60 percent of the income is variable and comprises a dividend-related component and earnings-related bonuses. The target income is reviewed at regular intervals, at least every three years. The compensation paid depends primarily on the duties of the individual members of the Executive Board, and on their personal performance and the performance of the Executive Board as a whole, as well as on the economic situation, success and future prospects of the company given the environment in which it operates. In the Notes to the Group financial statements, the compensation paid to members of the Executive Board in fiscal 2004 is disclosed, subdivided into fixed fees, performance-related components and components based on long-term performance. Moreover, they contain details of Linde AG's share option scheme. In addition to this remuneration, the members of the Executive Board have an entitlement to a pension. Each member of the Executive Board also has a company car at his disposal. We do not disclose individualized figures for the compensation paid to members of the Executive Board. We believe that the disclosure of the total amount of compensation paid underlines the principle of the collective responsibility of the Executive Board. Moreover, we are of the view that the disclosure of individualized figures counteracts the advantages conferred by differentiating salaries based on performance.

The compensation paid to members of the Supervisory Board comprises, in accordance with the Articles of Association, both a fixed fee and a variable component which is related to the dividend. Additional remuneration is paid to the Chairman, Deputy Chairman and members of the Standing Committee as well as to the Chairman and members of the Audit Committee. If a member of the Supervisory Board holds several offices at the same time, each of which entitles him or her to a higher level of compensation, he or she receives only the remuneration which applies to the most highly paid office. Further details about the remuneration of the Supervisory Board in fiscal 2004 are given in the Notes to the Group financial statements. The individualized figures for the remuneration of the Supervisory Board can be deduced from the provisions in the Articles of Association and the information disclosed in the Notes to the Group financial statements and are not disclosed separately.

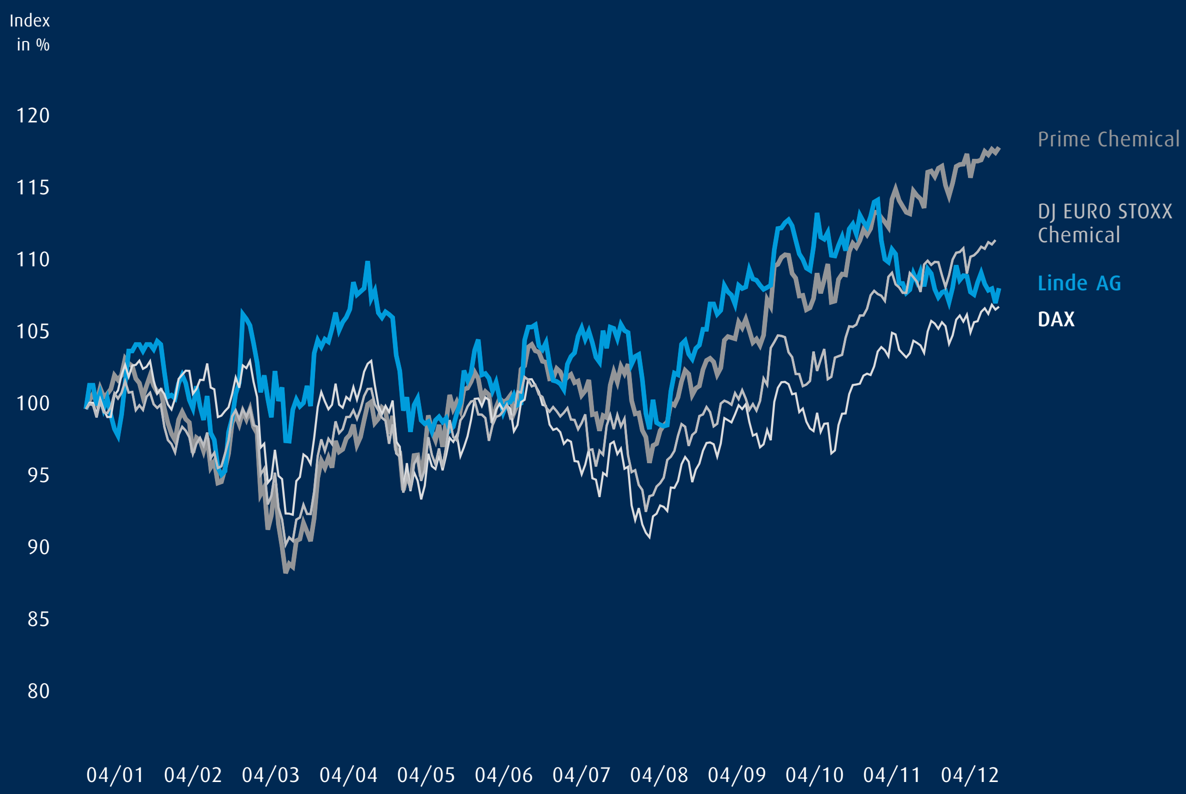
Wiesbaden, March 14, 2005
Linde Aktiengesellschaft

The Supervisory Board The Executive Board

Linde Shares

In 2004, Linde shares benefited from the recovery in stock markets worldwide. Our shares performed in line with DAX, increasing in value by 7.9 percent to reach a closing price of €46.06. Our market capitalization also rose 7.9 percent to €5.496 billion.

Linde shares: Performance in 2004 (indexed)



DAX makes gains thanks to a final spurt

The German Share Index DAX finally bucked the trend and emerged from a long period of little movement, thanks to a final spurt in the fourth quarter of 2004, finishing the year with a gain of 7.3 percent over 2003. DAX's positive performance was similar to that of other major European indices in London and Paris. The strong euro and the high price of oil prevented the European stock markets from performing even better. The DAX fell to its lowest point of 3,619 on August 16 and reached its highest point of 4,256 just before the year-end on December 29.

Linde shares follow DAX

Linde shares performed more or less in line with DAX, increasing in value by 7.9 percent. The industry-specific Prime Chemical Index rose by 19.1 percent during the year, a development which was principally due to the very good performance of the index heavyweights. Linde shares fell to their lowest price for the year of €40.50 on February 24, then recovered quickly, reaching their highest price for the year of €49.10 on October 19.

Linde performance in comparison with the most important indices*	2004*	Weighting*
Linde (including dividend)	+10.5%	–
Linde (excluding dividend)	+ 7.9%	–
DAX	+ 7.3%	0.87%
Prime Chemical	+19.1%	7.58%
DJ EURO STOXX	+10.3%	0.16%
DJ EURO STOXX Chemical	+12.3%	4.64%
FTSEurofirst 300	+ 8.8%	0.93%
FTSEurofirst 300 Chemical	+13.8%	4.02%
MSCI Europe	+ 8.7%	0.20%

* As at December 31, 2004

Ten-year summary of Linde share portfolio

The portfolio value of €10,000 invested in Linde shares at the end of 1994 would have increased to €15,175 by the end of 2004 – including reinvested cash dividends and proceeds from rights issues. This represents an absolute increase in value of around 51.75 percent or an annual return of 4.3 percent. By comparison, the DAX achieved average annual growth of 7.3 percent in the same period. The Prime Chemical Index increased by 11.3 percent and an REXP bond portfolio by 7.1 percent.

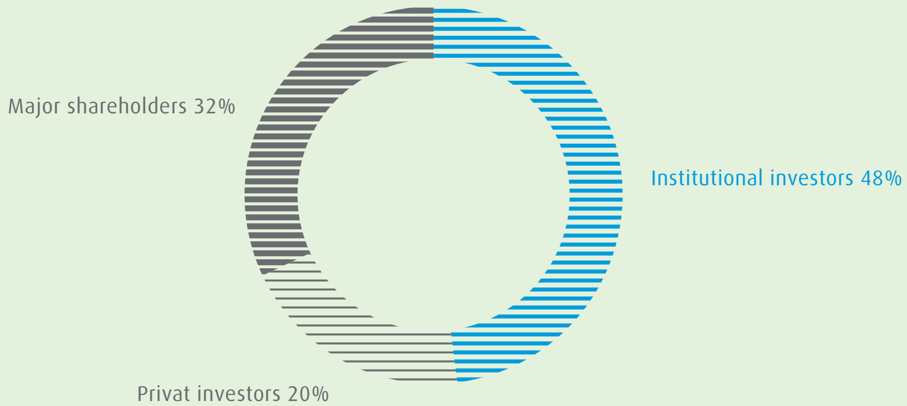
Capital market based figures

		2004	2003
Shares with dividend entitlement for the fiscal year	No.	119,327,374[2]	119,262,134
Closing price at year-end	€	46.06	42.70
Year high	€	49.10	43.40
Year low	€	40.50	22.80
Total dividend Linde AG	€ million	149.2	134.8
Market capitalization[1]	€ million	5,496	5,092
Average weekly volume	No.	2,454,000	2,470,000
Volatility[1] (250 days)	%	19.69	39.26
Information per share			
Cash dividend	€	1.25	1.13
Dividend yield	%	2.7	2.6
Operating cash flow	€	10.47	10.74
Earnings before goodwill	€	3.48	2.06
Earnings after goodwill	€	2.30	0.91

1) As at December 31
2) Issue of 65,240 employee shares out of conditionally authorized capital on November 8, 2004.

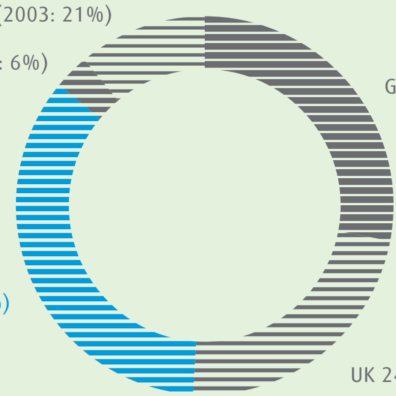
Shareholder structure

The holdings of our major shareholders, Allianz AG (12.3 percent), Deutsche Bank AG (10 percent) and Commerzbank AG (10 percent), remained unchanged during the fiscal year.



According to our annual shareholder identification survey conducted as at the balance sheet date, December 31, 2004, the proportion of institutional investors remained the same as in the prior year at 48 percent. 20 percent of Linde shares were owned by private investors at this date.

Institutional investors – Holdings by region



In 2004, the largest proportion of our institutional investors (34 percent) again came from North America. Within Europe, the percentage of shares held by German investors fell slightly to 24 percent. As in 2003, the percentage of shares held by UK investors increased significantly. During 2004, the proportion of UK investors rose by a further 10 percent to the current figure of 24 percent. This demonstrates the increasing level of interest shown in our shares over the years by international investors.

Dividend payment

Due to the positive trends in business performance in the year 2004, the Executive Board and Supervisory Board of Linde AG will propose at the Shareholders' Meeting to be held on June 8, 2005 payment of a dividend of €1.25 per share, which is €0.12 higher than in the previous year. This gives a dividend payout ratio of 37 percent, based on the net income for the year excluding amortization of goodwill. Shareholders will therefore achieve a dividend yield of 2.7 percent based on the year-end close.

Resolutions of the Shareholders' Meeting on May 18, 2004

Subject to approval by the Supervisory Board, the Executive Board of Linde AG was authorized at the Shareholders' Meeting to acquire 10 percent of share capital in own shares by October 31, 2005.

Value-based management

In 2003, we defined medium-term targets for return on capital employed (ROCE, see glossary), both for the Group and for the individual business segments and divisions, in order to make an accurate assessment of the economic success of our entrepreneurial activities. We anticipate that we will meet these demanding targets in the year 2005 in respect of the whole Group and the Linde Gas and Linde Engineering divisions. In the case of the Material Handling business segment, it is already clear that we will not be able to meet the ambitious ROCE target of 16 percent set two years ago by the year 2005. However, the threshold for Material Handling will remain high and we are proceeding on the assumption that we will be able to achieve a return on capital of 16 percent in the year 2007.

Linde is currently exploring the possibility of using other performance ratios in the Group, in addition to return on capital employed, to measure the success of our value-based management.

ROCE targets	ROCE 2003	ROCE 2004	ROCE 2005/2007
Group	7.7%	9.5%	10%
Linde Gas	10.1%	10.9%	11%
Linde Engineering	11.7%	17.0%	16%
Material Handling	9.7%	12.0%	16% (by 2007)

Investor relations activities on the increase

During the year, we again stepped up contact with private and institutional shareholders and potential investors. In numerous meetings and teleconferences and at road shows and investors' conferences across the world, we explained and discussed the current situation of the Group and Linde's strategic goals for the future. The response of the international capital markets has been predominantly positive.

Current information about Linde shares is to be found on our website *www.linde.com* in the Investor Relations section. Our investor relations team is available to answer your questions on +49 611 770-128. You are also welcome to e-mail us at *investorrelations@linde.com*.

Linde share information

Type of share	Bearer shares
Stock exchanges	All German stock exchanges, Zurich
Security reference numbers	ISIN DE0006483001
	WKN 648300
Reuters (XETRA)	LING.DE
Bloomberg	LIN GR

What matters

Our products create added value. Today and tomorrow. For the many. That's why Linde is active worldwide. Our global strength is based on the know-how and ideas of our engineers. Our determination to increase efficiency and continually reinvent ourselves makes us stand out from the crowd. That is the Linde culture. And tradition.

We are constantly making progress. Every day. Everywhere.

How energy opens up new paths

Access	Our experienced engineers build industrial plants in the most remote corners of the world. Our new natural gas processing plant in Tuha, China, is 2,500 kilometres from the nearest seaport. The closest town is more than day's journey away.
Distribution and supply	Linde sets standards, not only in the inhospitable rocky deserts of Central Asia. We create access to environmentally friendly resources. Processing, storing and distributing natural gas liquefied at low temperarutes are routine tasks for us. No matter where.
Ongoing development	The importance of natural gas as an environmentally friendly and economical energy source is increasing throughout the world. Not only in the fast-growing Chinese market. Demand for natural gas and our expertise is high. Even in places a long way from civilization.

How knowledge conserves resources

Mobility	People in the United States are more mobile than anywhere else in the world. One in two Americans owns a car – even if it is just to get to work, an average of twelve miles from home. Regenerative fuel sources such as hydrogen ensure that there will be sufficient supplies in the long term.
Environmental protection	Hydrogen is a clean and virtually inexhaustible resource. It will play an increasingly important role around the world, but especially in the USA. By the year 2010, for example, California will have a network of hydrogen filling stations serving the entire state.
Secure future	As the world's largest producer of hydrogen, we will remain the international leader when it comes to generating, compressing, transporting, storing and supplying tomorrow's most important source of energy. In the USA, too.

How technology moves markets

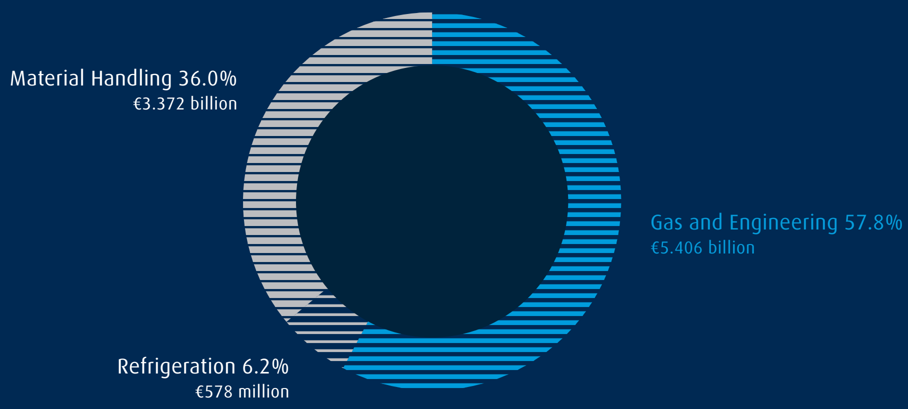
Commitment	The markets of Eastern Europe are on the move. Contributing to their progress are Linde forklift trucks and warehouse equipment. We mobilize supply and demand. And we don't stop moving. We are already prepared to face the challenges of the Russian market.
Quality	We are constantly striving to perfect our products and to provide new services which will make these products even more attractive. Our Linde, STILL and OM brands stand for efficient logistics processes in Europe's new markets.
Added value	We accelerate the borderless trade of goods. Which benefits companies everywhere. Throughout Europe and the rest of the world. That's what makes Linde number one in the marketplace.

How competence promotes growth

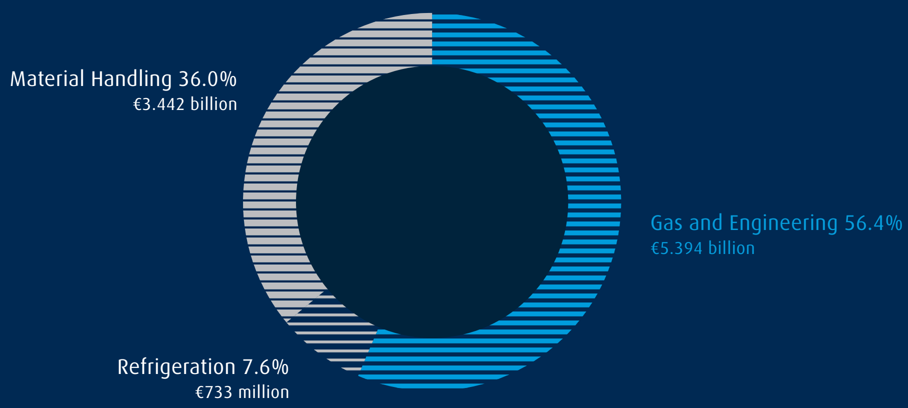
Presence	As the operator of a CO_2 liquefaction plant in Thailand and the largest supplier of liquefied carbon dioxide and dry ice in Malaysia, we are an indispensable partner for the fast-growing food and beverage industries in Southeast Asia.
Range of products	In Singapore we offer our customers industrial gases of all kinds, all from a single supplier, thanks to our syngas facilities and an air separation plant. Hydrogen, carbon monoxide and carbon dioxide. This market grows continuously, too.
Global strength	We are number one in the region, and number five in the world in the gas business. Our commitment in Asia secures our position among our global competitors. We take advantage of our opportunities. And rely on our experience.

The Business Segments

Sales: Analysis by business segment



Incoming orders: Analysis by business segment



Gas and Engineering

Our Gas and Engineering business segment is an established partner of industry throughout the world.

As a leading supplier of industrial and medical gases, Linde Gas concentrates on promising growth markets such as Asia, Eastern Europe and South America.

For Linde Engineering, globalization is part of the daily routine. We build complex industrial plants all over the world. Turnkey plants ready for immediate use.

Linde Gas

On-site: Focusing on growth markets

The on-site business, supplying industrial gases to the customer from plants situated directly on the user's site, continued to show dynamic growth in 2004 and is one of the major growth areas for the Linde Gas division throughout the world. We continue to benefit from the close co-operation between Linde Gas and Linde Engineering. The skills in the two divisions complement each other particularly well in this segment.

The most characteristic global market trend for on-site plants in the past fiscal year was the strong growth experienced in Asia and South America. We were able to participate in this growth, increasing sales by 96.3 percent.

The Asia/Pacific region was particularly successful in 2004 for our on-site business. Growth is expected in China, which is by far the biggest market in Asia, so we are positioning ourselves for the future. Together with our joint venture partner Shanghai Coking Chemical Corporation (SCCC), Shanghai, we have entered into a 17-year contract with Bayer AG for the supply of hydrogen and carbon monoxide to be used in plastics production. As part of this on-site project, Linde and SCCC will finance, construct and operate a new synthesis gas plant in Shanghai Chemical Industrial Park, one of the fastest growing locations for chemical companies in China. The plant should start operating in April 2006 and will produce 200 tonnes of carbon monoxide and 10 tonnes of hydrogen a day.

Another important project which formed part of our Asia strategy was the acquisition of an air separation plant currently being built in Ningbo, China. Under a 15-year contract, we will supply various air gases to our customer, the Chinese steel-producer Ningbo Jianlong Iron & Steel, from May 2005.

Outside China, Linde has also laid the foundations for medium-term growth in the Asia-Pacific region with a number of strategic acquisitions. In Singapore, we acquired one of the biggest plants in the world for the production of hydrogen and carbon monoxide and an air separation plant from Chevron Texaco. This plant makes us a one-stop supplier in Asia. This means that in future we will be able to supply our customers in Singapore, Malaysia, Thailand and Indonesia with the whole range of industrial gases.

We also purchased a carbon dioxide liquefaction plant in the Thai gases center Rayong from the Norwegian gases and fertilizers group Yara International ASA as an additional element of our South-East Asian strategy. The liquefied gas is used for freezing food. This acquisition has significantly reinforced our market position in Thailand.

In Malaysia, we acquired the Yara subsidiary Hydrogas Malaysia Sdh.Bhd., Kuala Lumpur, which makes us the third largest supplier of gases in that country. Hydrogas Malaysia is the biggest supplier of liquefied carbon dioxide and dry ice for the food and drinks industry in Malaysia and Singapore.

Linde Gas has also expanded its business in Australia. During the year 2004, we signed a ten-year renewal with the largest Australian steel-producer BlueScope Steel of delivery contracts which have been in place for several decades, for the on-site supply of oxygen, nitrogen, argon and hydrogen. The total volume of the contract, which we anticipate will strengthen our position in the Australian gases market, is around €115 million. In 2004, we also acquired the Australian welding gases specialist Lawvale, which will already be contributing about 12 million dollars to the sales figures in the Linde Gas division in 2005.

The second strategic market for our on-site business in 2004 was South America. We are continuing to strengthen our market position in this region as a result of a major contract from the state-owned Chilean oil company ENAP to build and operate a hydrogen and carbon dioxide plant. The volume of the investment in the on-site project is €70 million and the plant is expected to start operating in the middle of 2006. As a result of this contract, Linde will become the market leader for industrial gases in Chile.

We are also in the process of constructing in Chile a standard on-site oxygen plant for the cellulose manufacturer Cellulose Arauco, which will produce 75 tonnes of oxygen a day, commencing in April 2006. The supply contract is for a period of 15 years. Our customer uses the oxygen in paper production to separate the wood pulp lignin from the cellulose (delignification) and in bleaching.

In Brazil, we are currently building another oxygen plant for Veracel, a joint venture between the two cellulose producers Aracruz and Stora Enso. This plant should start operating in May 2005. The ECOVAR (standard on-site) plant will produce 89 tonnes of oxygen a day. It is equipped with a back-up system which, if the plant fails, will guarantee the oxygen supply for three days or around 270 tonnes of oxygen.

At the end of September 2004, our customer Rio Polimeros, based near Rio de Janeiro in Brazil, opened a standard on-site plant for the production of nitrogen built by Linde. From spring 2005, this plant will be able to produce 6,000 cubic meters of nitrogen an hour.

In Germany in 2004 our achievements included entering into a 15-year agreement for the supply of carbon monoxide and hydrogen with Bayer Material Science AG, part of the group Bayer AG. As a result, Linde has now become the market leader for these important industrial gases in Germany. The on-site project on the Bayer site in Dormagen near Cologne will commence in fall 2005. The total amount of the investment is €60 million. The capacity of the plant is around 7,000 cubic meters of carbon monoxide and 18,000 cubic meters of hydrogen an hour.

Cylinder and bulk: Service pays off

Our cylinder and bulk businesses in 2004 performed slightly better than in the previous year. While there was only a marginal improvement in business within Germany, most of the growth was once again generated in Eastern Europe where double-digit growth rates were achieved.

To achieve even greater increases in the growth rates for earnings and sales in this profitable segment, we launched the World Cylinder Challenge, a global initiative to improve profitability in the

Improved efficiency: REBOX® oxyfuel solutions in reheating and annealing processes provide steel producers with more heating capacity and productivity in existing furnaces while lowering fuel consumption and the emissions of CO_2 and No_x.

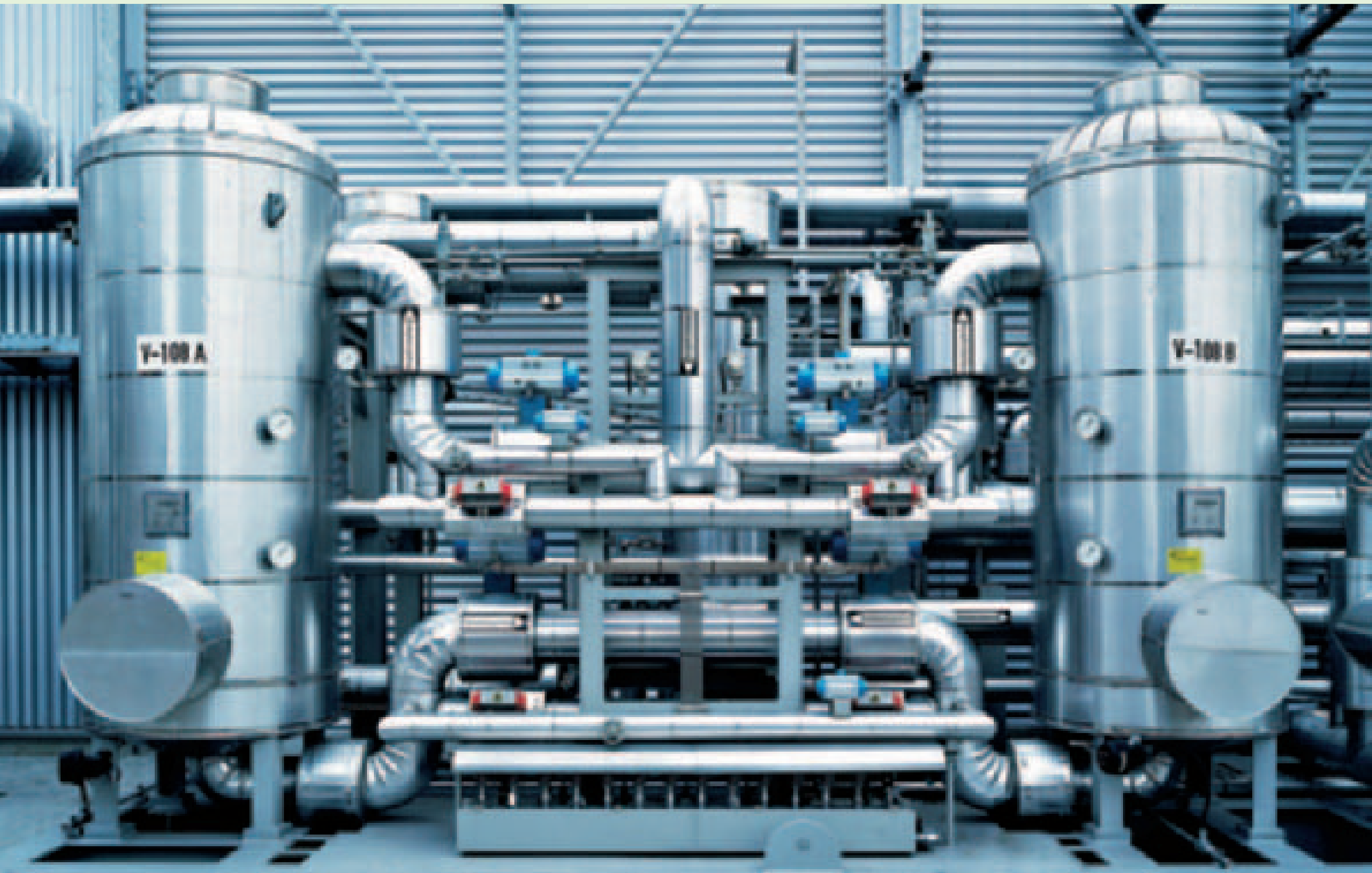
cylinder business. This international competition invites all Linde Gas employees to work together to find forward-looking production and service solutions. We are already seeing the first successes from this initiative being reflected in our sales and earnings.

A second initiative in the cylinder business is our new "Gas & More" concept. This comprises an innovative customer-oriented and service-based gases depot which, in addition to supplying gas, also offers for sale various applications engineering equipment such as pressure regulators, welding torches and protective clothing. An initial pilot project for this franchise-type system started in November 2004 in Nuremberg. In the course of 2005, Gas & More will be launched in various selected locations throughout Germany. With Gas & More, Linde Gas is positioning itself not just as a supplier to industry but turning more towards small end consumers.

At the same time, we will continue to be a reliable partner to our industrial customers, involved in the production and supply of large quantities of gases. In July 2004, for example, Linde Gas started operating a new plant for the production of liquefied carbon dioxide at Marl Chemical Industrial Park in the north of the German Ruhr district. The unusual thing about this project is that the carbon dioxide is produced from a raw gas which is a waste product arising from the manufacture of detergent base materials by the chemical company Sasol, which is also located in Marl. The raw gas is purified in the plant and reprocessed into liquefied carbon dioxide which meets food quality standards. Environmental pollution is kept to a minimum due to this efficient method of using the raw gas. The cost of disposing of the waste products is also considerably lower than before.

In the course of the year, we have significantly improved our position in the growing trade in electronic gases by acquiring 51 percent of the joint venture MNS Nippon Sanso (Krefeld). The joint venture supplies the European electronics industry with specialty gases such as silane and diboran and liquefied gases such as nitrogen and argon, as well as the relevant services. These products are used for example in the manufacture of memory chips, processors, flat screens and solar cells.

Linde protecting the environment: In this new CO_2 liquefaction plant in Marl Chemical Industrial Park, carbon dioxide which meets food quality standards is recovered from a raw gas arising from the manufacture of detergents which would otherwise need to be disposed of as a waste product.



Healthcare: A global growth market

The Healthcare segment is becoming increasingly important to Linde due to demographic changes – particularly in the industrialized countries. An increasing number of people, particularly those with chronic diseases, are dependent on medical care. As the number of elderly, less mobile patients is constantly increasing and health systems worldwide are under considerable cost pressure, medical care at home is an effective, humane and cost-effective alternative to expensive, more anonymous treatment in hospital. We will continue to improve our position in this growth market due to our skills in providing care in the home of patients with respiratory diseases in the form of medical oxygen and the necessary technical equipment. We will also be able to take advantage of dynamic trends in the various markets for sleep therapy and ventilation therapy and for supplying oxygen, nitrous oxide and various related services to hospitals, prescribing physicians and ambulance services.

Our healthcare activities are grouped together in the Linde Gas Therapeutics segment, which comprises the following divisions: Institutional (which supplies hospitals, doctors and ambulance services), Respiratory Homecare (which provides care for patients at home) and INO Therapeutics (which treats term and near-term neonates with respiratory failure). Our research activities into medical and therapeutic gases have been grouped under the name GEMI (Gas Enabled Medical Innovations). Since the beginning of 2004, we have bundled our medical gas activities in the Institutional division in the US into the company LifeGas LLC.

Institutional: A high level of safety for users

The legal requirements for producers of medical gases are becoming ever more stringent. In order to ensure that we meet these requirements, we are transforming ourselves from a traditional supplier of medical and therapeutic gases into a pharmaceutical gases company. By implementing the ROSES program, we are continuing to pursue our declared objective to obtain approval for our medical and therapeutic gases as pharmaceuticals in all European countries by 2007 at the latest. Important stages in this process are improvements in the supply chain, in the production processes and in batch traceability.

At the same time as making quality improvements, we are constantly expanding our presence in fast-growing regions. In Sweden, we have had our own production and filling facility for medical and therapeutic gases only since 2004. From there, we supply parts of the Baltic states and northern Europe. Our US company LifeGas LLC is also expanding, concentrating its production on the particular local needs of small hospitals and care services. At the same time, we are changing our worldwide distribution system, away from parallel deliveries of medical or therapeutic gases and industrial gases to direct delivery to pharmaceutical wholesalers and major customers.

Respiratory Homecare: Providing a good quality of life

During 2004, we strengthened our Respiratory Homecare segment, which mainly provides care at home for patients with respiratory diseases in the form of medical oxygen and the necessary technical equipment, by making further acquisitions. This strategy will enable us to take advantage of the high growth rates across the world in this area of business. For example, we acquired the medical and therapeutic gases specialist Crio Medizintechnik, one of the leading German suppliers in this field. In December 2004, we also acquired Johann Eibl Home Care AG, a company based in Mahlow near Berlin, which specializes in the artificial ventilation of patients at home, thus expanding our range of potential therapies.

Overall, the homecare market within our Healthcare segment continues to achieve the highest growth rates. In the United States, demand for medical oxygen and other homecare therapies for pulmonary disease is rising at an annual rate of around 10 percent. In Western Europe and Latin America, the rates of increase are sometimes even higher, up to 20 percent. In order to share in this growing market, we are constantly expanding our range for the benefit of the patients and offer our homecare products and services in 30 countries across the world. At the heart of all our activities is the patient. Our experts help the patient to become accustomed to the breathing equipment and teach them how to use the aids we provide. For us, safety and quality of life are inextricably linked.

INO: Good business in the US

Sales of the gas mixture INOTherapy®, which has been approved as a pharmaceutical, have been particularly successful in the United States. Sales revenue there in 2004 was €113 million. In Europe, we achieved sales of €11 million.

During 2004, the European Patent Office in Munich declared the European patent for the use of nitric oxide to treat respiratory failure invalid. On the basis of this patent, our subsidiary INO Therapeutics Inc. had been selling the product INOmax® as part of the extensive INOTherapy® range since 1999 in the United States and since 2002 in Europe. Following the decision of the Patent Office, any supplier in Europe may now provide nitric oxide to hospitals, provided that the product meets the requirements of the European health authorities as regards its quality, safety and effectiveness and that official approval has been given. Currently, the Linde product INOmax® is the only gas mixture which the appropriate authorities in the United States and in Europe have approved as a pharmaceutical.

Helium: Technological leap secures market opportunities

Helium is one of the most important noble gases of all and is used in a variety of industrial applications. As a result, global demand rises annually by around five percent. The main applications are in aeronautics, the semi-conductor industry, modern high-performance welding, glass fiber technology or medical technology. Helium is employed in medicine, for example, to cool the coils of high-performance MRI scanners, which are used to make pictures of cross-sections of the human body. Superconductive coils create a strong magnetic field overlaid by further fields. Superconductivity describes the physical effect which occurs in various materials when they are cooled to extremely low temperatures. This allows electricity to flow without any resistance or loss of power. To generate the low temperatures required to make the metallic coils in MRI scanners superconductive, only liquefied helium at a temperature of minus 269° Celsius is suitable. Linde is one of the few companies in the world which is proficient in this cooling process. During the year 2004, for example, we cooled in record time the biggest MRI scanner in Europe with a magnetic field intensity of seven tesla (see glossary) at the Leibnitz Institute for Neurobiology at the Otto-von-Guericke University in Magdeburg. Researchers and doctors will therefore be able to use a new and efficient instrument for investigating the brain and to diagnose and treat numerous neurological illnesses such as Alzheimer's disease, epilepsy and schizophrenia.

In Algeria, the development of Linde's own helium source – our first – is on schedule. In 2004, together with our partner, the Algerian energy supplier Sonatrach, we reached important intermediate stages in the construction of the helium extraction plant in Skikda on the eastern coast of the country. Once this major project has been completed in Summer 2005 and the three-year start-up phase is over the plant will produce 17 million cubic meters of helium a year. This is equal to a tenth of world production.

BIOGON®: Food gases meet new legal requirements

Numerous industrial gases, invisible to the consumer, are used in food production, for example in the freezing or packaging of meat, fish, dairy products, coffee and bread, cakes and pastries. With our food gases concept BIOGON®, we are currently one of the first gas suppliers in the world to be in a position to comply with and sometimes even exceed the new legal requirements across the whole range of food gases.

To ensure constant high quality and safety for the consumer, our BIOGON® products are labeled and recorded along the entire production and distribution routes to the consumer. This makes it possible to trace batches back from the customer to production. We are able to establish at any time when and where a particular road tanker was filled up and to which customer it delivered. In our factories, it is also possible to prepare the analyses required each time a road tanker is filled with BIOGON®.

Within the BIOGON® concept, we are able to offer our customers in the food and drinks industry a complete range of pure gases and gas mixtures, such as nitrogen, carbon dioxide, oxygen or nitrous oxide as gases liquefied at extremely low temperatures and various pure gases and gas mixtures as cylinder gases.

For quality reasons, we keep a separate cylinder park for gaseous products in cylinders. The BIOGON® cylinders undergo special checks and are handled in accordance with high standards of cleanliness. In addition to the gases, we provide services which range from seminars, applications engineering advice to customers and on-site process optimization to the hire of measuring and analysis equipment.

Hydrogen: The future can begin

Fossil energy reserves are becoming increasingly depleted. Therefore, hydrogen will gain in importance in future as an almost infinitely available and environmentally friendly energy source. As the leading supplier of industrial gases and the biggest world producer of hydrogen plants, Linde has been for years at the cutting edge of technology in terms of developing forward-looking solutions with hydrogen. Our role is as systems and technology partner of the oil and energy supply companies and of automobile manufacturers. However, we are always looking for new potential applications.

In the course of 2004, we again demonstrated our specialist skills with a range of innovative projects in the field of basic research and with the uses of hydrogen.

In Berlin in November 2004, we started operating the biggest public hydrogen filling station in the world together with our partners, including those from the mineral oil and automobile industries. For the first time, as part of this project, where we supply liquefied hydrogen and special hydrogen pumps, the production, delivery, storage and filling of liquefied and gaseous hydrogen was combined in Berlin in a conventional filling station. What is exciting about this project in the light of the Clean Energy Partnership (CEP) is that both types of hydrogen can be used to refuel vehicles. The hydrogen filling station in Berlin shows that it is possible to use hydrogen as an everyday vehicle fuel.

In spring 2004, in conjunction with our partner, General Motors (GM), the largest automobile group in the world, we put our hydrogen technology to a particularly hard test in the Opel Fuel Cell Marathon. The hydrogen-powered HydroGen3, based on an Opel Zafira, developed in a collaboration between GM and Linde, drove for around 10,000 kilometers right across Europe without any problems, impressive evidence of the suitability of hydrogen technology in vehicles for everyday use and over long distances.

On this project, which aroused great interest all over the world, Linde was not only the sole supplier of the liquefied hydrogen used as fuel, but also developed the new hydrogen tank for the HydroGen3 and a mobile hydrogen filling station. As a result of Linde’s patented cryo clutch technology, it only took around four minutes to refuel the vehicle after each of the 20 stages of around 500 kilometers each.

The fact that hydrogen can be used in a number of different applications in a great variety of industry sectors has been demonstrated recently by our collaboration with the fuel cell specialist P21 Gmbh in Brunnthal near Munich. During 2004, we worked together with P21 to develop a new type of fuel cell concept, which makes it possible to ensure an uninterrupted electricity supply to cell phone transmission masts in any location at all. Linde provides hydrogen and other components for fuel cells installed directly adjacent to the masts, which will ensure an uninterrupted electricity supply to the transmitter. This innovative procedure guarantees energy supplies to the transmission masts which are independent of the network, thus ensuring the ability of cell phone networks to function in future more reliably than is currently the case. This is particularly significant if a crisis or catastrophe occurs. Until now, cell phone operators have coped with power failures by using emergency power supplies with lead accumulators or combustion engines in conjunction with electrical generators. Hydrogen-powered fuel cells are an efficient yet environmentally friendly alternative. Therefore, we have set ourselves and P21 the goal of being able to make cost-effective fuel cells in high numbers available by the end of 2005. In the medium term, it is even conceivable that they might be used as a principal power source.

At the second International Hydrogen Day, a Linde initiative, in February 2005 we were able to take a glimpse into the hydrogen society of the future, together with VIP partners from the worlds of politics, the economy and technology. 150 participants worked together to develop a clear vision for hydrogen-based road transport in Europe. Already Linde has the main technologies at its fingertips for this vision to be realized. Moreover, new facts emerging from a study commissioned by Linde prove the economic feasibility of an infrastructure of hydrogen filling-stations. Building a European Hydrogen Highway is coming within reach.

Linde Engineering

In contrast to most of its competitors, Linde Engineering has its own process engineering know-how in the planning, project development and construction of turnkey industrial plants. Our focus is principally on those markets which are likely to grow. We are concentrating, therefore, on plants producing hydrogen, olefins and air gases such as oxygen and nitrogen, and on natural gas treatment plants.

Natural gas: A surge in demand due to higher energy prices

As a result of the construction of a large number of gas-fired power stations, there has been an unprecedented demand for natural gas. This surge in demand has launched a raft of projects, with the market for natural gas liquefaction plants (LNG plants) in particular currently growing at an annual rate of about 5 percent, as transporting liquefied natural gas is an extremely cost-effective alternative. Linde Engineering is able to design and supply natural gas plants of any size tailored to the individual needs of its customers.

In summer 2004, our LNG plant in Shan Shan in the westernmost province of China came into operation. The plant liquefies locally extracted natural gas from the Tuha Basin. Every year, it will be possible to transport 430,000 tonnes of liquefied natural gas by road tanker or by rail several thousand kilometers to the markets in Eastern China. The project will meet the fast-increasing energy consumption requirements in the provinces of Guangdong, Hubei, Fujian and Jiangsu.

Excellent progress is being made in the manufacture of major components for Europe's largest natural gas liquefaction plant near Hammerfest in Norway. In the middle of 2005, the plant components, which have been designed and made by Linde Engineering, will be delivered to the international Snøhvit consortium from various European countries (Germany, Spain, Italy, Belgium and the Netherlands) in a logistically costly transport process, where the parts will be assembled into a turnkey plant. It is planned that the plant will start operating in 2006. The natural gas which has been liquefied to a temperature of minus 162° Celsius on the island of Melkøya is then transported by ship to the United States, France and Italy.

In fall 2004 we finished on schedule one of the largest natural gas treatment plants in Kollsnes in Norway and handed it over to the customer, Statoil ASA. The project, worth €270 million, was completed by Linde Engineering as a turnkey plant.

Contracts have been agreed for the supply of two large natural gas separation plants in Ahwaz and Assaluye in Iran as a result of the expansion of the petrochemical industry there. Both plants extract ethane and LPG (see glossary) from natural gas.

Olefin plants: Demand stimulated by growth in the plastics market

Growth in the plastics market and in the whole field of petrochemicals continues unabated, providing impetus to the demand for olefin plants in the course of 2004. Olefin plants produce the gases ethylene and propylene, the most important raw materials for the petrochemical industry. Linde Engineering was able to continue to improve its market position based on its own technology and to take advantage of the good rates of market growth.

The art of the engineer is in the detail: This polymerization reactor is at the heart of a polyethylene plant built jointly by Linde and its partners in the Czech town of Litvinov which produces 200,000 tonnes of plastic every year.

We obtained a 200 million dollar contract from Jubail United Petrochemical in Saudi Arabia to construct a plant for the production of linear alpha olefins using the Alpha-Sablin process (see glossary) developed jointly by Linde and Sabic. The contract is for the engineering, delivery and assembly of the plant in Al Jubail, Saudi Arabia, and should be completed by the middle of 2006.

Noretyl A/S in Norway awarded us the contract to expand the Rafnes olefin plant. The aim is to increase the capacity of the plant from 450,000 tonnes to 557,000 tonnes per year and to make the whole complex more cost-effective as a result of the modernization.

We have received a contract from our long-standing customer Jilin Petrochemical in China to upgrade an existing ethylene plant so as to double its capacity. Linde is supplying the technology, engineering services and upgrades.

Impressive state-of-the-art technology: It took our engineers only 18 months to build this olefin plant in Secunda in South Africa. It was completed in record time. Numerous new steps in the process ensure that the hydrocarbons produced are of the highest quality.

In October 2004, Linde Engineering was able to hand over a plant for the production of 47,000 tonnes per year of octene in Secunda, South Africa, ready for use, after the construction was completed in only 18 months. This plant placed very high demands on the skills of our engineers. It comprises a series of processing steps and new plant components derived from these which were world firsts.

Hydrogen plants: Consolidating our position

In the world market for hydrogen and synthesis gas plants, which is showing dynamic growth, we were able to continue to consolidate our global position during the fiscal year. One of the most important reasons for our success is the fact that we are able to cover all the major steps of the processes for the production of hydrogen and synthesis gas, such as reformers, pressure swing adsorption and processes for the cryogenic separation of synthesis gas mixtures (see glossary), using our own technology.

During the fiscal year, our US subsidiary, Linde BOC Process Plants (LBPP) in Tulsa, Oklahoma, was particularly successful. LBPP was involved in five projects, which together supply 30 percent of the hydrogen requirement for refineries in the USA. This hydrogen is used for the desulfurization of fuels to meet the increasingly stringent legal requirements of the US Clean Fuel Act on environmental friendliness. Two of these plants with a capacity of more than 100,000 cubic meters of hydrogen per hour, located in Texas City and Port Arthur, supply the pipeline system of our customer Praxair in the conurbation of Houston, Texas. We also anticipate positive business trends next year in the United States due to further strategic projects of this type in the US which we are implementing for our customers BOC and Praxair.

The close co-operation between Linde Engineering and Linde Gas this year again made a significant contribution to the success of both divisions. In Chile, Linde Engineering is constructing a plant to supply the state-owned Chilean oil company ENAP with a production capacity of around 50,000 cubic meters of hydrogen per hour, which is used mainly for the desulfurization of diesel fuel. Linde Gas will operate this plant and supply ENAP on site.

In Esterac in France, Linde Engineering is building a fully automatic hydrogen plant on behalf of Linde Gas, which will be operated using remote control and which can, for the first time, be started up with no on-site personnel.

There has been a welcome increase in incoming orders in 2004 for synthesis gas purification. We are supplying the biggest Rectisol and nitrogen purification facilities we have ever built for two ammonia plants in the province of Yunnan in China. These are used for the purification of ammonia synthesis gas.

Linde Engineering is also supplying a Rectisol purification facility for a project for the hydrogenation of coal (see glossary) in the province of Inner Mongolia in China, which will handle 540,000 cubic meters of synthesis gas per hour. Shanghai Hualin Industrial Gases Ltd., a joint venture of Shanghai Huayi Group and Linde Gas, has awarded Linde Engineering a contract for a cold box (see glossary) to recover 6000 cubic meters of carbon monoxide per hour. The gas is used in MDI and TDI production, base materials for polyurethane (see glossary), by Bayer AG in Caojing near Shanghai in the People's Republic of China.

Against a background of rising oil prices, the extraction of crude oil from oil sand is becoming increasingly lucrative. As part of the Long Lake project to produce 60,000 barrels of fuel a day in Alberta, Canada, we were awarded the contract to supply the biggest hydrogen pressure swing adsorption plant (see glossary) in the world with a processing capacity of 340,000 cubic meters of raw gas and 105,000 cubic meters of hydrogen an hour.

Air separation plants: A world leader

Ever since the construction of the first oxygen plant in 1902, based on a process developed by the founder of the Company, Carl von Linde, we have continually updated our air separation plants. This technology is a significant constituent part of our know-how and of our success worldwide as an international engineering company. During the year 2004, we demonstrated our skills in this area many times over.

In Al Jubail, Saudi Arabia, the largest air separation plant in the Middle East started operating successfully during the fiscal year. It produces oxygen and nitrogen, as well as the precious noble gases argon, krypton and xenon. The principal application of oxygen is the production of ethylene oxide and ethylene glycol – important intermediate materials for the chemical synthesis of polyesters such as PET (see glossary).

The areas of application for air separation plants are even more diverse than this. Our US company LBPP was awarded a contract in 2004 for four plants for the production of high-purity nitrogen for the biggest manufacturer of computer chips and LCDs in the world in Hsin Chu, Taiwan.

In Eastern Europe, for example, we were able to underpin our good market position by laying the foundation stone for a new air separation plant for the Czech energy supplier Sokolovská Uhelná. The plant, with an investment volume of €62 million is being built by Linde Engineering and will be operated by the Czech gases company, Linde Technoplyn, from 2005, yet another example of the successful co-operation between the Linde Gas and Linde Engineering divisions. The air separation plant will not only supply the oxygen required for a coal gasification power station run on lignite, but also liquefied products for the Czech market.

The Linde Engineering division was also awarded two major contracts from China for the construction of air separation plants. The contractors are Wuhan Iron and Steel Group, the third-largest steel-producer in China, and Taiyuan Iron and Steel Co. (TISCO), the biggest Chinese manufacturer of high-grade steel.

Linde Engineering operates in the most remote corners of the world. This is amply demonstrated by our British subsidiary Linde Cryoplants which started operating a plant for the production of high-purity liquefied nitrogen at the South Pole in February 2004 during the Antarctic summer. The liquefied nitrogen is used in the cooling of the electronic detectors of a radio telescope used for space research. We already have the prospect of a number of contracts to install this technology in other research stations.

Material Handling

Three brands, one solution. Linde, STILL and OM stand for expert competence in the management of logistics processes. For the benefit of our customers in growing markets. Worldwide.

Material Handling – made by Linde.

With its three brands, Linde, STILL and OM, and its strategic partner Komatsu Forklift Co. Ltd. (KFL), our Material Handling business segment is one of the biggest manufacturers of forklift trucks and warehouse equipment in the world. We are able to offer our customers the complete range of industrial trucks: engine-powered forklift trucks, electric trucks and warehouse equipment. Our business success in this segment is based on products at the cutting edge of technology and an extensive range of service options from financing to full fleet management.

During the reporting year, the entire business segment benefited from the dynamic growth in the global market for industrial trucks. The growth in the world market was due in particular to high levels of growth in America and Asia. Even Europe, Linde's most important sales market, saw double-digit growth, a positive development which was caused by above-average growth in Eastern Europe. In this region, we were able to take advantage of our good sales and service structure, obtaining several major contracts with full service agreements during the reporting period.

Multi-brand strategy redefined

Our Material Handling business segment has adopted a clear multi-brand strategy. This enables us to meet the needs of different groups of customers and to react to the specific requirements of different markets. We actively manage our brands to achieve differentiation in each product segment and region.

The Linde brand, with its innovative vehicles, offers solutions which are technically demanding and value for money as well as comprehensive service competence. The aim is to become the leading provider of products and services worldwide while taking account of regional requirements and opportunities for growth. In the coming years, it is therefore intended that the Linde brand will concentrate to an even greater extent on markets such as the US and Asia.

STILL sees itself as a service-oriented provider for the management of intralogistics (see glossary), an interface between the customer and his internal flow of goods and materials.

A dynamic dependable brand, OM Pimespo is the market leader in Italy. Its product range includes forklift trucks and warehouse equipment which represent good value for money.

Each of the three Group brands will present its latest products and services at the biggest trade fair in the world for intralogistics, CEMAT in Hanover, in fall 2005.

Innovations reinforce our technological leadership

Once again in 2004, innovative products were the key to improving the leading global market position of the Material Handling business segments.

With three new diesel and LP gas trucks in the 394 series which have a load capacity of up to five tonnes, the Linde brand has once again expanded the 39X series originally launched in 2002. The greater load capacity of the vehicles ensures even greater cost-effectiveness, especially in the traditional target markets for the 394 series, such as the drinks, paper, iron and steel industries and the construction materials sector. The high warehouse turnaround significantly reduces operating costs for users of the forklifts in the 394 series so that these vehicles, combined with our electronic hydraulic control (Linde Load Control, or LLC), become highly efficient tools for daily use. LLC makes it possible to operate the forklift truck with virtually no physical effort while setting high standards for precision.

Linde is also able to offer managers of forklift truck fleets a complete tailor-made, cost-effective and environmentally friendly solution comprising natural gas forklift trucks and a turnkey natural gas filling station. Due to a low level of emissions, it is possible to operate these forklift trucks even in confined spaces. As a result of the lower tax on natural gas compared to diesel which will apply until 2020, the Linde natural gas forklift truck will be an alternative which can be run at a cost of up to 30 percent less than conventional models. The natural gas filling station was developed by Linde Gas. The customer thereby benefits directly from the expertise of the two business segments within the Linde Group.

During the reporting period, the Linde brand expanded its range of warehouse trucks with the new T20 SP and T24 SP electric pallet stackers with platforms. The introduction of these pallet stackers will also set in train the complete renewal of the existing product range over the coming years.

Visitors to the International H2Expo Trade Fair in Hamburg in September 2004 were treated to a glimpse into the future of industrial trucks. There, Linde Material Handling and Linde Gas combined to show a prototype of the first Linde forklift truck in the world to sport a hydrogen-powered engine.

In fiscal 2004, our STILL brand again demonstrated its leading position in the market for electric trucks and continued to introduce new models of forklift trucks and warehouse equipment. In the middle of the year, we launched the MX-X, a new high level order picker, where the operator’s cabin is moved vertically. The modular construction of the new order picker and the possibility of scaling its performance ensure that the vehicle may be precisely configured so as to meet the individual needs of customers. In Fall 2005, STILL is also due to launch onto the market the first vehicles in the new RXY electric truck program.

OM Pimespo will show five new products at the CEMAT trade fair, the latest developments in logistics and warehouse technology. During 2004, OM launched the Xrac, a new reach truck with three-phase current technology, and a new electric truck series with a load capacity of 3.5 to 5 tonnes.

Opportunities in Eastern Europe

Following the expansion of the European Union in spring 2004 to include countries in Eastern Europe, the growing market in the former Warsaw Pact countries has become even more attractive. As demand for industrial trucks in this region was already showing a clear upward trend, experts are expecting a real boom in these countries over the next few years. In 2004, the market in Eastern Europe for engine-powered forklift trucks alone increased by 43.4 percent.

As a result, during the year, Linde Material Handling has itself conducted marketing operations in Poland, Slovakia and the Czech Republic, which it intends to expand significantly. The huge Russian market also presents exceptional opportunities, which we aim to exploit in the medium term. So, for example, we will strengthen sales links with our Russian partner for the Linde brand, Liftec S.A., and enhance spare parts delivery.

Unique anywhere in the world: Linde forklift trucks in the 39x series are now also available in a natural gas version. On request, we can deliver the mobile filling station at the same time. An innovative complete package – made by Linde.

Fulfilling our customers' needs: The new STILL brand high level order picker. Thanks to its modular construction, the MX-X is suited to any work environment. Guaranteed.

STILL is planning to set up its own subsidiary in 2005 in Moscow to continue to improve and expand its market position in Eastern Europe. During the reporting period, STILL also formed a separate company in Slovenia. This company will enable us in future to meet directly the needs of the markets in Slovenia, Croatia and Serbia & Montenegro (fast-growing markets with an average increase in demand of around 40 percent) and to continue to improve our position. OM is proposing the restructuring of its dealer network in Eastern Europe, so that it may share in the growth of the market.

Service business increasing in importance

It is becoming increasingly important to our customers that we not only introduce technical innovations, but also provide a range of services for fleets of forklift trucks and warehouse equipment. The same applies to second-hand sales of forklift trucks. Around 40 percent of total sales in the Material Handling business segment now relate to service business.

The online version of the Linde Vehicle Data Management System (LFM), for example, makes it much easier to manage individual forklift trucks or entire fleets of forklift trucks. LFM comprises two software modules. The first of these monitors the operating condition of the forklift truck and ensures appropriate maintenance management, while the second provides precise operational and utilization analyses, so as to optimize fleet efficiency and costs.

During the fiscal year, the STILL brand launched the service product PartnerPlan for the first time onto new European markets, which will ensure uniform service standards throughout Europe from the middle of 2005. For all forklift trucks and warehouse equipment, this will include not only services such as repairs and the annual testing for compliance with local safety regulations, but also operator training, machinery insurance and the hire of trucks with operators. A recent addition to the range is our BasicDynamic financing service, which allows the customer to be invoiced according to the actual hours of operation rather than being charged a lump sum as previously. In the course of 2004, we completed the introduction of our marketing concept for used vehicles across Europe.

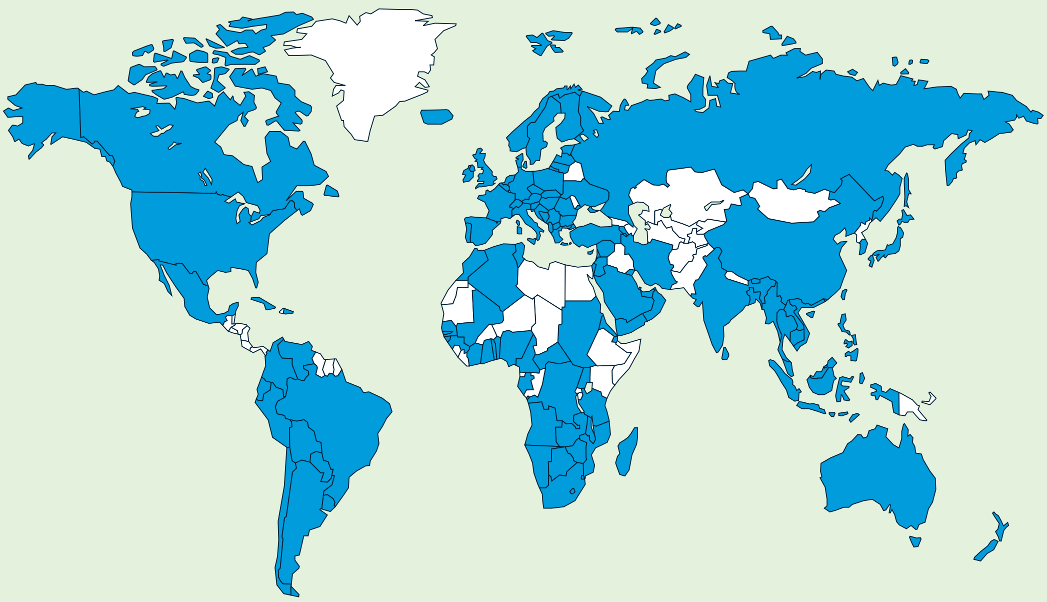
TRIM.100 leads to cost savings

TRIM.100, the efficiency program initiated in Fall 2002, has generated sustainable improvements in the competitive ability and earning power of our Material Handling business segment. This program focuses on bundling competences across the areas of purchasing, production and logistics. Our aim is to continue to improve our structures and processes across all the brands. The program is currently concentrating on the STILL brand, where it is intended to make significant changes to streamline the sales organization and administration. During the year, we have made substantial improvements in the sales organizations of our three brands, Linde, STILL and OM, enhancing the efficiency of both sales and service by introducing new performance management systems. Considerable streamlining of Group logistics relating to spare parts was achieved through combining warehouses in France and introducing direct deliveries. By the end of 2005, we anticipate that the program will have resulted in total cost savings of €150 million.

Six Sigma program opens up new opportunities for cost savings

The Six Sigma program, which is being gradually rolled out across the Group, has become a permanent part of our corporate culture. Six Sigma enables us to minimize errors in all operations and processes. During the reporting period, we successfully completed the second phase of Six Sigma projects in Linde Material Handling. The Linde Hydraulics department has already applied the Six Sigma methodology successfully, thereby continuing to improve existing operations and processes. Our focus here is constantly on the needs of our customers. Tangible successes have also been achieved by using the Six Sigma program for our STILL brand.

Global presence of Linde AG



America
Argentina (GE, MH)
Bolivia (GE)
Brazil (GE, MH)
Canada (GE, MH)
Chile (GE, MH)
Columbia (GE, MH)
Cuba (MH)
Dominican Republic (GE)
Ecuador (GE, MH)
Mexico (GE, MH)
Paraguay (GE, MH)
Peru (GE, MH)
Puerto Rico (GE, MH)
United States (GE, MH)
Uruguay (GE, MH)
Venezuela (GE, MH)

Europe
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Belarus (MH)
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Bulgaria (GE, MH)
Croatia (GE, MH)
Cyprus (GE, MH)
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Netherlands (GE, MH)
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Romania (GE, MH)
Serbia and
Montenegro (GE, MH)
Slovakia (GE, MH)
Slovenia (GE, MH)
Spain (GE, MH)
Sweden (GE, MH)
Switzerland (GE, MH)
Turkey (MH)
Ukraine (GE, MH)

Africa
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Botswana (MH)
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Gabon (GE)
Ghana (MH)
Guinea (MH)
Ivory Coast (MH)
Kenya (MH)
Lesotho (MH)
Libya (MH)
Madagascar (MH)
Mali (MH)
Mauritius (MH)
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Togo (MH)
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Uganda (MH)
Zambia (MH)
Zimbabwe (MH)

Asia
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Bangladesh (MH)
Brunei (MH)
Cambodia (GE, MH)
China (GE, MH)
India (GE, MH)
Indonesia (GE, MH)
Iran (GE, MH)
Iraq (MH)
Israel (MH)
Japan (GE, MH)
Jordan (MH)
Kazakhstan (MH)
Kuwait (GE, MH)
Laos (GE)
Lebanon (MH)
Malaysia (GE, MH)
Myanmar (Burma) (GE)
Oman (GE)
Philippines (MH)
Qatar (GE, MH)
Russia (GE, MH)
Saudi Arabia (GE, MH)
Singapore (GE, MH)
South Korea (GE, MH)
Sri Lanka (MH)
Syria (MH)
Thailand (GE, MH)
United Arab Emirates
(GE, MH)
Vietnam (GE, MH)
Yemen (GE)

Australia
Australia (GE, MH)
New Zealand (MH)

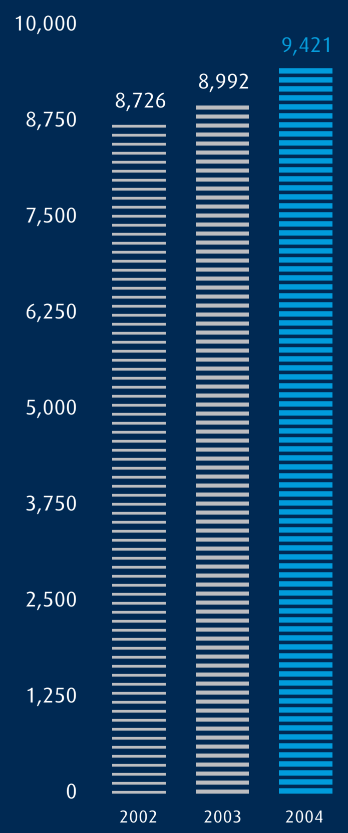
The countries highlighted have at least one plant location in the business segment indicated.

Business segments:
Gas and Engineering: (GE)
Material Handling: (MH)

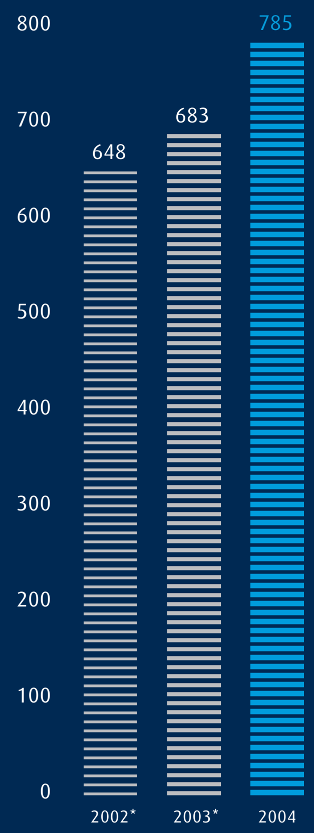
Group Management Report

Once again in fiscal 2004, we have achieved increases in sales and earnings at Group level, due to better economic conditions in many parts of the world. In comparison with the previous year, sales rose by 4.8 percent to €9.421 billion (2003: €8.992 billion), while operating profit (EBITA) increased by 14.9 percent to €785 million (2003: €683 million).

Group sales (€ million)



Group EBITA (€ million)



* Before special items.

Macroeconomic trends

The global economic recovery which began in spring 2003 intensified in 2004. Gross domestic product across the world grew in real terms by around 5 percent, the highest increase for almost three decades. However, this high level of growth obscures the fact that in the course of the year the rate of expansion was clearly slowing down. The conclusion we draw is that the global upturn has now passed the highest point in the economic cycle. Business activity has lost momentum as a result of flagging economic impetus and the dampening effect of steep rises in the price of crude oil. The increase in energy prices has led to a noticeable decline in purchasing power for private households in the oil-consuming countries and has had an adverse effect on companies.

Despite the economic recovery throughout the world, there was still a wide gap in the rates of growth experienced by the various regions. The highest growth rates were once again achieved by the newly industrialized Asian countries centered on China, while the lowest were in the European monetary union. The United States continues to be the driving force in the global economy, with growth of around 4.5 percent. Although the pace of economic expansion has begun to slow down slightly there too in the course of the year, the self-sustaining forces of the upturn have been reinforced by a positive turnaround in the labor market. The increase in the US gross domestic product was underpinned by a very high level of domestic demand.

In Asia, growth was focused on China which continued to expand at a remarkable rate. Driven by the investment boom, the economy grew at around 9 percent. Fearing that it might overheat, the Chinese government tightened the reins on its economic policy during the year, which has already led to a slight cooling of the economy. In the other newly industrialized countries of East Asia, dynamic trends also continued. However, in Japan, the recovery, which was initially strong, has slowed down significantly in the course of the year.

Bringing up the rear once again, in terms of economic growth in 2004, was the eurozone. After a relatively buoyant start, the economy once again lost momentum in the second half of the year. Despite strong impetus from the export trade, the recovery in corporate investment was rather hesitant. Personal consumption was also slow to improve.

In the EU accession states and in the other Central and Eastern European countries, expansion continued in 2004 at rates which were higher than the average rate in the rest of Europe.

In Latin America, economic growth accelerated as the export momentum started to affect the domestic sectors.

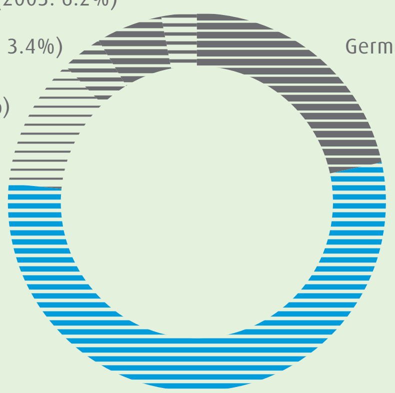
The German economy

The German economy in 2004 continued to be unstable and, despite strong foreign trade links, did not play a significant part in the boom in the world economy. After three years of stagnation, Germany – with an increase in real terms in gross domestic product of 1.6 percent (no less than 0.5 percent of which was due to the unusually high number of working days in the year) – was still below the average in the countries of the previous EU.

So far, Germany has not experienced a broadly based recovery. Instead, the economic revival has been one-sided, based on demand from outside Germany, with exports increasing in real terms by 8.2 percent. German exporters benefited to a greater extent than others from the momentum in the global economy, given improved price competitiveness and a beneficial export structure. Even the strong rise of the euro against the US dollar, which was generally bad news for the export trade, failed to have a significant adverse effect.

During the past year, domestic demand has not been able to escape from its long-lasting weak phase. No impetus for growth came from gross investment in fixed assets or from personal consumption. Weak domestic demand reflects Germany's problems of location. Companies are constantly investing less and moving parts of their production and some of their workforce to countries with low labor costs to retain their competitiveness. The purchasing power and willingness of private households to buy is being adversely affected by the fear of job losses, the high tax burden and uncertainty about future economic developments.

Sales: Analysis by region



Linde Group

As a result of the improved economic situation in many of Linde's important markets, we achieved a 4.8 percent increase in sales during the year to €9.421 billion (2003: €8.992 billion). Adjusted for currency effects, the increase was 6.3 percent. While sales in Germany fell by 2.4 percent to €2.012 billion (2003: €2.061 billion), sales outside Germany grew 6.9 percent to €7.409 billion (2003: €6.931 billion). Incoming orders amounted to €9.637 billion, an increase of 6.1 percent over the prior year figure (2003: €9.079 billion). Adjusted for exchange rate effects, this represented an increase of 7.7 percent.

Excluding the figures for the Refrigeration business segment, which was sold at the end of the third quarter of 2004 to the Carrier Corporation, the figure for sales would be €8.856 billion (2003: €8.165 billion). This represents sales growth of 8.5 percent (10.1 percent after adjusting for currency effects). Incoming orders excluding Refrigeration increased by 8.4 percent from €8.228 billion to €8.917 billion. Adjusted for currency effects, this would have been an increase of 10.1 percent.

Results of operations

The Group operating profit (EBITA, see glossary) rose in 2004 by 14.9 percent to €785 million (2003: €683 million).

The main reason for this increase was the significant improvement in prevailing economic conditions, which was to the benefit of all the business segments. Also contributing greatly to this rise in earnings are our current successful programs designed to improve efficiency and profitability.

Earnings before taxes on income (EBT) went up from €287 million to €518 million.

The EBITA return on sales was 8.3 percent (2003: 7.6 percent).

Return on capital employed (ROCE) rose from 7.7 percent to 9.5 percent. The factors contributing to this improvement were a higher operating profit and the continuing planned reduction in capital employed.

The net income for the year increased from €108 million to €274 million.

Earnings per share rose from €0.91 to €2.30.

After deducting the figure for the cost of sales, the Linde Group made a gross profit (on sales) of €2.882 billion, which is shown in the income statement prepared using the cost of sales method. This figure was slightly higher than the prior year figure of €2.777 billion.

Other operating income remained constant at €251 million (2003: €251 million). Included in this figure is an amount of €20 million from the partial release of a provision set up in the previous year for the sale of the Refrigeration business segment and for divestment from peripheral activities. Other operating expenses, however, fell substantially from €154 million to €134 million.

In fiscal 2004, earnings were not affected by any special items.

The financial result improved from a loss of €131 million to a loss of €126 million.

In comparison with the previous year, the income tax rate dropped from 62 percent to 46 percent. After adjusting for the amortization of goodwill, which is only partly tax-allowable, the income tax rate is 36 percent (2003: 42 percent).

Results of operations	2004		2003	
	in € million	in %	in € million	in %
Sales	9,421	100.0	8,992	100.0
Cost of sales	6,539	69.4	6,215	69.1
Gross profit on sales	2,882	30.6	2,777	30.9
Marketing and selling expenses	1,314	13.9	1,297	14.4
Research and development costs	177	1.9	172	1.9
Administration expenses	723	7.7	722	8.0
Other operating income	251	2.7	251	2.7
Other operating expenses	134	1.4	154	1.7
EBITA before special items	785	8.3	683	7.6
Special income	0	0.0	13	0.1
Special expenses	0	0.0	140	1.6
EBITA	785	8.3	556	6.2
Financial result	–126	–1.3	–131	–1.5
Earnings before taxes on income and amortization of goodwill (EBTA)	659	7.0	425	4.7
Amortization of goodwill	141	1.5	138	1.5
Earnings before taxes on income	518	5.5	287	3.2
Taxes on income	239	2.5	178	2.0
Earnings after taxes on income	279	3.0	109	1.2
Minority interests	–5	–0.1	–1	0.0
Net income	**274**	**2.9**	**108**	**1.2**

Sales and EBITA (before special items) by business segment in € million	2004		2003	
	Sales	EBITA	Sales	EBITA
Gas and Engineering	5,406	684	5,031	634
Linde Gas	4,003	640	3,843	598
Linde Engineering	1,581	69	1,270	46
Material Handling	3,372	191	3,063	156
Refrigeration	578	9	866	14
Corporate	65	–99	32	–121
Group	**9,421**	**785**	**8,992**	**683**

Gas and Engineering: Substantial increase in sales

Mainly as a result of the good business performance of Linde Engineering, we achieved a 7.5 percent increase in sales in the Gas and Engineering business segment during the year to €5.406 billion (2003: €5.031 billion). After adjusting for exchange rate effects, the increase was 10.0 percent. Incoming orders rose by 7.1 percent – 9.5 percent after adjusting for currency effects – to €5.394 billion (2003: €5.037 billion). The operating profit (EBITA) of the business segment was with €684 million, significantly higher than the prior year figure of €634 million (prior year basis adjusted, see also page 138 of the Notes to the Group financial statements).

Gas and Engineering in € million	2004	2003
Sales	5,406	5,031
Incoming orders	5,394	5,037
Number of employees	21,787	21,292

Linde Gas: Earning power increased

The Linde Gas division achieved sales of €4.003 billion in fiscal 2004, 4.2 percent higher than the prior year figure of €3.843 billion. After adjusting for exchange rate effects, the increase is even more significant at 6.9 percent.

Operating profit (EBITA) showed a 7 percent increase from €598 million to €640 million. The main reason for our increased earning power was our Fit For Future efficiency improvement program, which enabled Linde Gas to achieve cost reductions of €70 million by the end of the fiscal year.

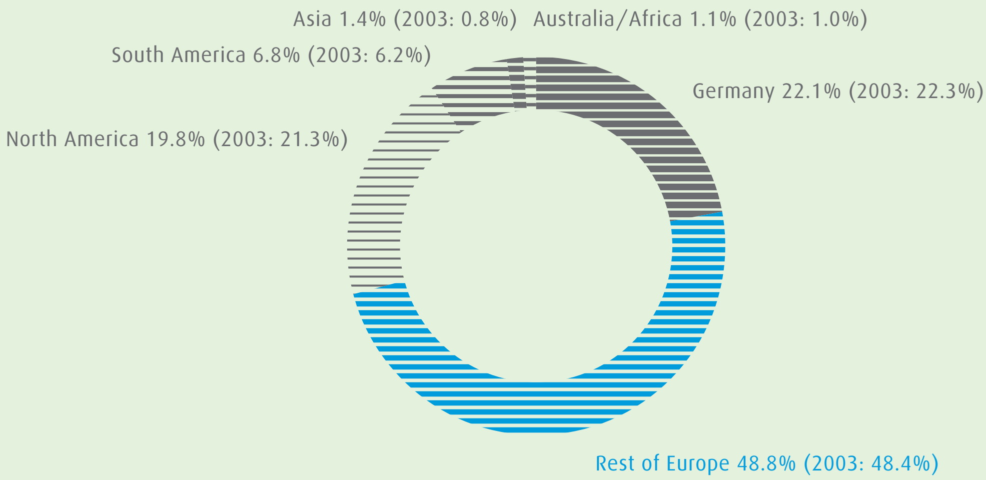
Rising energy prices, pay rise and increasing international competition will make it necessary to continue our efforts to improve earnings in the coming years. In addition to our cost optimization plans, we will in future be concentrating to a greater extent on the sustainable growth of the division. Therefore, we plan to launch our Growth and Performance (GAP) program in fiscal 2005, which will enable us to identify and exploit potentials for growth. We see additional opportunities to improve efficiency in the optimization of our international supplier relationships and in material procurement. GAP will be supported by extensive project and management control systems.

Linde Gas in € million	2004	2003
Sales	4,003	3,843
EBITA before special items	640	598
EBITA	640	588
Capital expenditure (excluding financial assets)	528	397
Number of employees	17,570	17,152

Whereas business in Europe saw a 4.6 percent increase in sales to €2.841 billion (2003: €2.716 billion), slightly above the high level achieved in the previous year, sales in North America fell 3.2 percent to €791 million (2003: €817 million) as a result of currency movements. Ignoring the effects of exchange rates, sales in this region would have risen 6.7 percent.

Our business performance in South America was positive, due to the economic recovery and the weakening of the negative currency effects. Sales increased 13.4 percent to €271 million (2003: €239 million). After adjusting for exchange rate effects, the rise in sales was 19.2 percent. In Asia and in the Australia/Africa region, the on-site business in particular was an area of dynamic growth. Sales increased by 44.3 percent to €101 million (2003: €70 million). During the year, we were also able to continue to strengthen our position in Asia by acquiring one of the biggest plants in the world for producing hydrogen and carbon monoxide in Singapore and purchasing a carbon dioxide liquefaction plant in Thailand.

Linde Gas: Sales by region



Different business trends were evident in each segment. The bulk business and Healthcare segment performed particularly well. The on-site business, where we supply industrial gases to the customer from a plant situated directly on the user's site, continued to show dynamic growth.

Bulk business sales rose 7.1 percent in 2004 to €1.121 billion (2003: €1.047 billion). The on-site segment grew 6.3 percent to €821 million (2003: €772 million).

Linde Gas: Sales by product segment
in € million

	2004	2003	Change
Bulk	1,121	1,047	7.1%
Cylinder	1,568	1,555	0.8%
On-site	821	772	6.3%
Healthcare	634	575	10.3%
Total (consolidated)	**4,003**	**3,843**	**4.2%**

In the Healthcare segment, sales increased by 10.3 percent to €634 million (2003: €575 million). The main reason for the rise in sales was once again the Homecare division, which provides care for patients in their own homes, for example in the form of medical oxygen and the related technical equipment. This division achieved an increase in sales of 20.8 percent to €145 million (2003: €120 million). We have strengthened our position in this growth market in the past few months due to a number of acquisitions and are keen to take advantage of any similar opportunities that may arise in future.

Linde Gas: Healthcare segment
in € million

	2004	2003
Sales		
Institutional	376	351
Homecare	145	120
INO	113	104
Total	**634**	**575**
Capital expenditure (excluding financial assets)	67	71
Number of employees	2,272	1,959

We have continued to achieve double-digit sales growth in the United States with the medical gas INOmax®, which has been approved as a pharmaceutical. Our European business, on the other hand, has declined, following a negative decision for Linde from the European Patent Court. Further information on this subject is given on page 42.

Linde Engineering: Positive performance

The Linde Engineering business segment continued to perform very well, with an increase in sales of 24.5 percent to €1.581 billion (2003: €1.270 billion). All the main product segments, i.e. natural gas plants, olefin plants and air separation plants, contributed to this growth. Incoming orders of €1.525 billion exceeded the previous year's high level of €1.474 billion. Operating profit (EBITA) rose to €69 million (2003: €46 million) (prior year basis adjusted, see also page 138 of the Notes to the Group financial statements).

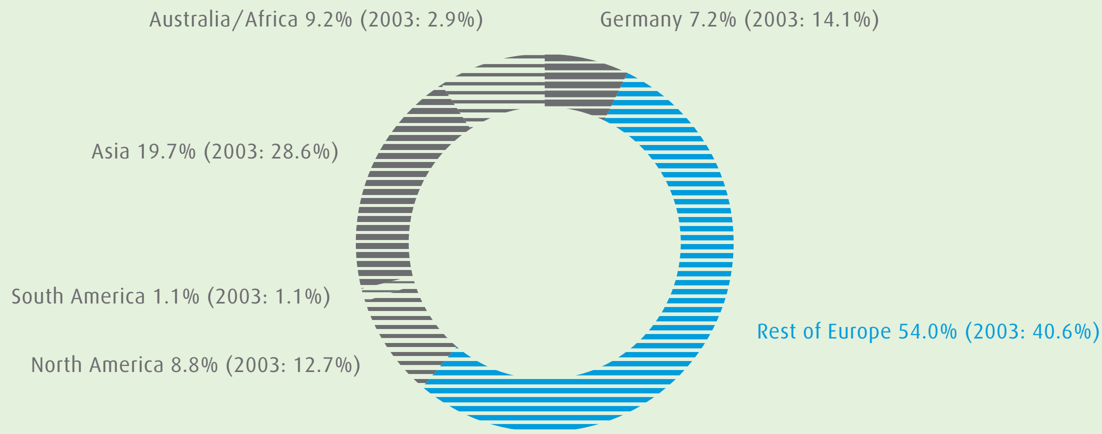
Linde Engineering in € million	2004	2003
Sales	1,581	1,270
Incoming orders	1,525	1,474
EBITA	69	46
Capital expenditure (excluding financial assets)	13	24
Number of employees	4,217	4,140

In the ethylene plant growth segment, we were awarded a number of important major contracts during the year. For example, we are constructing a plant for the production of linear alpha olefins for the Jubail United Petrochemical Company. The contract value for the plant, which is being built in Al-Jubail, Saudi Arabia, is around 200 million US dollars.

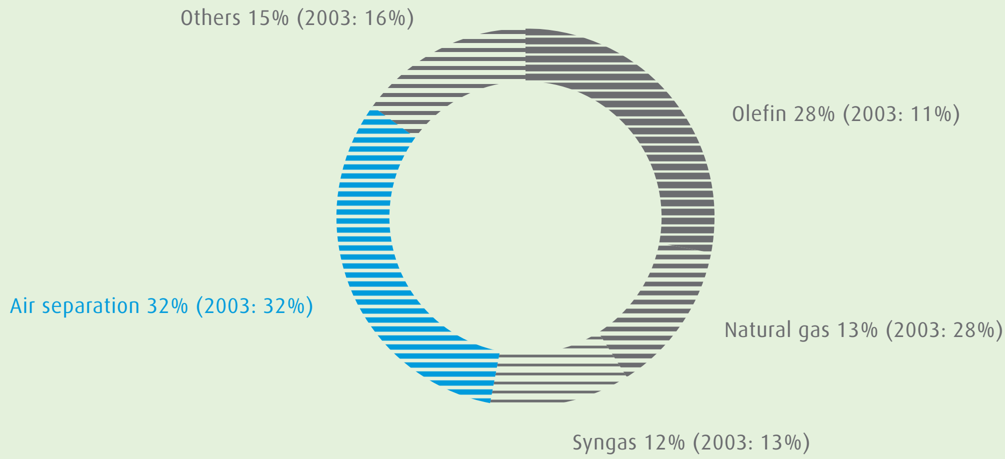
The Middle East is generally the center for new ethylene plants. This region, in addition to China, is also the target for significant investment in air separation plants. During the year, the demand for hydrogen and synthesis gas plants came mainly from the United States and China. Capital expenditure in Europe, however, remained at a comparatively low level.

We continue to expect annual market growth of between 5 and 10 percent in the medium term for natural gas plants. We will have a share in this growth, not least because of our Hammerfest reference project.

Linde Engineering: Sales by region



Linde Engineering: Incoming orders by plant type



Material Handling: Significant increase in earnings

In 2004, the overall market conditions for the Material Handling business segment improved considerably. Demand for industrial trucks has increased across the world. Most of the growth in the year was generated in the regions of America and Asia.

Our Material Handling business segment also performed well during the year, supported by the dynamic growth in the world market for industrial trucks. Sales reached €3.372 billion, which represents a 10.1 percent increase over the previous year (2003: €3.063 billion). Operating profit rose 22.4 percent to €191 million (2003: €156 million).

In Europe, the most important sales market for Linde, the business segment achieved double-digit growth rates, with the good performance due mainly to above-average growth in Eastern Europe.

The service business is becoming increasingly important and now accounts for around 40 percent of total sales.

In order to benefit even more from dynamic market trends, especially in China, we are planning to launch a second brand of forklift trucks there.

Material Handling in € million	2004	2003
Sales	3,372	3,063
Incoming orders	3,442	3,116
EBITA before special items	191	156
EBITA	191	96
Capital expenditure (excluding financial assets)	428	411
Number of employees	18,878	17,932

Our internal optimization program TRIM.100 was successful in 2004. We will continue to devote our efforts towards achieving further improvements in our processes and cost structures.

In fiscal 2005, therefore, we plan to launch a follow-up program to develop the Material Handling business segment, foster its growth and increase its efficiency. The aim of this program is to identify additional opportunities for synergies across the brands at the same time as achieving further cost reductions. Our strategic objectives include the expansion of our activities in Asia and of our service business. The program should lead to cost savings of €150 million by 2007.

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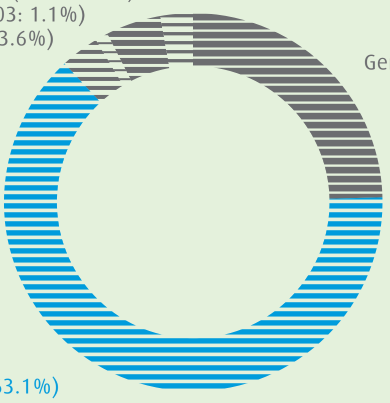
Material Handling: Sales by region



In future, we also intend to continue to drive forward our multi-brand strategy and to hone our brand profiles. We therefore operate in the market with three independent brands, which are precisely tailored to various customer and industry sector requirements. In the current fiscal year, Linde, STILL and OM will all present a number of new products to the public at the CEMAT trade fair.

We will continue to focus on expanding our distribution structure in Eastern Europe, especially in Russia, in the next few years, so that we are able to benefit from the strong market growth in these regions.

During the year, the Linde brand took responsibility for its own distribution activities in Poland, Slovakia and the Czech Republic, which it aims to develop further. In 2005, STILL will establish a new subsidiary in Moscow to improve its market position in Eastern Europe. In addition, OM is planning to restructure its dealer network in Eastern Europe.

Material Handling Analysis by brand	Linde		STILL		OM Pimespo	
in € million	2004	2003	2004	2003	2004	2003
Sales[1]	2,153	1,911	1,115	1,029	239	231
Incoming orders[1]	2,212	1,946	1,123	1,042	243	238
Sales (in units)[1]	69,337	63,385	34,593	33,074	15,646	13,574
Number of employees	11,525	10,618	6,224	6,152	1,129	1,162

1) Consolidated within the brands.

Refrigeration

The Refrigeration business segment was sold on October 1, 2004 to the Carrier Corporation, a company in the United Technologies Corporation (UTC) group. The sale of Linde Refrigeration to Carrier, which had been agreed on March 15, 2004, was concluded according to plan. The Group company Linde Ladenbau GmbH & Co. KG, which used to be included in the Refrigeration business segment, will remain with Linde for the present and will be disclosed in the Corporate segment.

Net assets and financial position

The total assets of the Linde group have been reduced during the fiscal year by €324 million to €11.591 billion (2003: €11.915 billion), principally as a result of the sale of the Refrigeration business segment. Excluding the effects of the sale of Refrigeration, total assets would have risen by around €320 million.

Capital expenditure of €1.037 billion was incurred, including that on financial assets. The expenditure is set against amortization and depreciation of €902 million and disposals of €142 million.

Fixed assets decreased by €21 million due to currency fluctuations and increased by €1 million due to changes in the companies included in the consolidation. Overall, fixed assets declined by €27 million to €7.675 billion (2003: €7.702 billion).

Inventories fell by €165 million to €942 million as a result of the sale of the Refrigeration business segment and changes during the year in the project structure of the Linde Engineering division.

Trade receivables decreased by €116 million to €1.454 billion. Excluding the sale of Refrigeration, trade receivables would have risen by €126 million due to the expansion of other operating business.

Securities and cash and cash equivalents remain at a similar level (€567 million) to that of the previous year.

Equity increased by €195 million to €4.081 billion as a result of the significant increase in net income and the transfer into the capital reserve of an amount relating to the issue of a convertible bond during the fiscal year. Based on total assets, this represents an equity ratio of 35.2 percent (2003: 32.6 percent).

Provisions amounted to €2.124 billion in total, which is €103 million lower than in the previous year. In addition to the effects of the sale of Refrigeration, the decrease was due (as in 2003) to the transfer of fund assets to a trustee for the external funding of pension obligations.

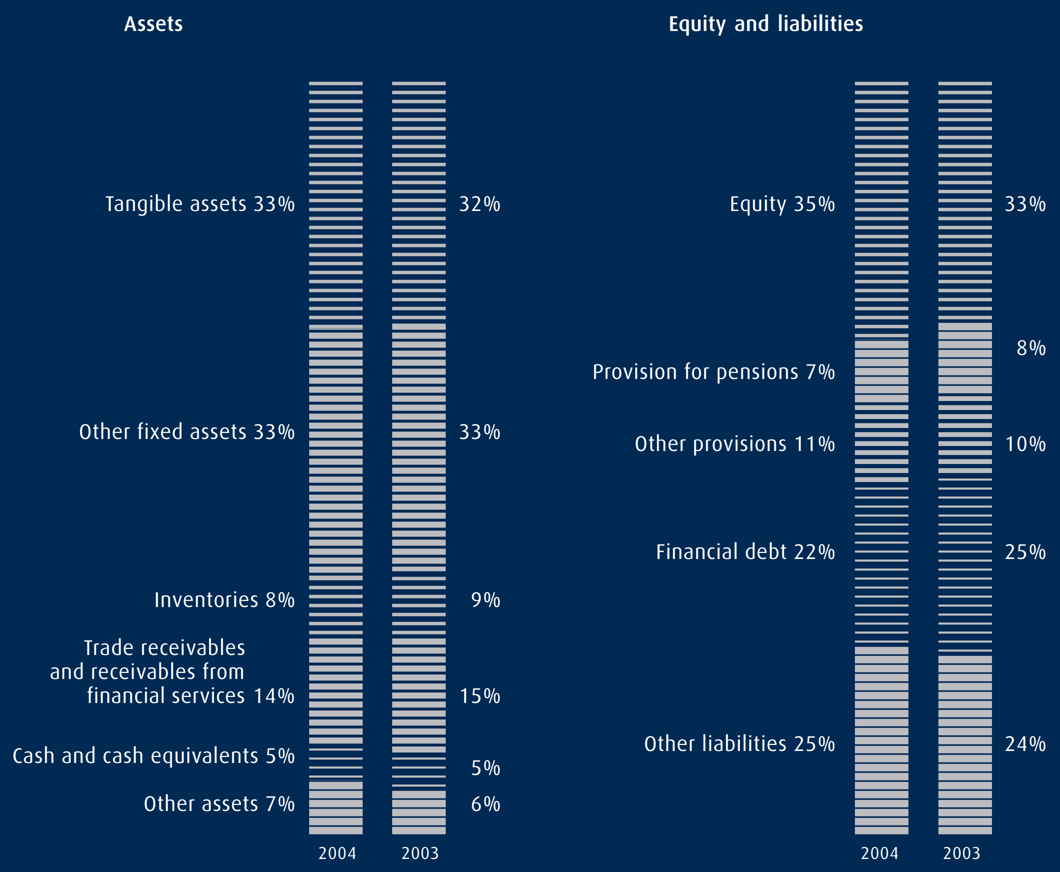
In the Gas and Engineering and Material Handling business segments, provisions rose mainly as a result of higher provisions for obligations from delivery transactions and for obligations relating to personnel.

In fiscal 2004, we continued to reduce the Group's net financial debt, which fell by €462 million to €1.968 billion. In the past three years, we have reduced our net financial debt by a total of €1.518 billion. It should be noted that in fiscal years 2003 and 2004, we also transferred fund assets totaling €222 million for the external funding of domestic pension obligations.

Liabilities from financial services rose from €511 million to €523 million, while receivables from financial services amounted to €214 million (2003: €190 million).

Trade payables increased by €36 million to €1.200 billion.

Balance sheet items as a percentage of total assets of €11.591 billion (2003: €11.915 billion)



Cash flow statement

Cash flow from operating activities in fiscal 2004 fell slightly by 2.5 percent to €1.249 billion (2003: €1.281 billion). Expressed as a percentage of sales, this gives a ratio of 13.3 percent (2003: 14.2 percent), once again a very good figure, due to the fact that net income in 2004 significantly exceeded that of the previous year. After adjusting for the amounts which relate to the former Refrigeration business segment, operating cash flow has risen slightly, continuing to remain therefore at a very high level.

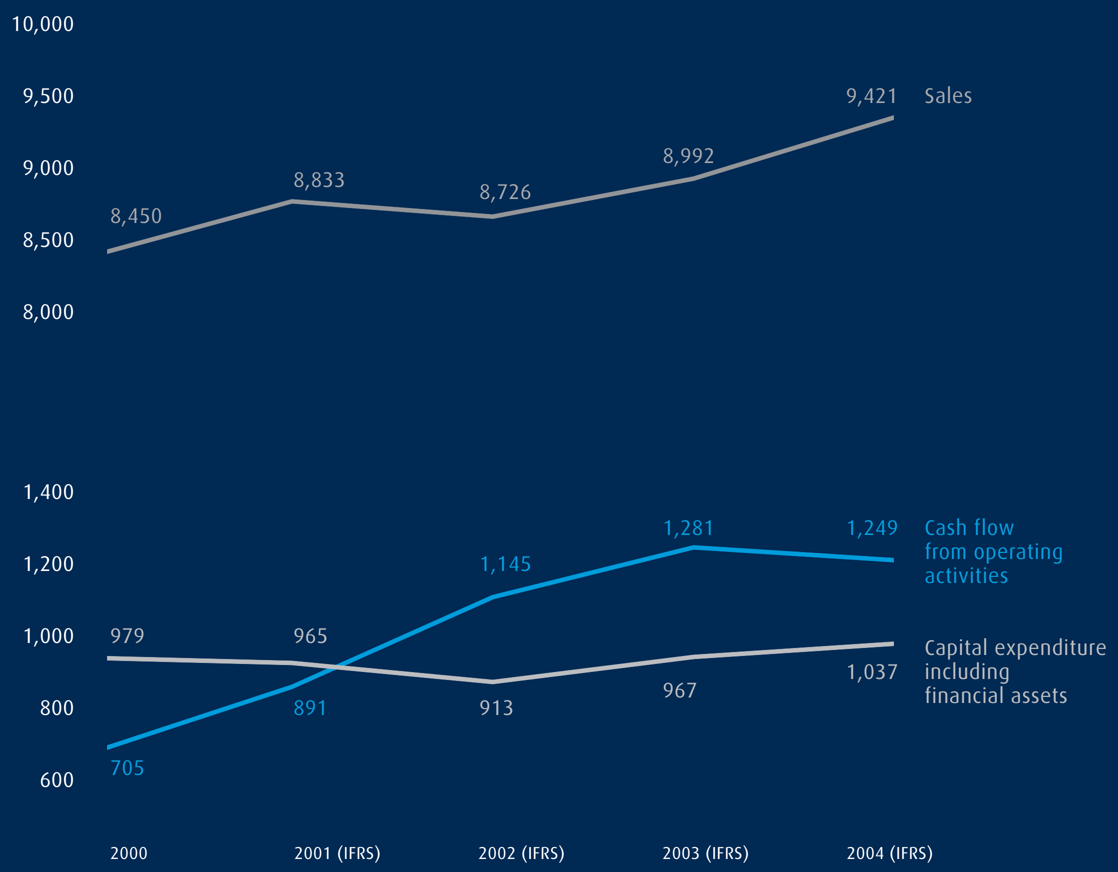
Cash flow from investing activities (excluding leased assets) increased by €89 million to €744 million. Expenditure on tangible and intangible fixed assets was €734 million. In addition, fund assets of €84 million were transferred during the year to a trustee for the external funding of pension obligations. On the other hand, net proceeds of €134 million were received from the sale of the Refrigeration business segment.

Taking into account dividend payments and other changes of €137 million, this left €368 million, of which €364 million was used to repay financial liabilities.

Cash flow statement (summary) in € million	2004	2003
Cash flow from operating activities	1,249	1,281
Cash flow from investing activities	–744	–655
Dividend payments to shareholders and minority interests	–137	–135
Net cash flow	–6	–201
Repayment of long-term loans and liabilities from financial services*	–362	–290

* Includes issue of employee shares in 2004.

Stable business model (data in € million, from 2001 onwards IFRS)



Financing and measures to safeguard liquidity

In 2004, the Linde Group was financed mainly by our Dutch finance company, Linde Finance B.V. This made it possible for Group companies to act as a single customer on the capital markets and strengthened our negotiating position with the banks and with other market participants.

To meet its external financing requirements, the Linde Group borrows on the capital market or from banks. The individual business entities are financed either by cash surpluses of other Group companies from cash pools (e.g. in Germany, the UK, France, Spain, Italy, the United States, Switzerland, Hungary and Australia) or by Group loans from Linde Finance B.V. and Linde Corporate Center. Occasionally, and to a limited extent, business entities use credit facilities with local banks, which are agreed centrally with the Group treasury department (see glossary).

For external funding during the year, we concentrated once again on the capital market. In addition, we use bank credit facilities to cover our short-term financial requirements and also as cash reserves, as back-up for our Euro Commercial Paper Program (ECP, see glossary) or for specific schemes.

We did not raise additional funds in fiscal 2004 from our Debt Issuance Program (DIP, see glossary). This is due to the issue of a convertible bond (see page 80) and to positive cash flows.

During the year, Linde has continued to pursue its course of debt repayment. Net financial debt was reduced by €456 million during 2004 to give a figure for total financial debt of €2.535 billion. At the end of the year, in addition to the convertible bond and the subordinated bond, issues worth €1.4 billion in six different currencies were outstanding under the DIP.

Selection of public bonds issued by Linde Finance B.V.

Issuer	Nominal amount	Coupon rate	Maturity date	WKN Reference No.
Linde Fin. B.V.	EUR 637 million	6.375%	07-06-14	DE0002465952
Linde Fin. B.V.	EUR 100 million	5.750%	08-06-05	DE0006858350
Linde Fin. B.V.	EUR 150 million	4.375%	08-08-04	DE0008629429
Linde Fin. B.V.	PLN 200 million	12.375%	06-02-06	XS0123626417
Subordinated bond*				
Linde Fin. B.V.	EUR 400 million	6.000%	Undated	XS0171231060

* This bond was not issued under the Debt Issuance Program.

To safeguard liquidity, we have a €1.8 billion confirmed syndicated credit facility (see glossary) with a large number of national and international banks. The one-year €600 million tranche of the syndicated credit facility due in 2004 was successfully extended with all the banks. The five-year €1.2 billion tranche is due in 2008.

In addition, the Linde Group has a Debt Issuance Program worth €5 billion, of which €1.4 billion is currently being used, and a Euro Commercial Paper Program worth €1 billion. The repayment of the bonds issued under the Euro Commercial Paper Program on the due date is secured by the syndicated credit facility for the total amount outstanding.

Credit ratings

Since 1999, the creditworthiness of the Linde Group has been rated by the leading international rating agencies, Moody´s and Standard & Poor's, and given in each case an "investment grade". This rating is an essential requirement for a successful and sustainable presence in the capital market. During the reporting period, there were no changes to the credit ratings awarded by these rating agencies.

Current credit ratings:

Rating agencies	Long-term rating	Outlook	Short-term rating	Outlook
Moody´s	A3	stable	P-2	stable
Standard & Poor´s	BBB+	stable	A-2	stable

Bond redemption

Due to our good liquidity situation in a positive market environment in fiscal 2004, we redeemed from the investors part of the outstanding €1 billion bond issued by Linde Finance B.V. due in 2007. The redemption amount was €363 million in total, so that the portion of the bond still outstanding is €637 million. In addition, further bonds totaling €89 million were redeemed during the year.

Convertible bond

Following the bond redemption, in May 2004, we issued a convertible bond for €550 million, successfully placing it with investors. The bond has an interest coupon of 1.25 percent, a conversion price of €56.482, runs until 2009 and is not redeemable within the first three years. After this period has elapsed, it can be redeemed by us if the share price exceeds €67.778 . The bond is convertible into around 9.7 million shares of Linde AG. The bond has contributed to a significant improvement in the maturity structure of our capital market debts.

Overall in 2004, we have continued to exploit the opportunities in the capital market to enhance our capitalization, to broaden our investor base and to manage the maturity profile of our borrowings. We were also involved in numerous activities to promote relations with debt investors.

Credit spreads

Credit spreads indicate the risk premium traded on the financial markets of a selected security compared to a safe alternative. For Linde, the trends here were extremely positive during the year. For example, the risk premium on the Linde bond which falls due in 2007 in comparison with a 6 percent German Treasury Bond with the same time to maturity more than halved in the past year – to 0.21 percent at the end of 2004. This clearly emphasizes the positive assessment of Linde’s creditworthiness in the capital market

Capital expenditure

Our capital expenditure policy follows clear principles: Our investment is concentrated in those areas where opportunities exist for above average growth and where we can increase our earning power and enhance the competitiveness of the entire Group.

Capital expenditure in fiscal 2004 totaled €1.037 billion (2003: €967 million). Relative to Group sales, this represents a rate of investment of 11.0 percent (2003: 10.8 percent). Of the total capital expenditure, €728 million (2003: €593 million) was spent on tangible and intangible assets. Total spending on leased assets amounted to €259 million (2003: €263 million), of which €252 million (2003: €249 million) related to the expansion of the lease business in the Material Handling business segment. €50 million (2003: €111 million) was spent on financial assets during the year.

As in previous years, most capital expenditure (€511 million, excluding financial assets) was incurred to expand our fast-growing on-site business in the Gas and Engineering business segment.

The other main focus of our capital spending was the Material Handling business segment (€428 million, excluding financial assets). The main objectives here were to strengthen the lease business and improve our manufacturing structure.

Capital expenditure by business segment (excluding financial assets) in € million	2004	2003
Gas and Engineering	511	406
Linde Gas	528	397
Linde Engineering	13	24
Material Handling	428	411
Refrigeration	17	29
Corporate	31	10
Group	987	856

Capital expenditure by region (excluding financial assets)	2004		2003	
	in € million	in %	in € million	in %
Germany	276	28.0	234	27.3
Rest of Europe	576	58.4	464	54.2
North America	52	5.3	54	6.3
South America	29	2.9	29	3.4
Asia	26	2.6	15	1.8
Australia/Africa	28	2.8	60	7.0
	987	**100.0**	**856**	**100.0**

Purchasing

As a manufacturing company, Linde is active on a variety of procurement markets worldwide. During 2004, it purchased goods and services worth a total of around €4.5 billion.

Due to our complex organization of business segments which are globally active and involve many different products, we coordinate our purchasing activities using both a central purchasing organization and decentralized purchasing teams working on site. Within the business segments, supplies required are grouped together, so that the Group can have a stronger market presence, obtain price advantages and assure availability more effectively.

Linde is constantly examining the opportunities which arise from changes to the important procurement markets. Our purchasing departments systematically analyze the Eastern European and Asian markets in particular.

We are currently working on a central Group-wide purchasing guideline to streamline our purchasing organization. This guideline will be based on an efficient review and control system, which will monitor the activities of our buyers across the world and will take into account all the existing review and control procedures.

In Linde Gas, the procurement of energy, technical modules for the on-site business and IT systems are of crucial importance for the business activities in the various market segments. In total, the amount spent on purchases worldwide in Linde Gas is more than half the sales figure. Energy procurement, at around 7.5 terra-watts, was the most important element during the year. To counter the recent major price fluctuations on the energy markets, we have introduced a special energy portfolio management system, which will enable us to harness market opportunities more effectively and significantly minimize the risks arising from price fluctuations.

Linde Gas manages the procurement of all the main groups of materials (energy, IT systems) through a central purchasing organization at our Höllriegelskreuth site near Munich. As well as making purchases in the traditional way through individual negotiations with suppliers, our buyers are increasingly participating in on-line auctions on the Internet. The results of these auctions in comparison with individual negotiations in terms of the prices obtained for goods and services were on average more than 50 percent better. Overall, Linde Gas conducted 112 on-line auctions in 26 countries during the year.

Given the specific requirements of each of its projects across the world, Linde Engineering pursues a decentralized purchasing policy, precisely tailored to the actual needs of the individual project. Our buyers have a great deal of experience in the provision of goods and services for the teams of on-site engineers, even in the most remote regions in the world. In the case of major projects in particular, such as the construction of the biggest LNG plant in Europe in Hammerfest, the purchasing staff work closely with our logistics experts to assure the availability of supplies of raw materials and ancillary materials at any stage in the demanding project process.

The Material Handling business segment and its component-makers were faced in 2004 with an increase in the price of steel and further price rises for sheet metal and semi-manufactured goods. These price increases are due principally to the meteoric growth in the steel consumption of the Chinese economy, which has triggered price rises in input materials such as coke, mineral ore and scrap metal. The business segment incurred as a result additional costs of around €19 million in 2004. By cooperating closely with our steel suppliers, we succeeded in ensuring that our factories were supplied at all times.

Research and development

During fiscal 2004, we spent a total of €177 million on research and development, once again slightly exceeding the previous year's figure of €172 million. The total number of employees working in research and development at December 31, 2004, after the sale of the Refrigeration business segment, was 1,263 (2003: 1,463).

By far the greater part of our total R&D expenditure related to the Material Handling business segment, with costs of €94 million (2003: €92 million). Our activities here were focused for all three brands on further improvements to our forklift trucks and warehouse equipment in the areas of handling qualities, energy consumption and emissions. Our efforts will culminate in 2005 and 2006 with the launch of a number of new models onto the market.

Under our multi-brand strategy, we also concentrated in 2004 on the standardization of research and development processes for new vehicles in the Material Handling business segment. Managing development jointly for the three brands (Linde, STILL and OM Pimespo) will not only ensure that the processes are more efficient, but also that there is clear product differentiation between the individual brands. The most important element of this development management system is a uniform concept of stages for the development process which applies to all development departments. The main objectives of this computer-based concept are significantly shorter development times, cost reductions prior to the start of the series and higher product quality.

In 2004, Linde Engineering developed major technologies for all the main types of plant, spending a total of €16 million. This amount does not, however, include any costs arising directly as a result of individual projects or from the construction of turnkey industrial plants.

Research during the year concentrated again on new and ongoing developments in segments expected to achieve growth such as hydrogen, olefin and natural gas liquefaction plants.

Under our technology alliance with the Norwegian energy group Statoil ASA, we continued to improve the possible applications for coil-wound heat exchangers (see glossary) for the liquefaction of natural gas in LNG plants for operations on floating platforms. With the know-how we have acquired, we will in future be able to operate LNG plants not only on land, but also directly above the drilling site on the open sea. Plants such as this may be the solution in the medium term for the development of natural gas fields for very remote deposits of natural gas which cannot be transported via pipelines.

Together with our partner Sabic, we have developed a new process for the production of alpha olefins from ethylene (the Alpha-Sablin process), which is currently being implemented for the first time on a large scale at a plant in Al-Jubail, Saudi Arabia. Linear alpha olefins are used in the production of plastics, as basic materials in detergent production or for synthetic lubricants.

The Linde Gas division spent a total of €56 million on research and development in 2004. Most of these funds were used for researching new areas of application for medical gases and further technological developments in the hydrogen business.

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Research and development

	Expenditure (in € million)		Number of employees	
	2004	2003	2004	2003
Linde Gas	56	46	313	292
Linde Engineering	16	16	98	94
Material Handling	94	92	846	856
Refrigeration	11	18	–	221
Group	**177**	**172**	**1,263**	**1,463**

During fiscal 2004, the Linde Group filed 216 new patent applications for inventions (199 excluding the Refrigeration business segment). Our technologies were protected by a total of 2,146 patents (2,020 excluding the Refrigeration business segment) at December 31, 2004 (2003: 1,892).

Employees

As at December 31, 2004, the Linde Group (excluding Refrigeration) employed 41,383 people worldwide, 4,781 less than at the end of fiscal 2003. Of these, 14,667 were employees in Germany (2003: 14,568 excluding Refrigeration) and 26,716 outside Germany (2003: 25,340 excluding Refrigeration).

The substantial increase outside Germany was due mainly to new companies being included in the consolidation in Linde Gas and Material Handling. In 2004, Group personnel costs were €2.266 billion, virtually the same figure as in the previous year (2003: €2.273 billion).

In the Linde Gas division, the number of employees rose during the year by 418 to 17,570. In the Linde Engineering division, there was also an increase in the number of employees in 2004 of 77 to 4,217.

The Material Handling business segment employed 18,878 staff in 2004, 946 more than in the previous year, due to the good order situation, the expansion of the dealer network in Europe and an increase in the number of employees in China.

At the date of the sale of the Refrigeration business segment to Carrier Corp. on October 1, the number of employees in the segment was 6,242 (excluding Linde Ladenbau).

Employees: Analysis by business segment	2004	2003
Gas and Engineering	21,787	21,292
Linde Gas	17,570	17,152
Linde Engineering	4,217	4,140
Material Handling	18,878	17,932
Refrigeration	–	6,448
Corporate*	718	492
Group	41,383	46,164

* In 2004 including Linde Ladenbau and Datacenter.

Employees: Analysis by region	2004	2003
Germany	14,667	17,211
Rest of Europe	17,799	20,000
North America	4,062	3,958
South America	2,044	2,308
Asia	2,287	2,182
Australia/Africa	524	505
Total	**41,383**	**46,164**

Expansion of the job evaluation system

During the year, we continued the evaluation started in 2003 of all the functions of senior executives in the domestic group at locations outside Germany. Therefore, by the end of 2004, the majority of the functions of our executive personnel in all operating areas worldwide had been classified according to our 7-tier Linde Grading System. In the current fiscal year, the functions relating to staff members to whom the regular pay scale does not apply in Germany will be evaluated and incorporated into the Linde Grading System. The Linde Grading System is an important basis for capability analyses and succession planning and therefore an efficient tool for targeted personnel and managerial development.

Management development and succession planning

With the aim of encouraging promotion from our own ranks and filling vacancies with promising candidates from within the Linde Group, we devised a succession plan in 2004 for the first time for the whole Group for all the key roles, with the same standards and criteria applying throughout the world. With its lists of successors and role profiles, our succession planning is the core of our personnel development.

The programs of Linde University, founded in 2003, are playing a decisive role in our drive to be a leading company moving towards a performance culture. These programs are establishing a universal personnel development concept, which offers excellent opportunities for promotion to the various target groups within Linde. In collaboration with international business schools, it comprises national and international Junior Management Circles, as well as the Global Leadership Development Circle for middle management and the Global Leadership Program for our most senior management personnel. Within the divisions, training opportunities which meet the specific needs and challenges of that division are also provided. Examples of this are Linde Gas University and STILL Management Academy.

In 2004, for the first time, we successfully implemented the Global Leadership Program for selected top executives in partnership with the renowned business school INSEAD, based in Fontainebleau in France. The learning and work phases, which lasted for several months, focused on handling group-wide projects, which were defined by the Executive Board and will now gradually be implemented in the business segments.

In February of the current year, 40 senior executives set up the Global Leadership Development Circle. This program is being implemented in collaboration with Duke University in North Carolina in the United States, and is also based on handling actual projects.

In 2004, the STILL Management Academy launched a new specially-designed management program for this division, with the specific aim of fully exploiting the opportunities for improvement identified in our leadership appraisals (see glossary). The program, in which 30 STILL executive personnel participated, should provide targeted support for the implementation of the proposed restructuring measures in the STILL division.

In addition to training our executive personnel, we are also investing in the development of our junior managers. In the Material Handling business segment, for example, we launched an international trainee program, in which young managers from Group companies in the United Kingdom, France, Spain and Germany will participate.

To ensure that all our employees can engage in lifelong learning to add value to the Linde Group, in 2004 we continued to expand the range of opportunities for technical and non-technical professional development. We focused on skills directed at target groups, such as air separation training, qualifications for sales personnel in Linde Therapeutics, IT training and language courses. Language training in particular is becoming more important as Linde becomes an increasingly internationally-oriented company.

Training

The number of our trainees in Germany fell by 104 to 685 (2003: 789) following the sale of Refrigeration. At December 31, 2004, 452 of the trainees were engaged in the industrial field and 233 were in commercial and technical occupations.

The trainee of today is the qualified specialist of tomorrow – for Linde, this is a long-standing principle. As a company which assumes its social responsibilities, Linde is committed to training. Our commitment has continued in fiscal 2004 and has taken into account the increased popularity of sandwich courses at vocational colleges and higher education institutions as an attractive alternative to traditional university courses. In addition, we have updated the content of some of the occupations which require training and modified them, so that they correspond more closely to the operational requirements of the business segments and Group companies. To a great extent, trainees and students work independently at Linde, with clearly-defined responsibilities for their own training-related projects. Already at this early stage, our junior staff are making a vital contribution towards Linde’s claim to be a leading company.

In fiscal 2004, we again stepped up our university recruitment activities, with the aim of competing successfully to attract highly-qualified young engineers and natural scientists over the coming years. An example of this is our commitment to the Carl-von-Linde Academy at the Munich Technical University. We also support gifted and talented pupils at the Schloss Hansenberg boarding school in Geisenheim in the Rheingau region of Germany, for example by offering them work experience in our foreign Group companies.

We are investing today in the education of future international executives and have therefore funded scholarships and sponsored students in the international department of Karlsruhe University. Chinese students studying mechanical or electrical engineering at this university who are sponsored by us are given the opportunity to plan their education in close cooperation with Linde in Germany and China.

Corporate suggestion scheme

Linde traditionally offers bonuses to employees as a reward for suggestions as to how to improve processes and operations in the company, if these suggestions are implemented and result in measurable cost savings, or if the idea increases the competitiveness of the company. Bonuses are also awarded to employees for suggestions which contribute to a reduction in the risk of accidents or make a contribution to environmental protection, even if there is no actual measurable benefit to the company as a result.

During fiscal 2004, our employees in Germany submitted a total of 1,345 suggestions for improvement, which led to cost savings of around €929,000 and a wealth of improvements in production, safety, quality and environmental protection. The bonuses paid to employees amounted to around €422,000.

Pensions

Our occupational pension scheme in Germany is becoming increasingly important as a result of the steady decline in the state-funded pension scheme. The centerpiece of the Linde scheme is an occupational pension funded solely by Linde. The scheme is based on pension units, and the subsequent pension benefit is based on the pension units acquired in each of the years that the individual has been employed by Linde.

In addition, our employees have the opportunity to provide for their retirement by converting portions of their salary into pension contributions. Under the Linde retirement plan, employees use their contributions to acquire shares in special funds, which are managed by a trustee, and participate fully in the future performance of the fund units acquired. Linde guarantees a minimum rate of return. At December 31, 2004, 2,783 employees had taken advantage of this type of pension, an increase of around 18 percent over the previous year.

The range of retirement schemes offered by Linde is completed by direct insurance, which is financed either out of taxed income to take advantage of the Riester subsidy or by part of the employee's salary taxed at a flat rate. By the end of the year 2004, there had been another boom in direct insurance financed out of part of the employee's salary taxed at a flat rate, because this opportunity will no longer be available under the state-funded pension scheme from the beginning of 2005. For insurance contracts agreed before that date, however, taxation at the flat rate still applies.

Linde spent a total of €127 million on pensions and staff welfare costs in fiscal 2004, €66 million of which related to costs incurred in Germany.

In 2003, we started to transfer business assets to finance our pension obligations for employees working in Germany under a contractual trust arrangement (CTA) in accordance with international standards. The appropriate funds are transferred to a trustee, who takes on the investment management. After committing €138 million in 2003, Linde transferred a further tranche of €84 million in 2004. This amount corresponds to the pension obligations to current and future retired employees of the Refrigeration business segment sold in fiscal 2004.

Linde Corporate Health Insurance Scheme

The number of members of Linde's corporate health insurance scheme (BKK) increased once again during the year. At December 31, 2004, BKK covered 25,823 members (2003: 25,650) and 12,781 dependants (2003: 12,847). A uniform contribution rate of 13.6 percent applied in both the former West German states and the former East German states.

Thank you to our employees

The Executive Board would like to thank all Linde employees for their hard work and personal commitment in the past fiscal year. Their valuable contribution has ensured that the competitiveness of the Linde Group continues to increase.

We will provide detailed information about Linde as an employer and about our employee benefits in our Corporate Responsibility Report which will be published for the first time in fall 2005.

Quality, safety, environmental protection

The main objectives of our business are to make products of the best possible quality and to maintain high safety standards. For many years, environmental protection has been a key issue in the Linde Group, and we are constantly improving our procedures to ensure that it remains a high priority. The business segments therefore have guidelines on safety and environmental protection, which often significantly exceed the legal requirements. These guidelines set out standards for quality, safety and environmental protection and are an integral part of our quality management manuals. As Linde operates in many countries across the world and is involved in a wide range of activities, the procedures are designed to meet the specific requirements of each location.

Quality

To maintain our commercial success in competitive international markets, we rely on effective quality management and quality development. In line with this objective, most of the operations of Linde AG in Germany have had systems which comply with the ISO 9000/2000 standard for a number of years. We are able to meet the requirements of this standard across the board, by conducting thorough checks and constantly enhancing product and service quality.

During the year, the Linde Engineering division introduced a special computer-based quality system called MEMVIS, an information system for recording, reporting and managing faults, which aims to prevent errors within the context of an extensive quality management program. At the heart of MEMVIS is a central error database, which can be accessed by any of the project locations across the world. The aim is to detect and prevent systematic (i.e. recurrent) errors.

In fiscal 2004, Linde Material Handling introduced the iQ (Improving Quality) program, a new process to enhance product quality. We also launched an initiative (iPEP) to improve the quality of new product developments and vehicle series throughout the Material Handling business segment. Both projects are part of our TRIM.100 optimization program. Since the beginning of 2005, this program has also included a supplier quality evaluation system across all our locations. The business segment has also improved the existing system for processing customer complaints with the aim of increasing customer satisfaction on a worldwide basis.

During the year, we introduced the Six Sigma program across the Group. Six Sigma is being applied not only in the Material Handling business segment, where it was introduced in 2003, but also in the Linde Engineering division where there are currently six projects about to be concluded successfully. In Linde Gas, an initial phase of 13 projects was completed during the year.

Following its launch in Germany, the Six Sigma system is gradually being introduced in other European countries. Our US companies will also be integrated into the current Six Sigma program in the course of 2005.

The aim of all our Six Sigma activities is to minimize errors in processes and operations across the Group with lasting effect, so as to enhance quality and increase customer satisfaction.

To improve the existing system still further, we are in the process of bringing the decentralized administration of the program under the control of a centrally-coordinated project management team. This involves further training for selected executive personnel in the Six Sigma methodology.

Safety

High safety standards are essential for all our products and at all our sites across the world. We are constantly improving our safety standards through a range of measures.

The Linde Gas division, for example, has set itself the objective of reducing the accident rate annually by 10 percent until it reaches zero, an initiative which is already showing signs of success. During the year, the accident rate worldwide fell to 5.5 accidents per million hours worked. Local companies with higher than average numbers of accidents are required to introduce specific safety schemes to improve their results.

To heighten the sensitivity of local management and employees to safety issues on our sites, Linde Gas again conferred awards in 2004 on business units with particularly low numbers of accidents. Awards were presented, for example, to Linde Gas Polska in Poland and INO Therapeutics Inc. in the United States, as well as to our factory in San Martin in Argentina, which achieved the best results in the world with more than 530,000 accident-free hours worked.

Under our Group-wide Six Sigma program, we also launched various projects during the year to improve safety at work. Our target for Linde Gas Germany, for example, is to halve the average number of industrial accidents in the next two years.

Moreover, from 2004, Linde Gas has been able to offer its customers Liprotect™, a safety program for dealing with industrial gases. The most important elements of Liprotect™ are on-site training and checks, with customers being able to design a safety package from a set of modules to meet their own particular requirements.

During the construction of the natural gas liquefaction plant near Hammerfest, Linde Engineering has been exploring new areas of safety and has developed a special program for protection against fire and explosions. This includes 3-D computer-based simulations of explosion scenarios.

As each plant built by Linde Engineering differs from others in terms of safety details, we offer our customers tailor-made safety solutions and risk analyses designed to meet their specific requirements. Our on-site experts monitor each phase of construction, guaranteeing the highest levels of safety during the entire project.

In the Linde Material Handling business segment, it was possible to maintain the same low level of accidents as in previous years, despite significant increases in output, by continuing to develop the integrated management system for occupational safety, hygiene and environmental protection (ArGUS).

Environmental protection

All the business segments in the Linde Group sell environmentally friendly products and support their customers by handling natural resources with care.

At the Weilbach iron foundry, we are continuing to improve our purification processes for exhaust air. These measures have either maintained or reduced the level of emissions. The foundry gases and the organic pollutants they contain are incinerated at more than 1,000 degrees Celsius, which means that they are eliminated leaving virtually no residue. At the same time, we are planning to work together with the Institute for Foundry Technology (IfG) in Düsseldorf on testing new environmentally friendly techniques for the purification of waste gases from cupola furnaces (see glossary).

In 2004, by applying a new process, we also succeeded in reducing the amount of waste sand generated from the form sand used in the foundry processes by around two-thirds. The amount of new sand required also falls by almost half.

We have made progress in plant-related environmental protection by investing in our core sand mixing plant at the Aschaffenburg foundry. The renovated plant now needs fewer organic binding agents, giving rise to significantly lower emissions from the foundry processes.

STILL GmbH has also been committed to environmental protection for many years and since April 2004 has been one of the certified partners in the Hamburg Environment Partnership, an association of interests between the Senate of the Free Hanseatic City of Hamburg with industry and commerce. In addition, STILL has for a long time been a leader in the development of alternative drive concepts for forklift trucks.

Linde Gas has developed a modular system for the cryo condensation of volatile organic materials (e.g. alcohols, ether, hydrocarbons etc.) in flows of exhaust air, principally in the chemical industry. With our CRYCON® plants specially optimized for this area of application, emissions can be reliably maintained below the legal limits, through condensation with liquefied nitrogen at cold temperatures. At the same time, we are able to offer the individual user a cost-effective solution in terms of capital outlay and operating costs. Cryo condensation has advantages over alternative exhaust air purification processes, i.e. the reusable materials are recovered and the nitrogen used to produce the cold temperatures can be used in other phases of production for inertization (see glossary).

As a leading supplier of industrial gases and the world's biggest producer of hydrogen plants, we are also continuing to drive forward the development of hydrogen technology, which we believe has a promising future, against a background of declining fossil fuels.

In 2004, the Linde Engineering division made further progress in the areas of waste treatment and water pollution control. In 2004, the environmental plant segment at our subsidiary Linde KCA Dresden GmbH was once again able to improve its market position in the treatment of water, waste and effluent. We were awarded a major contract from Iran during the year in the promising market for desalination plants, which had the effect of greatly increasing our market presence in the Middle East.

Linde-KCA was able to consolidate its license business in 2004, with patented Linde technology for the fermentation of organic waste resulting from successful cooperation with a Chinese partner.

We will be providing detailed information about the extensive measures we are taking to ensure continuing improvement in the quality of our products, the safety of our production employees and a clean environment in our Corporate Responsibility Report, which will be published for the first time in fall 2005.

Risk management

As a global company, Linde is exposed in the course of its business operations to a number of different risks, which are inextricably linked with entrepreneurial activity. We counter these risks by applying a comprehensive risk management system, which forms an integral part of our business processes and is a major element in corporate decision making. The aim of the system is to identify potential risks arising from our activities at an early stage and to monitor these risks and reduce them by introducing appropriate control measures. At the same time, the management of the Linde Group ensures that it exploits available business opportunities and continues to achieve success in the form of value-based growth.

The main components of the risk management system are the planning system, internal reporting procedures and an extensive risk reporting process.

The planning system makes it possible to identify and evaluate potential risks on the basis of strategic Group planning and medium-term financial planning. This ensures that account is taken early in the decision-making process of possible risks and control measures can be introduced in good time to manage those risks.

By using standardized internal reporting procedures throughout the Group, we ensure that we monitor and control economic risk arising from current business operations. Detailed information is thus provided on a monthly basis to the Executive Board and the various levels of management about the current economic situation and the extent to which targets have been met.

In addition, the Balanced Scorecard system (see glossary), which has been gradually introduced in the Group since 2003, ensures that the critical success factors necessary to achieve our corporate goals are under constant review. We use this tool to identify any deviations from targets at an early stage and to take the appropriate countermeasures.

These measures are supplemented by market and competition analyses, which further increase risk transparency.

Given the different business activities in the Gas and Engineering and Material Handling business segments, risk profiles are developed which use various methods for dealing with specific risks tailored to the needs of each division.

The decentralized organization of our risk management system enables us to meet the individual requirements of each division. In each operating unit, there are risk managers, supported by risk officers from the various functional areas within the unit. This system ensures that risk management is fully integrated into all our business processes.

The function of the decentralized risk management system is to identify risks, to evaluate their extent and the probability of their occurrence, and to document and communicate this information in its quarterly risk reports.

The on-site risk managers are also responsible for developing and, if appropriate, introducing measures to avoid, reduce and safeguard against risks.

In addition to this process, we have set up a group-wide ad-hoc reporting system for risks which occur unexpectedly, so that we are able to react quickly to changing situations.

The decentralized risk managers are supported by the central Group risk management team, which both coordinates functions and processes and determines the standard framework and guidelines for the whole Group. The central department also establishes the consolidated risk position of the Linde Group, about which it keeps the Executive Board fully informed on a regular basis.

Risks are only covered on the insurance market if this seems reasonable in terms of economic benefits.

Linde ensures that it adopts and develops innovative approaches and ideas in its risk management by making regular improvements to the system and exchanging know-how with other companies. For example, we have developed and introduced our own computer program for risk reporting, which speeds up the reporting process and enhances our data analysis. We have also radically revised our risk guideline, which sets out the risk management principles which apply worldwide and the rules which apply to the recording, evaluation and reporting of risks.

Internal auditors perform regular reviews of the efficiency of operations and procedures within the risk management process and the reliability of the systems employed. In addition, the external auditor examines whether any developments which might endanger the existence of the Group as a going concern would be identified at an early stage by the risk management system and reports the findings of his examination to the Executive Board and Supervisory Board.

The principal risks which might significantly affect the business performance, net assets, financial position and results of operations of the Linde Group are set out below. These are not the only risks to which we are exposed. Risks of which we are not yet aware, or risks which we currently deem to be insignificant, might have an adverse effect on the Linde Group in different circumstances.

Market risk

The Linde Group is exposed to market risk in respect of both purchases and sales.

As far as purchases are concerned, the potential risks to the Linde Group relate to the availability and cost of raw materials, energy, input materials and intermediate products.

We try to reduce these procurement and price risks on the purchasing side by sourcing materials worldwide, entering into long-term supply contracts and constantly optimizing our portfolio of suppliers. In addition, we make use of contracts with price escalation clauses to minimize the negative effects of changes in purchase prices.

When selecting suppliers, Linde prizes efficiency and quality. When significant components are purchased, Linde aims for close cooperation with the relevant supplier, including him in new developments at a very early stage in the project in order to ensure economic success. Collaborations such as these involve risks for Linde manifested in the dependency on the supplier.

We are countering the increasing competitive pressure in our divisions not only by constantly improving our products and services but also by implementing a number of projects to enhance our business processes and cost structures. Our optimization program TRIM.100 in the Material Handling business segment is one of the contributory factors here.

To improve efficiency in the Linde Gas division, we have launched a process optimization program. The measures included in this program are designed primarily to achieve improvements in production and distribution and further streamlining of administration and sales.

The consistent application across the Group of the Six Sigma program is enabling us to increase our competitiveness and to create the necessary conditions to counteract the risks of competition.

As well as the risks of competition described above, the Linde Group is also subject to customer risk, such as the loss or insolvency of major customers or an increase in downward pressure on prices as a result of customer purchasing power.

Production risk

As a result of the closely-interlinked production system in the Material Handling business segment, equipment failures or loss of output for a long period at individual locations could potentially affect our ability to supply our customers. The same applies to production plants in the Linde Gas division, where machine failure for a long period could give rise to substantial additional costs as a result, for example, of additional external product purchases and higher logistics costs.

We are countering these risks by taking preventive maintenance measures, providing major spare parts, implementing fire protection measures, training employees and setting up a network of external suppliers. We are insured against any other losses which might occur, to the extent that this is reasonable in terms of economic benefits.

To manage the quality risk in the production of goods and services, quality assurance is ranked highly by Linde right at the beginning of the value creation process. From the beginning, Linde delimits the quality-related risks by setting demanding quality standards for development, performing intensive reviews along the entire length of the production process chain and maintaining constant contact with suppliers.

Research and development risk

The results of operations of the Linde Group may be adversely affected by new products which prove to be uncompetitive or which are not launched onto the market at the right time.

We ensure the success of our products and services in the market by conducting constant detailed market surveys, on which we base the extensive development of products and technologies, applying rigorous project management to all our research and development projects and setting up central decision groups across the brands.

Financial risk

The term financial risk encompasses liquidity, market and credit risks. These can arise from transactions in the course of operating activities and from the hedging of those transactions, from decisions on funding and from changes in the value of financial items in the balance sheet.

We systematically control financial risks by establishing a mandatory risk policy guideline. This sets out clearly the type of financial instruments that may be used, the limits for individual transactions and a list of participating banks. To manage credit risk, we rely mainly on the credit ratings of our partners and we limit the extent and duration of any financial transactions to be concluded accordingly. We perform regular reviews to ensure proper compliance with all the limits set.

A key principle which must be observed throughout the risk management process is that of functional separation between the front, middle and back offices. This means that there is a strict personal and organizational separation between the completion of a commercial transaction and its processing and verification. We use a professional treasury management system to implement and measure our transactions. The operations in the Treasury department are subject to regular reviews by our internal and external auditors, generally once a year.

The basic risk strategies for interest, currency and liquidity management are determined by the Treasury Committee under the overall control of the Finance Director, which meets at least once a month.

We make financing and hedging decisions on the basis of our financial and liquidity forecasts, which include all the main business units in the Group. Our multi-currency rolling 15-month forecast is embedded in our financial reporting system, which is also used for accounting and financial control purposes, ensuring a consistent basis for the figures provided.

Business and financing activities which are not in the local currency inevitably lead to foreign currency cash flows. The Group guideline states that the individual business units must monitor the resulting risks themselves and agree appropriate hedging transactions with the Group treasury department, provided that no country-specific restrictions or other reasons not to hedge apply. Specific risks are grouped together by currency and the resulting net position (see glossary) per currency for Linde Group is hedged according to the risk strategies of the Treasury committee. Forward exchange deals, currency swaps (see glossary) and simple currency options are all used here. Translation risks are not hedged.

In the Gas and Engineering business segment, we also use financial instruments to hedge against exposure to changes in the price of electricity. In our project business in the Linde Engineering division, foreign currency risks are reduced as much as possible by natural hedges, for example by purchasing supplies and services in the currency of the contract. Any foreign currency amounts exceeding these figures are immediately hedged fully when they arise.

Interest rate risks arising from the different periods to maturity of borrowings on the capital market are centrally managed by Linde. Here, we use simple interest rate derivatives such as interest rate and currency swaps as well as interest rate options. At December 31, 2004, about one-third of the Group's funding was at variable rates.

Project risk

The Linde Engineering division is subject to special risks as a result of its project activities which involve the design and construction of turnkey plants.

The main potential areas of risk lie in the costing and in the technical and economic handling of these highly complex major projects which generally run for a period of several years.

Specific risks include unexpected technical problems, unforeseeable developments at the project locations, problems with our partners or subcontractors and logistical difficulties. The handling of the project may also be affected by disruption to our own production of individual central components of major plants.

Each of these individual factors can lead to significant additional costs or contract penalties. We counter these risks with strict project and risk management systems. We are constantly developing the internal tools we have at our disposal, adapting them to meet ever-increasing requirements.

Personnel risk

In the Linde Group, we have always set great store by the integrity of all our employees in their relations within the Group and with the outside world. We are currently developing mandatory rules and supervisory bodies (a code of conduct) geared to the needs of the individual business segments, which should help our employees to avoid conflicts of interest and should guarantee fair and lawful conduct in the world of competition. We continue to improve our existing control mechanisms, adapting them to ever-increasing requirements.

For us, the strict separation of management and control functions is necessary to reduce the risk of intentional acts. All Linde Group employees who have access to confidential or insider information are bound to comply with the relevant legal regulations and to handle the information responsibly.

IT risk

The management of the Linde Group depends to a great extent on complex information technology. The IT systems are maintained and optimized by using qualified internal and external experts.

We use a number of different measures to counter the risks arising from unauthorized data retrieval and data misuse or data loss. Our technical preventive measures include for example the use of state-of-the-art virus scanners and modern firewall systems, as well as extensive access and data retrieval controls.

The changeover to SAP R/3 in major locations within the Linde Gas and Linde Material Handling divisions, which was completed on schedule, has enabled us to reduce significantly the existing risks in this area in the course of the year.

Legal risk

In the course of our business activities, we are exposed to liability risks. These risks may arise from potential claims for damages relating to product liability (where the Healthcare segment in particular has an increased level of risk, due to its range of pharmaceutical products) and from the infringement of legal conditions.

In addition to applying high quality and safety standards to avoid claims, we have taken out insurance to protect us from potential claims arising from damages.

We continue to face a number of actions for compensation brought against the gases industry in 2002, relating to health damage which is alleged to have been caused by the use of asbestos or certain welding materials. These are principally class actions in the United States, a few of which have been brought against American companies in the Linde Group. Based on our current judgment, the risk of these actions affecting the Linde Group is low but cannot be completely discounted. Our defense against these claims is being coordinated by our central legal department.

To prevent risks arising from cartel law, we have developed and implemented an Antitrust Compliance Program. Under this program, we provide our employees with information leaflets and lectures about anti-trust orders and prohibitions and the risks to company and employees which are associated with breaches of the law.

External risk

Linde, like all other companies, may be exposed at any time to fundamental risks arising from constant changes in the political, legal and social environment.

As we engage in economic activity in countries in which there are some political and legal uncertainties, we are exposed to the corresponding risks, which might manifest themselves in the form of potential state control, restrictions on capital transfers or even expropriation.

Potential natural disasters and terrorist attacks also pose a theoretical risk to the net assets, financial position and results of operations of the Linde Group.

Overall risk

During the year, the risk position of the Linde Group improved, due to the sale of the Refrigeration business segment. In all risk areas, there has been a reduction in potential risk, resulting in a lower level of overall risk for the Linde Group.

There were no risks which threatened the existence of the Linde Group in the fiscal year 2004. Seen from today’s position, no risks have been identified which could endanger the continued existence of the Group as a going concern in the future or which could have a significant adverse effect on the net assets, financial position and results of operations of the Group.

Significant events after the balance sheet date

There have been no significant events for the Linde Group between December 31, 2004 and the printing deadline for this Annual Report.

Dividends

The unappropriated profit for the year ended December 31, 2004 of Linde AG, the parent company of the Linde Group, in accordance with German accounting standards was €149 million (2003: €135 million). The Executive Board will propose to the shareholders that this amount be distributed in the form of a dividend of €1.25 (2003: €1.13) per share entitled to dividend.

The financial statements of Linde AG, which have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Law (AktG), are published in the German Federal Gazette and lodged in the Commercial Register of the Wiesbaden Local Court. These financial statements may be obtained from Linde AG, 65030 Wiesbaden, Postfach 4020, Germany.

Outlook

Macroeconomic trends: Recovery loses momentum

The high oil price, which contributed to the global slowdown in the second half of 2004, is expected to continue to weaken economic activity in the coming months. Other factors, such as the decline in economic policy initiatives from the United States and the slight leveling-off of the boom in China, have led to a slower rate of expansion. It is anticipated, therefore, that there will be a decrease in global economic growth in 2005, although not a downturn. The world economy should be able to grow at a considerable pace, at a rate forecast to be around 4 percent. We also anticipate a rapid expansion in world trade, even if this is not as fast as in 2004. The global growth differential is unlikely to change. The strongest impetus is still coming from Asia and the United States, while demand in the eurozone remains muted.

This generally positive assessment of macroeconomic trends cannot hide the fact risks still exist. We have to wait and see whether the easing of the oil market since the beginning of 2005 is here to stay. An additional risk factor is the uncertainty about future movements in the dollar, with the macroeconomic imbalances in the United States continuing to have an adverse effect. The massive current account deficit and the high budget deficit are damaging confidence in the dollar and might trigger further exchange rate movements and therefore lead to further appreciation in the value of the euro.

Germany: Recovery still muted

Despite structural weaknesses which are far from being overcome, future prospects for the German economy depend to a great extent on trends in the global economy. With the global rate of growth still high, although expected to fall, the international environment is still favorable for Germany. Despite a quieter period for world trade than in the previous year and the adverse effect of the appreciation in value of the euro, we anticipate that in 2005 export demand will continue to prop up the German economy, even if no longer at the same high level as in the prior year. We assume that domestic demand will rise more steeply than in 2004, but this will not compensate for the slower growth of exports.

Personal consumption will not build up much momentum this year. Capital expenditure should continue to rise at a moderate pace due to interest rates remaining low and to the improved earnings situation for companies. Against this background, we anticipate an increase in gross domestic product of 1 percent in real terms. After adjusting for the variable number of working days, this would give a similar figure for growth as in 2004.

Industry sector outlook

With its two business segments, Gas and Engineering and Material Handling, the Linde Group operates in many different industry sectors and customer segments. Therefore, we are only able to provide a brief outline here of expected future trends in the individual markets.

Gases industry

The industrial and medical gases business should continue to show positive trends across the world in the current fiscal year. It is still true that the gases business in each country is growing at about twice the rate of the gross national product in that country. We are, however, anticipating a slightly lower rate of growth in 2005, as developments in the fiscal year were characterized by noticeable catch-up effects. We expect that most of the growth will continue to be in the Asian markets which will perform significantly better than those in Europe or the United States. Whereas there are still uncertainties in the electronic gases business, we see the medical gases business and food industry gases businesses as the main stabilizing factors.

Plant construction

In the current fiscal year, we anticipate similarly high levels of plant construction orders and projects as in 2004. We also expect the most important major projects to continue to move to the Middle East and China. As far as individual types of plant are concerned, the highest growth rates are still expected for ethylene, oxygen, hydrogen and synthesis gas plants. The natural gas liquefaction plant business will also once again generate growth.

Industrial truck industry

After a very good year for the industrial truck industry in 2004, we also anticipate significant market growth worldwide in the current year, although at a slightly more moderate rate. By far the greatest impetus will continue to come from Asia and America, with China and the United States once again in the vanguard in their respective continents. On the other hand, we expect market growth in our core markets in Western Europe (Germany, France, Italy and Spain) to be slower, while there will be an above-average increase in demand in Eastern Europe.

Outlook for the Linde Group

Given these macroeconomic trends and the industry sector outlook, we assume that the sales and earnings of the Linde Group in the current fiscal year will exceed those of the previous year. However, the rate of earnings growth is expected to ease off slightly.

Linde Gas

Due to continuing high levels of growth, especially in the Healthcare segment, the expansion of our on-site business worldwide and the positive impact of our most recent acquisitions in Asia, we again anticipate an increase in sales and earnings in the current year in our Linde Gas division. Our current optimization programs which are designed to improve earning power are one of the main contributory factors here.

Linde Engineering

We expect growth in plant construction in most parts of the world to continue in the current year. Our broad product range and many years of experience in the handling of major projects will ensure that our Linde Engineering division once again plays a significant part in this industry sector. We therefore anticipate that we will be able to achieve sales and earnings at least equivalent to the high levels attained in 2004.

Material Handling

The year 2004 was a record year for the entire industrial truck industry, so it is expected that the markets will be somewhat quieter in the current fiscal year. However, we anticipate that 2005 will see an increase in sales in our Material Handling business segment and a significant improvement in earnings based on TRIM.100, our program for process optimization.

Capital expenditure

Capital expenditure in the Group (excluding financial assets) will remain more or less constant in fiscal 2005 at around €1 billion (€987 million). This figure is mainly the result of the continuing good order book position for on-site projects in the Linde Gas division, where we will be investing around €600 million. We will also be investing around €400 million in the Material Handling business segment, of which more than half is earmarked for further expansion of the rental and leasing business, which is expected to achieve good levels of growth and high margins.

Dividends

We follow an earnings-oriented dividend policy under which the future dividends paid are aligned with the change in profits.

Research and development

Innovations are crucial to sustainable business success, especially for a leading technology group such as Linde. Therefore, we will again increase our expenditure on research and development in the current fiscal year to around €200 million (2003: €177 million).

Most of the expenditure, around €110 million, will be used as in past years for new product developments in our Material Handling business segment and for further improvements in the performance and handling qualities of our industrial trucks.

Around €90 million of the total research and development costs relate to the Gas and Engineering business segment. Our activities will focus on continuing to expand our promising hydrogen technology, intensifying the search for new applications for medical gases in the Healthcare segment and strengthening our on-site business.

Group Financial Statements

Linde AG has prepared its Group financial statements at December 31, 2004 in accordance with International Financial Reporting Standards (IFRS). Some items in the balance sheet and income statement have been combined under one heading to improve the clarity of presentation. Such items are shown individually in the notes.

Group income statement in € million	Note	2004	2003
Sales	[8]	9,421	8,992
Discontinued operation		578	866
Cost of sales	[9]	6,539	6,215
Gross profit on sales		2,882	2,777
Marketing and selling expenses		1,314	1,297
Research and development costs	[10]	177	172
Administration expenses		723	722
Other operating income	[11]	251	251*
Other operating expenses	[11]	134	154
Amortization of goodwill		141	138
Special items			
Additional restructuring schemes		–	70
Transaction and disposal costs		–	50
Reorganization of Linde Material Handling Australia		–	20
Profits/losses on securities (contractual trust arrangement – Linde pension fund)		–	13
Operating profit (EBIT)		644	418
Discontinued operation		6	4
Net interest		–129	–142*
Income from associates		3	6
Other investment income		–	5
Financial result	[12]	–126	–131
Earnings before taxes on income		518	287
Discontinued operation		4	3
Taxes on income	[13]	239	178
Earnings after taxes on income		279	109
Minority interests	[14]	–5	–1
Net income		**274**	**108**
Discontinued operation		–	–
Earnings per share in €	[15]	2.30	0.91
Earnings per share in € – fully diluted –	[15]	2.24	0.91

* Prior year figures restated.

Group balance sheet
in € million

	Note	Dec. 31, 2004	Dec. 31, 2003
Assets			
Goodwill	[17]	2,788	2,892
Other intangible assets	[17]	277	252
Tangible assets	[18]	3,814	3,774
Investments in associates	[19]	139	144
Other financial assets	[19]	83	89
Leased assets	[20]	574	551
Fixed assets		**7,675**	**7,702**
Receivables from financial services	[22]	132	127
Trade receivables	[22]	45	9
Other receivables and other assets	[22]	21	50
Deferred tax assets	[13]	123	132
Other non-current assets		**321**	**318**
Inventories	[21]	942	1,107
Receivables from financial services	[22]	82	63
Trade receivables	[22]	1,409	1,561
Other receivables and other assets	[22]	560	573
Securities	[23]	3	4
Cash and cash equivalents	[24]	564	557
Prepaid expenses and deferred charges	[25]	35	30
Current assets		**3,595**	**3,895**
Total assets		**11,591**	**11,915**
Discontinued operation		–	652

Group balance sheet
in € million

	Note	Dec. 31, 2004	Dec. 31, 2003
Equity and liabilities			
Capital subscribed		305	305
Conditionally authorized capital €65 million (2003: €105 million)			
Capital reserve		2,663	2,595
Retained earnings		1,283	1,134
Cumulative changes in equity not recognized through the income statement		–208	–183
Total equity excluding minority interests	[26]	**4,043**	**3,851**
Minority interests	[27]	38	35
Total equity		**4,081**	**3,886**
Provisions for pensions and similar obligations	[28]	840	983
Other non-current provisions	[29]	177	140
Deferred tax liabilities	[13]	294	266
Financial debt	[30]	2,230	2,361
Liabilities from financial services	[31]	349	349
Trade payables	[32]	6	5
Other non-current liabilities	[32]	56	62
Deferred income	[33]	76	92
Non-current liabilities and deferred income		**4,028**	**4,258**
Discontinued operation		–	163
Other current provisions	[29]	1,107	1,104
Financial debt	[30]	305	630
Liabilities from financial services	[31]	174	162
Trade payables	[32]	1,194	1,159
Other current liabilities	[32]	575	590
Deferred income	[33]	127	126
Current liabilities and deferred income		**3,482**	**3,771**
Discontinued operation		–	291
Total equity and liabilities		**11,591**	**11,915**

Statement of changes in Group equity
in € million
See Note [26]

	Capital subscribed	Capital reserve	Retained earnings
As at Jan. 1, 2003	305	2,595	1,160
Dividend payments			−135
Change in currency translation differences			
Financial instruments			
Net income			108
Other changes			1
As at Dec. 31, 2003	305	2,595	1,134
Amendments to Accounting Standards			10
As at Jan. 1, 2004	305	2,595	1,144
Dividend payments			−135
Change in currency translation differences			
Financial instruments			
Amount arising from issue of convertible bond		67	
Net income			274
Other changes		1	
As at Dec. 31, 2004	305	2,663	1,283

	Cumulative changes in equity not recognized through the income statement: Currency translation differences	Remeasurement of securities at fair value	Derivative financial instruments	Total equity excluding minority interests	Minority interests	Total equity
	23	1	2	4,086	33	4,119
				−135		−135
	−206			−206	−1	−207
		−1	−2	−3		−3
				108	1	109
				1	2	3
	−183	–	–	3,851	35	3,886
				10		10
	-183	–	–	3,861	35	3,896
				−135	−2	−137
	−22			−22		−22
			−3	−3		−3
				67		67
				274	5	279
				1		1
	−205	–	−3	4,043	38	4,081

Group cash flow statement
in € million

	2004	2003
Net income	274	108
Minority interests	5	1
Earnings after taxes on income	279	109
Adjustments to net income to calculate cash flow from operating activities:		
Amortization of intangible assets/depreciation of tangible assets	721	726
Depreciation of leased assets	176	185
Amortization of financial assets	5	2
Profit/loss on disposal of fixed assets	–54	–26
Change in leased assets	–176	–170
Profit/loss on equity method valuation	–3	–6
Special items	–	127
Changes in assets and liabilities, adjusted for the effects of changes in Group structure:		
Change in inventories	2	–144
Change in trade receivables	–104	46
Change in other assets	33	16
Change in provisions	188	135
Change in trade payables	116	232
Change in other liabilities	66	49
Cash flow from operating activities	**1,249**	**1,281**
Discontinued operation	–6	36
Acquisitions of subsidiaries	–94	–8
Payments for tangible and intangible assets	–734	–601
Payments for financial assets	–39	–110
Proceeds on disposal of Refrigeration business segment (2003: proceeds on disposal of subsidiaries)	134	12
Proceeds on disposal of tangible and intangible assets	49	56
Proceeds on disposal of financial assets	24	9
Payments for securities held as current assets	–84	–13
Cash flow from investing activities	**–744**	**–655**
Discontinued operation	–13	–26

Group cash flow statement
in € million

	2004	2003
Dividend payments to shareholders and minority interests	–137	–135
Issue of employee shares	2	–
Cash outflows for the repayment of long-term loans	–359	–299
Change in liabilities from financial services	–5	9
Cash flow from financing activities	**–499**	**–425**
Discontinued operation	86	–9
Net cash inflow/outflow	**6**	**201**
Opening balance of cash and cash equivalents	**557**	**364**
Effect of changes in Group structure	6	1
Effects of currency translation	–5	–9
Closing balance of cash and cash equivalents	**564**	**557**
Additional information		
Income taxes paid	98	142
Interest paid	132	168
Interest received	54	59
Distributions/dividends received	–	3

Segment information by activity
in € million

	Gas and Engineering 2004	Gas and Engineering 2003
Fixed assets	6,209	6,155
of which investments in associates accounted for under the equity method	36	32
Inventories	371	457
Trade receivables	810	714
Other segment assets (excluding tax claims)	160	155
Securities, cash and cash equivalents	–	–
Segment assets	**7,550**	**7,481**
Provisions (excluding pension and tax provisions)	600	533
Trade payables	904	824
Other segment liabilities	184	186
Segment liabilities	**1,688**	**1,543**
Income tax liabilities offset against income tax claims	**–**	**–**
Capital employed including pension provisions	**5,494**	**5,603**
of which pension provisions	497	488
Sales to third parties	5,395	5,017
Sales to other segments	11	14
Segment sales	**5,406**	**5,031**
EBITDA (2003 before special items)	1,107	1,064
Amortization of intangible assets (excluding goodwill amortization), depreciation of tangible assets and leased assets	–423	–430
EBITA (2003 before special items)	684	634
Special items (net)	–	–10
EBITA	684	624
Financial result	–99	–106
of which profit/loss from associates	–3	3
EBTA	585	518
Amortization of goodwill	–111	–105
Earnings before taxes on income	**474**	**413**
Return on capital employed (ROCE) (2003 before special items) in %[1)]	12.8	11.3
EBITA return on sales (2003 before special items) in %	12.7	12.6
Cash flow from operating activities[2)]	990	957
Cash flow from investing activities[2)]	–581	–418
Capital expenditure (excluding financial assets)	511	406
Number of employees at December 31[3)]	21,787	21,292

1) In the business segments and divisions, calculated as EBITA after adding back financial costs for pensions in relation to average capital employed; for the Group, earnings before taxes on income after adding back both financial costs for pensions and interest expenses in relation to average capital employed.
2) In the Group and in the Material Handling business segment, the change in leased assets is included in cash flow from operating activities.
3) The figure comprises active employees and trainees. Part-time employees are included pro-rata.
4) Prior year figures restated.

	Material Handling		Refrigeration		Corporate		Group	
	2004	2003	2004	2003	2004	2003	2004	2003
	1,325	1,302	–	156	141	89	7,675	7,702
	95	105	–	–	8	7	139	144
	546	513	–	118	25	19	942	1,107
	629	610	–	242	15	4	1,454	1,570
	85	112	–	15	404	382	649	664
	–	–	–	–	567	561	567	561
	2,585	**2,537**	**–**	**531**	**1,152**	**1,055**	**11,287**	**11,604**
	274	244	–	79	237	296	1,111	1,152
	298	266	–	72	–2	2	1,200	1,164
	269	269	–	30	186	211	639	696
	841	**779**	**–**	**181**	**421**	**509**	**2,950**	**3,012**
	–	**–**	**–**	**–**	**358**	**221**	**358**	**221**
	1,729	**1,728**	**–**	**348**	**756**	**692**	**7,979**	**8,371**
	314	303	–	158	29	34	840	983
	3,368	3,059	577	865	81	51	9,421	8,992
	4	4	1	1	–16	–19	–	–
	3,372	**3,063**	**578**	**866**	**65**	**32**	**9,421**	**8,992**
	487	464	24	38	–77	–110 [4]	1,541	1,456
	–296	–308	–15	–24	–22	–11	–756	–773
	191	156	9	14	–99	–121	785	683
	–	–60	–	–	–	–57	–	–127
	191	96	9	14	–99	–178	785	556
	–30	–28	–2	–1	5	4	–126	–131
	3	1	–	–	3	2	3	6
	161	68	7	13	-94	–174	659	425
	–27	–23	–3	–10	–	–	–141	–138
	134	**45**	**4**	**3**	**–94**	**–174**	**518**	**287**
	12.0	9.7	–	6.1	–	–	9.5	7.7
	5.7	5.1	–	1.6	–	–	8.3	7.6
	268	321	–6	36	–3	–33	1,249	1,281
	–164	–227	–13	–26	14	16	–744	–655
	428	411	17	29	31	10	987	856
	18,878	17,932	–	6,448	718	492	41,383	46,164

Segment information by activity
in € million

	Linde Gas 2004	Linde Gas 2003	Linde Engineering 2004	Linde Engineering 2003
Fixed assets	6,169	6,071	139	158
of which investments in associates accounted for under the equity method	39	32	–	–
Inventories	167	159	204	300
Trade receivables	759	674	145	112
Other segment assets (excluding tax claims)	113	106	47	49
Securities, cash and cash equivalents	–	–	909	743
Segment assets	**7,208**	**7,010**	**1,444**	**1,362**
Provisions (excluding pension and tax provisions)	440	406	160	127
Trade payables	290	229	706	667
Other segment liabilities	83	84	102	106
Segment liabilities	**813**	**719**	**968**	**900**
Income tax liabilities offset against income tax claims	**–**	**–**	**–**	**–**
Capital employed including pension provisions	**6,034**	**5,946**	**468**	**472**
of which pension provisions	293	286	204	202
Sales to third parties	3,989	3,829	1,406	1,188
Sales to other segments	14	14	175	82
Segment sales	**4,003**	**3,843**	**1,581**	**1,270**
EBITDA (2003 before special items)	1,056	1,014	83	66[2]
Amortization of intangible assets (excluding goodwill amortization), depreciation of tangible assets and leased assets	–416	–416	–14	–20
EBITA (2003 before special items)	640	598	69	46
Special items (net)	–	–10	–	–
EBITA	640	588	69	46
Financial result	–109	–118	11	12
of which profit/loss from associates	–	3	–	–
EBTA	531	470	80	58
Amortization of goodwill	–106	–101	–5	–4
Earnings before taxes on income	**425**	**369**	**75**	**54**
Return on capital employed (ROCE) (2003 before special items) in %[1]	10.9	10.1	17.0	11.7
EBITA return on sales (2003 before special items) in %	16.0	15.6	4.4	3.6
Cash flow from operating activities	779	737	241	234
Cash flow from investing activities	–610	–409	–1	–23
Capital expenditure (excluding financial assets)	528	397	13	24
Number of employees at December 31[3]	17,570	17,152	4,217	4,140

1) In the business segments and divisions, calculated as EBITA after adding back financial costs for pensions in relation to average capital employed.
2) Prior year figures restated.
3) This figure comprises active employees and trainees. Part-time employees are included pro-rata.

Segment information by region
in € million

	2004	2003
Sales		
Germany	2,012	2,061
Rest of Europe	5,217	4,808
North America	1,045	1,087
South America	332	302
Asia	528	556
Africa/Australia	287	178
	9,421	**8,992**
Capital expenditure		
Germany	310	307
Rest of Europe	580	502
North America	52	54
South America	29	29
Asia	38	15
Africa/Australia	28	60
	1,037	**967**
Long-term segment assets		
Germany	1,460	1,426
Rest of Europe	5,207	5,264
North America	547	596
South America	176	180
Asia	185	116
Africa/Australia	100	120
	7,675	**7,702**

The long-term segment assets are the fixed assets of the Group.

Group summary of fixed assets
in € million

	Acquisition and manufacturing cost						
	Jan. 1, 2004	Currency adjustments	Changes in Group structure	Additions	Transfers	Disposals	Dec. 31, 2004
Goodwill	**3,578**	**–13**	**9**	**2**	**–**	**19**	**3,557**
Capitalized development costs	261	–	–	49	–	53	257
Miscellaneous intangible assets	281	–1	–58	80	4	10	296
Other intangible assets	**542**	**–1**	**–58**	**129**	**4**	**63**	**553**
Land, freehold and leasehold, and buildings, including buildings on non-owned land	1,870	–6	–48	47	17	24	1,856
Technical equipment and machinery	4,812	–31	5	197	58	100	4,941
Fixtures, furniture and equipment	2,615	–15	–76	165	18	51	2,656
Payments in advance and plant under construction	155	–	–4	188	–102	1	236
Tangible assets	**9,452**	**–52**	**–123**	**597**	**–9**	**176**	**9,689**
Investments in associates	**152**	**–5**	**–8**	**4**	**14**	**8**	**149**
Investments in affiliated companies	49	–	–28	41	–11	1	50
Loans to affiliated companies	–	–	–	–	5	–	5
Loans to associates	5	–	–	–	–5	–	–
Investments in related companies	25	–	–1	3	–3	4	20
Loans to related companies	–	–	–	–	–	–	–
Investment securities	5	–	–	–	–	1	4
Other loans	10	–	–	2	–	3	9
Other financial assets	**94**	**–**	**–29**	**46**	**–14**	**9**	**88**
Leased assets	**1,071**	**–2**	**50**	**259**	**5**	**245**	**1,138**
Fixed assets	**14,889**	**–73**	**–159**	**1,037**	**–**	**520**	**15,174**

Accumulated amortization/depreciation							Net book value	
Jan. 1, 2004	Currency adjustments	Changes in Group structure	Amortization /depreciation for the year	Transfers	Disposals	Dec. 31, 2004	Dec. 31, 2004	Dec. 31, 2003
686	−11	−28	141	–	19	769	2,788	2,892
149	–	–	38	–	52	135	122	112
141	–	−29	38	–	9	141	155	140
290	–	−29	76	–	61	276	277	252
851	−4	−13	57	–	11	880	976	1,019
3,060	−23	−47	259	–	73	3,176	1,765	1,752
1,767	−11	−63	187	2	63	1,819	837	848
–	–	–	1	–	1	–	236	155
5,678	−38	−123	504	2	148	5,875	3,814	3,774
8	–	−1	3	–	–	10	139	144
2	–	−1	2	–	–	3	47	47
–	–	–	–	–	–	–	5	–
–	–	–	–	–	–	–	–	5
2	–	−1	–	–	–	1	19	23
–	–	–	–	–	–	–	–	–
1	–	–	–	–	–	1	3	4
–	–	–	–	–	–	–	9	10
5	–	−2	2	–	–	5	83	89
520	−3	23	176	−2	150	564	574	551
7,187	−52	−160	902	–	378	7,499	7,675	7,702

Notes to the Group financial statements: General principles

[1] Basis of preparation

The consolidated financial statements of Linde AG at December 31, 2004 have been drawn up in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), London, where these become operative on or before the balance sheet date. The term IFRS also includes International Accounting Standards (IAS) where these are still effective. All mandatory interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), for the fiscal year 2004 were also applied.

The Group currency is the euro. All amounts are shown in millions of euro (€ million), unless stated otherwise.

Some items in the balance sheet and income statement have been combined under one heading to improve the clarity of presentation. Such items are disclosed and commented on individually in the notes. The income statement has been prepared using the cost of sales method.

KPMG or other appointed auditors have audited the financial statements which are included in the consolidated financial statements. The annual financial statements of Group companies are drawn up at the same balance sheet date as the annual financial statements of Linde AG.

[2] Principles of consolidation

Companies are consolidated using the purchase method, under which investments in subsidiaries are offset against the Group's share of the equity of the consolidated subsidiaries at the date of acquisition. Differences arising which relate to hidden reserves or hidden charges are allocated to the appropriate asset or liability heading in the subsidiary based on the percentage of the investment. Any remaining positive balance is recognized as goodwill and amortized using the straight-line method over its expected useful life. The estimated useful life will not normally exceed 20 years, except in the Linde Gas division where the useful life of goodwill may be up to 40 years. Goodwill which arose prior to January 1, 1995 totaling €169 million continues to be offset against reserves under the option set out in IAS 22. When companies are deconsolidated, the goodwill is recognized in the income statement.

Intra-Group sales, income, expenses and accounts receivable and payable have been eliminated.

Intra-Group profits and losses arising from intra-Group deliveries of fixed assets and inventories have also been eliminated.

The consolidation of companies using the equity method follows the same principles.

[3] Acquisitions and sales

Acquisitions

The following major acquisitions were made during the year:

Acquisitions by business segment	Group holding in %	Acquisition cost in €000	Date first consolidated
Gas and Engineering			
Hydrogas (M) Sdn. Bhd., Kuala Lumpur (Hydrogas)	100	7,609	05/2004
Crio Medizintechnik GmbH, Birkenfeld (Crio)	100	24,457	06/2004
Singapore Syngas Pte. Ltd., Singapore (Syngas)	100	71,201	07/2004
Linde Carbonic Ltd., Bangkok (Carbonic)	99.44	4,838	08/2004

The fair value of the assets and liabilities acquired was as follows:

in € million	Gas and Engineering	Hydrogas	Crio	Syngas	Carbonic
Fixed assets	104	8	29	63	4
Inventories	3	–	–	3	–
Receivables and other assets	9	1	4	3	1
Cash and cash equivalents	14	–	–	14	–
Provisions	–12	–1	–4	–7	–
Financial liabilities	–2	–	–1	–1	–
Other liabilities	–8	–	–4	–4	–
Purchase price	**108**	**8**	**24**	**71**	**5**
Less cash and cash equivalents	–14	–	–	–14	–
Cash outflow	**94**	**8**	**24**	**57**	**5**

During the acquisitions, intangible assets of €24.8 million, which had previously not been recognized, were recorded. A positive difference of €24.7 million has been recognized as goodwill, based on the assessment of future earnings trends in Crio Medizintechnik GmbH.

In the course of the acquisition of Syngas, adjustments of €10 million were made to the carrying value of the tangible assets. Adjustments to the carrying value of other companies acquired were immaterial.

Since the date they were first consolidated, the companies acquired after March 31, 2004 have generated sales of €31 million and earnings for the year of €3 million.

Sales

The Refrigeration business segment was sold on October 1, 2004 to the Carrier Corporation, a company in the United Technologies Corporation (UTC) group, Hartford, Connecticut.

In accordance with IAS 35, this transaction is classified as a discontinued operation.

The fair value of the assets and liabilities sold was as follows:

in € million

Fixed assets	128
Inventories	176
Receivables and other assets	279
Cash and cash equivalents	83
Provisions	–193
Financial liabilities	–132
Other liabilities	–138
Net loss assumed	14
Sale price	**217**
Less cash and cash equivalents	–83
Cash inflow	**134**

[4] Scope of consolidation

The Group financial statements comprise Linde AG and all significant companies in which Linde AG has a direct or indirect majority holding or the majority of the voting rights and in which it has the power to govern the financial and operating policies, based on the concept of control.

The principal companies included in the consolidation for the first time are either newly-acquired companies or Group companies previously disclosed as investments in affiliated companies.

Companies which are of minor significance in terms of the Linde Group's net assets, financial position and results of operations, because they are dormant or inactive, have not been consolidated. Instead, they are reported in the Group financial statements at acquisition cost. Non-consolidated subsidiaries in 2004 contributed 0.3 percent of Group sales (2003: 0.3 percent) and comprised around 0.3 percent of Group equity (2003: 0.1 percent).

The equity method is applied to joint ventures and companies in which Linde AG holds, either directly or indirectly, 20 percent or more of the voting rights and where it is able to exert significant influence on financial and operating policies.

The equity method is not applied where the company is relatively insignificant to the Group's net assets, financial position and results of operations. These companies are reported in the Group financial statements at acquisition cost.

The Linde Group comprises the following companies:

	As at Dec. 31, 2003	Additions	Disposals	As at Dec. 31, 2004
Consolidated subsidiaries	**288**	**21**	**37**	**272**
of which within Germany	27	4	1	30
of which outside Germany	261	17	36	242
Subsidiaries reported at acquisition cost	**54**	**21**	**14**	**61**
of which within Germany	16	4	4	16
of which outside Germany	38	17	10	45
Companies accounted for using the equity method	**24**	**1**	**5**	**20**
of which within Germany	4	–	–	4
of which outside Germany	20	1	5	16

As a result of their inclusion in the Linde consolidated financial statements, the following fully-consolidated subsidiaries are exempt under the provisions of § 264 (3) and § 264 b HGB from the duty to disclose annual financial statements and to prepare a management report:

Name	Registered office
AGA Linde Healthcare GmbH & Co. KG	Unterschleißheim
Commercium Immobilien- und Beteiligungs-GmbH	Wiesbaden
Eisengießerei Dinklage GmbH & Co. KG	Dinklage
Hans-Joachim Schrader Industriefahrzeuge GmbH & Co.	Essen
Linde Gas Produktionsgesellschaft mbH & Co. KG	Höllriegelskreuth
Linde Ladenbau GmbH & Co. KG	Bad Hersfeld
MATRA-WERKE GmbH	Frankfurt
Selas-Linde GmbH	Höllriegelskreuth
STILL GmbH	Hamburg
STILL-WAGNER GmbH & Co. KG	Reutlingen
Tega-Technische Gase und Gasetechnik GmbH	Würzburg
Tega-Technische Gase und Gasetechnik GmbH & Co. KG	Hamburg
TV Kohlensäure Technik und Vertrieb GmbH + Co.	Höllriegelskreuth
Unterbichler GmbH & Co. KG	Munich
Werbung und Messebau GmbH	Aschaffenburg

A list of the complete shareholdings of the Linde Group is held in the Commercial Register of the Local Courts (Amtsgerichte) of Wiesbaden, Munich, Aschaffenburg, Bad Hersfeld, Essen, Frankfurt, Hamburg, Reutlingen, Vechta and Würzburg. Significant Group companies are listed in Note [45].

[5] Foreign currency translation

The annual financial statements of foreign subsidiaries, including hidden reserves and hidden charges revealed under purchase accounting, are translated in accordance with the functional currency concept set out in IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

Where the functional currency of the financial statements of the foreign subsidiaries included in the consolidated financial statements is not the euro, the financial statements are translated into the Group currency, the euro, based on the concept of functional currency.

Assets and liabilities, contingent liabilities and other financial commitments are translated at the mid-rate on the balance sheet date (closing rate method), while items in the income statement and the net income for the year are translated at the average rate.

Differences arising from the translation of equity are included under the heading Cumulative changes in equity not recognized through the income statement.

Goodwill arising on the consolidation of foreign companies is translated at historical rates and reported at acquisition cost less accumulated amortization.

The financial statements of foreign companies accounted for using the equity method are translated using the same principles for the adjustment of equity as are applied to the consolidated subsidiaries.

[6] Currencies

The following exchange rates have been used:

Exchange rate €1 =	ISO-Code	Mid-rate on balance sheet date		Annual average rate	
		Dec. 31, 2004	Dec. 31, 2003	2004	2003
Argentina	ARS	4.051700	3.700400	3.668317	3.366075
Australia	AUD	1.748900	1.678800	1.690250	1.737596
Brazil	BRL	3.620600	3.643900	3.627917	3.478117
China	CNY	11.120600	10.267600	10.129861	9.213358
Czech Republic	CZK	30.390000	32.550000	31.876660	31.824667
Denmark	DKK	7.438500	7.444700	7.439795	7.430695
Great Britain	GBP	0.707100	0.707000	0.678756	0.691939
Hungary	HUF	245.775000	262.115000	251.658861	253.652922
Malaysia	MYR	5.019300	4.774100	4.696800	4.330633
Mexico	MXN	15.240000	14.150000	14.041336	12.216275
Norway	NOK	8.240000	8.415000	8.369871	8.003918
Poland	PLZ	4.087700	4.725500	4.536923	4.409267
Sweden	SEK	9.020000	9.071000	9.125354	9.122656
Switzerland	CHF	1.543700	1.559000	1.543836	1.521100
USA	USD	1.364000	1.261000	1.243924	1.131140

[7] Accounting policies

The Group financial statements have been prepared under the historical cost convention, with the exception of derivative financial instruments and available-for-sale financial assets, which are stated at fair value.

The financial statements of companies consolidated in the Linde Group have been prepared using uniform accounting policies in accordance with IAS 27 *Consolidated and Separate Financial Statements*. The financial statements of associates which use differing accounting policies have been retained without adjustment because of their minor significance.

Recently issued accounting standards

Revised accounting standards were published by the IASB in December 2003 as part of the IASB Improvement Project. These standards are mandatory from January 1, 2005. It is recommended that they are applied prior to this date. The relevant standards are as follows:

- IAS 1 Presentation of Financial Statements
- IAS 2 Inventories
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events after the Balance Sheet Date
- IAS 16 Property, Plant and Equipment
- IAS 17 Leases
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 24 Related Party Disclosures
- IAS 27 Consolidated and Separate Financial Statements
- IAS 28 Investments in Associates
- IAS 31 Interests in Joint Ventures
- IAS 32 Financial Instruments: Disclosure and Presentation
- IAS 33 Earnings per Share
- IAS 39 Financial Instruments: Recognition and Measurement
- IAS 40 Investment Property

The revised standards have been applied early to the 2004 Linde Group financial statements. The following standards were issued by the IASB in the first half of 2004 and will be mandatory from January 1, 2005:

- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations and related amended versions of IAS 36 Impairment of Assets and IAS 38 Intangible Assets. For companies acquired after March 31, 2004, this standard already applies.
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

These standards will not be applied by Linde AG until fiscal 2005. The impact of the new accounting standards in fiscal 2005 in respect of IFRS 2 *Share-based Payment* is explained in Note [34]. The application of IFRS 3 *Business Combinations* and the related amended version of IAS 38 *Intangible Assets* will result in there being no scheduled amortization of goodwill from 2005 onwards (2004: €112 million).

Revenue recognition

Sales comprise the sales of products and services as well as lease and rental income, less discounts and rebates.

Revenue from the sale of goods is recognized when the risks and rewards of ownership have been transferred to the customer, the consideration has been agreed by contract or is determinable, and it is probable that the associated receivables will be collected. If the customer is to take delivery of the goods, the relevant sale will not be recorded until the customer has accepted delivery. In the case of long-term service contracts, the sales are generally recorded on a straight-line basis over the period of the contract.

Revenue from long-term contracts is generally reported in accordance with IAS 18 *Revenue* and IAS 11 *Construction Contracts*, based on the stage of completion of the contract (percentage of completion method, or PoC). Under this method, revenue is only recognized when the outcome of a construction contract can be estimated reliably.

For sales and earnings recognition related to lease transactions, see the notes on accounting for leases.

Cost of sales

Cost of sales comprises the cost of goods and services sold and the cost of merchandise sold. It includes not only the cost of direct materials and direct manufacturing expenses, but also indirect costs including depreciation of production plant, amortization of certain intangible assets and inventory write-downs. Cost of sales also includes additions to the provisions for warranties and provisions for losses on orders.

Warranty provisions are established for the estimated cost at the date of sale of that particular product or are based on the stage of completion of the plant in the case of long-term contracts. Provisions for losses on orders are made in full in the reporting period in which the estimated total cost of the particular contract exceeds the expected revenue.

Research and development costs

Research costs and development costs which may not be capitalized are charged to the income statement when they are incurred.

Intangible assets and tangible assets

Intangible assets comprise goodwill, development costs, patents, software, licenses and similar rights.

Purchased and internally-generated intangible assets are stated at acquisition or production cost less straight-line amortization. Intangible assets are generally amortized over the period of any legal contract or over the estimated useful life of the asset.

Goodwill arising on the acquisition of companies after January 1, 1995 is recognized as an asset and amortized on a straight-line basis over its estimated useful life not exceeding 20 years. The goodwill which arose on the acquisition of AGA in 2000 is amortized over a period of 40 years, in common with practice in this industry sector. The reason for this, apart from the strategic significance of the business acquisition, is the high level of customer loyalty and capital tie-in over the long term. Amortization of goodwill is shown on a separate line in the income statement.

Development costs are capitalized at manufacturing cost if it is possible to identify the costs clearly and if the technical feasibility of the asset and the ability of Linde to sell it are assured. Moreover, the development activity must generate probable future economic benefits. Development costs are capitalized at manufacturing cost, which includes costs which are both directly and indirectly attributable to the development process. Capitalized development costs are amortized from the start of production on a straight-line basis over an estimated useful life of 5 years.

Costs incurred in connection with the acquisition and in-house development of internally used computer software, including the costs of bringing the software to an operational state, are capitalized and amortized on a straight-line basis over an estimated useful life of 3 to 8 years.

Tangible assets are reported at acquisition or manufacturing cost less accumulated depreciation, based on the estimated useful life of the asset. The manufacturing cost of internally-generated plant comprises all costs which are directly attributable to the manufacturing process and an appropriate portion of production overheads. The latter include production-related depreciation, a proportion of administrative expenses and a proportion of social costs. The acquisition/manufacturing cost is reduced by government grants. For certain tangible assets, where the purchase or manufacture takes more than one year, the borrowing costs during the construction period are also capitalized. Tangible assets are depreciated using the straight-line method. However, the declining balance method is still the main method used for the depreciation of tangible assets which were put into operation before January 1, 1998, although the straight-line method is adopted if this leads to higher levels of depreciation.

The following useful lives apply to the different types of tangible assets:

Buildings	10 – 50 years
Technical equipment	6 – 15 years
Fixtures, furniture and equipment	3 – 20 years

If significant events or market developments indicate the need for an adjustment to the estimated useful life of an asset or an impairment in its value, Linde reviews the recoverability of the capitalized book value of intangible assets (including capitalized development costs and goodwill) and tangible assets on the basis of estimated future cash flows, discounted at a rate appropriate to the risk (impairment test). If the net book value of the asset exceeds the total discounted cash flows, an impairment loss is recognized. When estimating future cash flows, current and expected future income levels and segment-specific, technological, economic and general developments are taken into account. If the reason for an impairment loss recognized in prior years no longer exists, the carrying amount of the asset is increased to the carrying amount that would have been determined (i.e. acquisition/manufacturing cost net of amortization or depreciation) had no impairment loss been recognized. The impairment test is carried out on an annual basis for goodwill with an estimated useful life of more than 20 years.

For the accounting treatment of assets held under leases, see the notes on accounting for leases.

Financial assets

Investments in non-consolidated affiliated and related companies disclosed under Financial assets are stated at cost, as fair values are not available. Associates are accounted for under the equity method at the appropriate proportion of their net assets plus any unamortized goodwill.

According to IAS 39 *Financial Instruments: Recognition and Measurement*, investment securities and securities held as current assets must be categorized as financial assets held for trading, available for sale or held to maturity. The Linde Group does not hold any securities for trading. Available-for-sale securities are stated at fair value if this can be reliably determined. Unrealized gains and losses, including deferred tax, are disclosed separately in equity until they are realized. If no market price is available, securities are reported at cost. Held-to-maturity financial assets are measured at amortized cost using the effective interest rate method or at their recoverable amount, if lower. Where the fair value of available-for-sale securities and financial assets falls below cost and this is expected to be permanent, the loss is recognized in net income for the period.

Inventories

Inventories are reported at the lower of acquisition or manufacturing cost and net realizable value. Manufacturing cost includes both direct costs and appropriate indirect material and production costs, as well as production-related depreciation, where this is directly attributable to the manufacturing process. Administrative expenses and social costs are included if they can be allocated to production. Generally, inventories are valued on an average basis or using the FIFO (first in, first out) method. The use of LIFO as an alternative permitted method is no longer applicable. Appropriate allowances are made for inventory risks arising from the storage period, reduction in usability, etc. When the circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write-down is reversed.

Long-term construction contracts

Long-term construction contracts are valued using the percentage of completion method (PoC method). The stage of completion of each contract is determined by the ratio of costs incurred to the projected total cost (cost-to-cost method). When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent of the contract costs incurred (zero profit method). The contracts are disclosed under receivables or payables from percentage of completion. If the cumulative contract output (costs incurred plus profits disclosed) exceeds payments on account on an individual contract, the construction contract is disclosed under Receivables from percentage of completion. If there is a negative balance after deducting contract payments on account, the amount is disclosed under Payables from percentage of completion. Provisions are made for anticipated losses on contracts, based on an assessment of identifiable risks.

Based on normal industry practice, we are disclosing for the first time in fiscal 2004 the financial result from long-term construction contracts in Other operating income also at Group level. Interest which does not relate to long-term construction contracts is shown in the Financial result. The prior year figures have been restated.

Receivables and other assets

Receivables and other assets are stated at face value or cost. Allowances are made for identifiable risks. Non-interest-bearing or low-interest receivables due in more than one year are discounted.

Derivative financial instruments

Derivative financial instruments, such as forward exchange transactions, options and swaps, are generally used for hedging purposes, to reduce exchange rate risk, interest rate risk and market value risk from operating activities or the associated financing requirements.

Under IAS 39 *Financial Instruments: Recognition and Measurement*, all derivative financial instruments are reported at fair value, irrespective of their purpose or the reason for which they were acquired. Changes in the fair value of derivative financial instruments, where hedge accounting is used, are either recognized in net income or, in the case of a cash flow hedge, in equity under Cumulative changes in equity not recognized through the income statement.

In the case of a fair value hedge, derivatives are used to hedge the exposure to changes in the fair value of assets or liabilities. The gain or loss from remeasuring the derivative at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized immediately in net income.

In the case of a cash flow hedge, derivatives are used to hedge the exposure to future cash flow risks from existing underlying transactions or proposed transactions. The hedge-effective portion of the changes in fair value of the derivatives is initially disclosed under Cumulative changes in equity not recognized through the income statement. A transfer is made to the income statement when the hedged underlying transaction is realized. The hedge-ineffective portion of the changes in fair value is recognized immediately in net income.

If, contrary to normal practice in the Linde Group, hedge accounting cannot be used, the change in fair value of derivative financial instruments is recognized in net income.

In accordance with IAS 39, embedded derivatives which are components of hybrid financial instruments are separated from the host contract and accounted for as derivative financial instruments.

For further information about risk management and about the impact on the balance sheet of derivative financial instruments, see Note [35].

Deferred taxes

Deferred tax assets and liabilities are accounted for in accordance with IAS 12 *Income Taxes* under the liability method in respect of all temporary differences between the carrying amount of assets and liabilities under IFRS and the corresponding tax base used in the computation of taxable profit and in respect of all consolidation adjustments affecting net income.

Deferred tax assets also include anticipated reductions in tax where it is probable that taxable profits will be available in future years against which unused tax loss carryforwards may be offset. Deferred taxes are calculated at the tax rates that apply to the period when the asset is realized or the liability is settled, based on tax laws enacted in the individual countries.

Provisions for pensions and other obligations

The actuarial valuation of provisions for pensions is based on the projected unit credit method set out in IAS 19 *Employee Benefits* for defined benefit commitments. This method takes into account not only vested future benefits and known pensions at the balance sheet date, but also expected future increases in salaries and pensions. The calculation of the provisions is determined using actuarial reports based on biometric accounting principles. Actuarial gains and losses are only recognized as income or expense if they exceed 10 percent of the defined benefit obligation. In this case, the actuarial gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The expense arising from additions of amounts to the provisions for pensions, including the relevant interest portion, is allocated to the functions in the income statement.

Other provisions

In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, other provisions are recognized when Linde has a present obligation to a third party as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are recognized for all identifiable risks and liabilities of uncertain timing or amount. The amounts provided are the best estimate of the probable expenditure required to settle the obligation and are not offset against recourse claims. The settlement amount also includes potential cost increases at the balance sheet date.

Provisions for warranty claims are recognized on the basis of current or estimated future claims experience.

Site restoration obligations are capitalized when they arise at the discounted value of the obligation and a provision for the same amount is established at the same time. The depreciation charged on the asset and the addition of unaccrued interest applied to the provision are both allocated as an expense to the periods of use.

Financial debt and liabilities

Financial debt is reported at amortized cost. Differences between historical cost and the repayment amount are accounted for using the effective interest rate method. Financial debt which comprises the hedged underlying transaction in a fair value hedge is stated at fair value in respect of the hedged risk.

Liabilities are stated at face value or at their repayment amount.

Accounting for leases

Lease agreements are classified as finance leases if the lease transfers economic ownership to the lessee. All other lease transactions are operating leases. Linde Group companies enter into lease agreements both as lessor and as lessee.

When Linde enters into an agreement as the lessor of assets held under a finance lease, the net amount of future minimum lease payments due from the customer is disclosed under Receivables from financial services. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on Linde's net investment outstanding in respect of the lease.

When Linde is the lessee under a finance lease agreement, the assets are disclosed under Lease assets at the fair value of the leased property or, if lower, at the present value of the minimum lease payments, while the corresponding liabilities to the lessor are disclosed in the balance sheet as Liabilities from financial services. Depreciation charged on the leased asset and the reduction of the liability are recorded over the lease term. The difference between the total lease obligation and the fair value of the leased property is the finance charge, which is allocated to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

If the economic ownership of the leased asset is not transferred to the customer as lessee, but remains with Linde as lessor, the assets are disclosed separately in the balance sheet as operating leases under Leased assets. The leased property is recognized as an asset in the balance sheet at acquisition or manufacturing cost and depreciated on a basis consistent with Linde's normal depreciation policy for tangible assets. Lease income from operating leases is recognized in income on a straight-line basis over the lease term.

Rental and lease payments made by Linde in respect of operating leases are recognized in income on a straight-line basis over the lease term.

To support sales, the Linde AG companies lease various Linde products, principally industrial trucks, to their customers on both a short-term and long-term basis (sales financing).

Under short-term leases, an agreement is made directly with the customer, but economic ownership remains with Linde. The assets are disclosed separately as Leased assets in the balance sheet.

Short-term agreements may be for periods from one day to one year.

Under long-term lease agreements, industrial trucks are generally sold to leasing companies. The asset is then either leased back by a Linde Group company and subleased to the customer (sale and leaseback sublease), or the leasing company itself enters into a lease agreement with the customer. Long-term agreements normally run for between four and six years. Some agreements include renewal or purchase options, which are not usually favorable to the customer.

If the Linde Group company bears the risks and rewards incident to ownership as a result of entering into a sale and leaseback sublease agreement, the assets are disclosed under Fixed assets (Leased assets). If the risks and rewards are transferred to the end customer, Linde discloses the amount due under Receivables from financial services. These long-term customer contracts are generally refinanced with identical lease terms and the refinancing is disclosed under Liabilities from financial services. If the risks and rewards remain with Linde, any profit on sale is allocated over the lease term.

In the course of its financial services business, Linde also sells industrial trucks to leasing companies, which subsequently enter into lease agreements directly with the end customer.

If Linde guarantees residual values of more than 10 percent of the fair value of the asset, these sales are accounted for using the same rules as for operating leases. On the date of the sale, the vehicles are recognized as assets at manufacturing cost, and the difference between the cost of the asset and its guaranteed residual value is depreciated over the period to the first exercise date of the residual value guarantee. The sales revenue is deferred and the obligation out of the guarantee is shown under Liabilities from financial services.

Linde companies also lease or rent buildings and machinery as well as fixtures, furniture and equipment for their own use (procurement leases). These rental and lease agreements are mainly operating leases and have terms of between 1 and 35 years.

Notes to the Group income statement

[8] Sales

Sales are analyzed by business segment and by region in the segment information, which forms part of the supplementary information described in the IFRS Framework. Sales are derived from the following activities:

in € million	2004	2003
Revenue from the sale of products and services	8,310	8,118
Revenue from long-term construction contracts	1,111	874
Sales	**9,421**	**8,992**

[9] Cost of sales

Cost of sales comprises the cost of goods and services sold and the cost of merchandise sold. In addition to direct material, labor and energy costs, it also comprises indirect costs, including depreciation.

[10] Research and development costs

Research and development costs comprise not only research costs and non-capitalized development costs, but also amortization of capitalized development costs of €38 million (2003: €38 million).

[11] Other operating income and expenses

Other operating income in € million	2004	2003
Profit on disposal of fixed and current assets	39	38
Ancillary revenue	19	21
Financial result from long-term contracts	15	12
Income from receivables written down	1	1
Exchange rate differences	66	73
Income from release of provisions	41	39
Miscellaneous operating income	70	67
Other operating income	**251**	**251***

* Prior year figure restated.

An amount of €20 million was released in fiscal 2004 from the provisions set up in 2003 for transaction and selling costs relating to the sale of the Refrigeration business segment and the divestment of peripheral activities.

Net proceeds of €19 million were received on the sale of the investment in GCE Gas Control Equipment AB, Malmö. The resulting book profit was €15 million.

Other operating expenses in € million	2004	2003
Expenses related to pre-retirement part-time work schemes	7	12
Loss on disposal of fixed and current assets	7	7
Exchange rate differences	70	81
Allowances for doubtful debts, payment shortfalls, write-downs on other current assets	19	16
Miscellaneous operating expenses	31	38
Other operating expenses	**134**	**154**

[12] Financial result

in € million	2004	2003
Interest and similar income	85	74
of which from affiliated companies €1 million (2003: €0 million)		
Interest and similar charges	–214	–216
Net interest	**–129**	**–142***
Income from associates	**3**	**6**
Income from investments	–	3
Income from profit transfer agreements	3	3
Expense from loss sharing agreements	–1	–1
Amortization of financial assets and securities held as current assets	–2	–
Other investment income	**–**	**5**
Financial result	**–126**	**–131**

* Prior year figure restated.

In interest income and interest charges, gains and losses from fair value hedge accounting are offset against each other in order to give a fair presentation of the economic effect of the underlying hedging relationship.

The financial result from long-term construction contracts is being reported for the first time in fiscal 2004 in Other operating income also at Group level. Interest which does not relate to long-term construction contracts is shown in the Financial result. The prior year figures have been restated.

[13] Taxes on income

Taxes on income in the Linde Group can be analyzed as follows:

in € million	2004	2003
Current taxes	207	172
Deferred taxes	32	6
Taxes on income	**239**	**178**

The income tax expense disclosed for the fiscal year 2004 of €239 million is €40 million higher than the expected income tax expense of €199 million, a theoretical figure arrived at by applying the German tax rate of 38.4 percent (2003: 40 percent) to Group earnings before taxes on income. The difference between the expected income tax expense and the figure disclosed is explained below:

in € million	2004	2003
Earnings before taxes on income	518	287
Income tax rate of Linde AG (including trade tax)	38%	40%
Expected income tax expense	**199**	**114**
Foreign tax rate differential	–44	–33
Non tax deductible amortization of goodwill	36	40
Reduction in tax due to tax-free income	–40	–11
Increase in tax due to non tax deductible expenses	36	29
Tax income and expense relating to a different period	20	19
Effect of changes in tax rate	7	1
Change in other permanent differences	15	19
Other	10	–
Income tax expense disclosed	**239**	**178**
Effective tax rate	46%	62%

In fiscal 2004, the corporation tax rate was 25 percent (2003: 26.5 percent). Taking into account an average rate for trade earnings tax and the solidarity surcharge rate, this gives a tax rate of 38.4 percent for German companies (2003: around 40 percent).

Income tax rates for the Group companies outside Germany vary between 12.5 percent and 40 percent.

No deferred tax is calculated in respect of retained profits in subsidiaries of €1.458 billion (2003: €1.334 billion), as the profits are indefinitely reinvested in these operations or are not subject to taxation.

Deferred tax assets and liabilities:

in € million	2004 Deferred tax assets	2004 Deferred tax liabilities	2003 Deferred tax assets	2003 Deferred tax liabilities
Intangible assets and tangible assets	98	545	75	568
Financial assets	9	18	5	14
Current assets	118	283	101	169
Provisions	194	52	208	37
Liabilities	290	67	286	88
Tax loss carryforwards and tax credits	152	–	140	–
Valuation allowance	–67	–	–73	–
Amounts offset	–671	–671	–610	–610
	123	**294**	**132**	**266**

The carrying amount of deferred tax assets is reduced to the extent that it is no longer probable that the deferred tax asset will be utilized. A valuation allowance of €67 million (2003: €73 million) has therefore been recognized against the deferred tax assets to reduce the potential tax savings of €182 million (2003: €209 million), as it is not probable that the underlying tax loss carryforwards and tax credits of €171 million (2003: €199 million) and deductible temporary differences of €11 million (2003: €10 million) will be used. Of the total tax loss carryforwards and tax credits of €182 million (2003: €199 million), €64 million (2003: €78 million) may be carried forward for up to ten years and €118 million (2003: €121 million) may be carried forward for longer than ten years.

Tax loss carryforwards in € million	2004	2003
May be carried forward for up to 10 years	94	101
May be carried forward for longer than 10 years	108	106
May be carried forward for an unlimited period	142	153
	344	**360**

[14] Minority interests

Included in the Earnings after taxes on income of the Linde Group is the profit attributable to minority shareholders of €5 million (2003: €1 million).

[15] Earnings per share

in € million/Shares in thousands	2004	2003
Net income	274	108
Plus: Increase in profit due to dilutive effect of convertible bond	8	–
Profit after adjusting for dilutive effects	282	108
Weighted average number of shares outstanding	119,273	119,262
Effect of dilutive subscription rights	216	48
Effect of dilutive convertible bond	6,429	–
Weighted average of shares outstanding – fully diluted –	125,918	119,310
Earnings per share in €	**2.30**	**0.91**
Earnings per share in € – fully diluted –	**2.24**	**0.91**

In May 2004, Linde issued a convertible bond with a nominal amount of €550 million. The conversion terms were not met in fiscal 2004. The dilutive effects of issuing future shares were taken into account in the calculation of earnings per share.

The Refrigeration business segment which was sold during the year did not have any dilutive effect on earnings per share in fiscal 2004 or in the previous year.

[16] Other information on the Group income statement

in € million	2004	2003
Cost of raw materials, supplies and merchandise	4,094	3,587
Cost of external services	444	367
Cost of materials	**4,538**	**3,954**
Wages and salaries	1,734	1,735
Social security contributions	405	392
Pension costs and personnel welfare costs	127	146
of which pension costs €126 million (2003: €142 million)		
Personnel costs	**2,266**	**2,273**
Scheduled amortization/depreciation of		
Goodwill	112	114
Other intangible assets	76	71
Tangible assets	504	517
Leased assets	176	185
	868	887
Impairment losses on		
Goodwill	29	24
Tangible assets	–	35
Financial assets	5	2
	34	61
Amortization, depreciation and impairment losses	**902**	**948**

In 2004, there were impairment losses relating to goodwill of €20 million (2003: €15 million) in the Material Handling business segment, €8 million (2003: €3 million) in the Linde Gas division and €1 million (2003: €6 million) in the Refrigeration business segment.

There were impairment losses relating to financial assets of €4 million (2003: €1 million) in the Linde Gas division and of €1 million (2003: €1 million) in the Material Handling business segment.

The impairment losses are based on a change in the assessment of the future results of operations of individual reporting units.

Notes to the Group balance sheet

[17] Goodwill/Intangible assets

The total figure for goodwill includes the amortized goodwill arising on the acquisition of the AGA Group at a net book value of €2.495 billion (2003: €2.566 billion).

Included in Other intangible assets of €277 million (2003: €252 million) are capitalized development costs in the Material Handling business segment of €122 million (2003: €112 million) and concessions, industrial property rights, licenses and other intangible assets of €155 million (2003: €140 million).

Movements in intangible assets are set out in the Group summary of fixed assets.

[18] Tangible assets

An analysis of the tangible assets summarized under a single heading in the balance sheet and movements in tangible assets during the fiscal year are set out in the Group summary of fixed assets.

In fiscal 2004, borrowing costs for construction periods over one year of €7 million (2003: €5 million) were capitalized, based on an interest rate of 4.60 percent (2003: 4.75 percent).

The acquisition/manufacturing cost of tangible assets was reduced in the fiscal year by grants for air separation plants of €3 million (2003: €1 million).

[19] Investments in associates/Other financial assets

An analysis of the financial assets under the above headings in the balance sheet is set out in the Group summary of fixed assets.

Major associates are listed in Note [45]. The associated companies included have combined assets of €1,244 million, liabilities of €800 million, sales of €1,223 million and net income for the year of €27 million.

One associated company had an unrealized loss in the year for the first time of €1 million (2003: €0 million), the amount of its negative equity. Accounting for this associate under the equity method was discontinued.

[20] Leased assets

Included in Leased assets are assets held under the following types of lease agreements:

in € million	Operating leases as lessor		Sales with guaranteed residual values		Finance leases as lessee		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Land and buildings	–	–	–	–	19	19	19	19
Industrial trucks	381	339	140	153	6	8	527	500
Technical equipment	5	3	–	–	5	8	10	11
Fixtures, furniture and equipment	–	–	–	–	18	21	18	21
	386	**342**	**140**	**153**	**48**	**56**	**574**	**551**

In the course of its financial services business, Linde Group acts as a lessor of industrial trucks directly to the customer and such leases are disclosed here as operating leases in accordance with IAS 17 *Leases*.

This item also includes equipment sold to leasing companies but for which Linde guarantees a certain residual value. Leased assets held under operating leases include, on the one hand, assets leased to customers with a value of €183 million (2003: €146 million), financed principally using Linde's own resources. On the other hand, they include assets leased to customers with a value of €203 million (2003: €196 million), which are refinanced by sale and leaseback transactions with leasing companies.

Future minimum lease payments to be received from customers under non-cancelable operating leases amount to €281 million (2003: €225 million) in aggregate. These are analyzed by due date as follows:

in € million	Dec. 31, 2004	Dec. 31, 2003
Future minimum lease payments to be received		
Due within one year	92	80
Due in one to five years	183	143
Due after more than five years	6	2
	281	**225**

Buildings, technical equipment, fixtures, furniture and other equipment held under finance leases are also disclosed here. The corresponding lease liabilities are reported under the heading Liabilities from financial services. The underlying leased assets totaled €48 million in 2004 (2003: €56 million); the corresponding depreciation charge was €13 million (2003: €10 million). The assets relate mainly to buildings leased by the STILL branches in Germany.

Contingent rents, mainly contingent on machine hours used, were recognized in income. The amounts were insignificant in the 2004 fiscal year. An analysis of movements in leased assets is given in the Group summary of fixed assets.

[21] Inventories

in € million	Dec. 31, 2004	Dec. 31, 2003
Raw materials and supplies	181	189
Work in progress, goods and services	189	225
Finished goods	405	383
Merchandise	93	134
Payments in advance to suppliers	74	176
	942	**1,107**

Included in the total are inventories of €407 million (2003: €389 million) reported at their net realizable value. The write-down on the gross value was €97 million (2003: €88 million).

The use of the LIFO method as an alternative permitted method is no longer applicable. The change-over to the average method had an effect of €10 million on inventories in fiscal 2004, an amount which was transferred to equity.

[22] Receivables and other assets

in € million	Non-current		Current		Total	
	2004	2003	2004	2003	2004	2003
Receivables from financial services	**132**	**127**	**82**	**63**	**214**	**190**
Receivables from percentage of completion contracts	–	–	72	38	72	38
Receivables from affiliated companies	–	–	6	2	6	2
Receivables from related companies	–	–	47	36	47	36
Other trade receivables	45	9	1,284	1,485	1,329	1,494
Trade receivables	**45**	**9**	**1,409**	**1,561**	**1,454**	**1,570**
Tax claims	1	11	180	168	181	179
Receivables from affiliated companies	–	–	10	7	10	7
Receivables from related companies	–	–	30	33	30	33
Miscellaneous receivables and assets	20	39	340	365	360	404
Other receivables and other assets	**21**	**50**	**560**	**573**	**581**	**623**

Receivables from financial services

In the course of their financial services business, Linde Group companies act as direct lessors to the customer and the net amounts of the lease payments under finance leases in accordance with IAS 17 *Leases* are disclosed as receivables.

The data underlying the receivables under finance leases is as follows:

in € million	Dec. 31, 2004	Dec. 31, 2003
Gross investment	253	217
Due within one year	97	72
Due in one to five years	154	142
Due in more than five years	2	3
Present value of minimum lease payments	214	190
Due within one year	82	63
Due in one to five years	130	125
Due in more than five years	2	2
Unearned finance income	39	27

Included in the gross investment are unguaranteed residual values accruing to the benefit of the lessor of €30 million (2003: €28 million).

The receivables include minimum lease payments relating to non-cancelable subleases of €223 million (2003: €189 million).

Contingent rents, mainly contingent on machine hours used, were recognized in income and were insignificant in the 2004 fiscal year.

Receivables from percentage of completion contracts

Receivables from percentage of completion (PoC) contracts comprise the aggregate amount of costs incurred and recognized profits (less recognized losses) to date, less advances received.

At the balance sheet date, costs incurred and profits recognized on long-term construction contracts amounted to €2.029 billion (2003: €1.551 billion), offset against advances received of €2.452 billion (2003: €1.996 billion). These calculations give rise to receivables of €72 million (2003: €38 million) and liabilities of €495 million (2003: €483 million).

Customer retentions were immaterial.

Other receivables and other assets

Other receivables and other assets comprise mainly the fair values of derivative financial instruments amounting to €130 million (2003: €158 million), interest accruals from swaps of €38 million (2003: €58 million) and tax refund claims of €181 million (2003: €179 million).

[23] Securities

Only available-for-sale securities of €3 million (2003: €4 million) are included under this heading.

[24] Cash and cash equivalents

Cash and cash equivalents of €564 million comprise cash in hand, cash at banks and commercial papers. The cash at banks and commercial papers have a maturity of three months or less.

[25] Prepaid expenses and deferred charges

The whole amount is due within one year.

[26] Equity

The changes in equity of the Linde Group are shown in the Statement of changes in Group equity.

Capital subscribed

The company's subscribed capital at the balance sheet date was €305,478,077.44. 119,327,374 shares have been issued at a par value of €2.56 per share. The shares are bearer shares.

In November 2004, the share capital was increased against cash contributions by a nominal amount of €167,014.40 as a result of the issue of employee shares out of Authorized Capital I while excluding shareholders' subscription rights. The 65,240 new bearer shares are entitled to dividend from January 1, 2004.

Authorized capital at the balance sheet date was €119,832,985.60.

The Executive Board of Linde AG has been authorized to raise subscribed capital in three separate tranches (Authorized Capital I, Authorized Capital II, Authorized Capital III), each running concurrently up to May 16, 2005. These permit the Executive Board, subject to approval by the Supervisory Board, to increase subscribed capital by issuing new shares. Shareholders generally have subscription rights.

Under Authorized Capital I, the Executive Board is entitled to increase subscribed capital by up to €39,832,985.60 against cash contributions. Shareholders' subscription rights may be excluded to an amount up to €3,332,985.60 which may be issued as employee shares.

Under Authorized Capital II, subscribed capital may be increased by up to €40 million against cash contributions, whereby shareholders' subscription rights may be excluded for an amount of up to 10 percent of subscribed capital, provided the issue price of the new shares is not significantly lower than the share price traded on the stock exchange.

Under Authorized Capital III, the Executive Board may increase subscribed capital by up to €40 million against cash or non-cash contributions. Shareholders' subscription rights may be excluded if the capital increase by way of non-cash contributions is performed with the object of acquiring a company or a participating interest in a company.

Moreover, in all the aforementioned instances, a proviso exists that enables the Executive Board to exclude subscription rights in the case of residual amounts and in those instances where convertible bonds or warrant-linked bonds had been issued.

The conditionally authorized capital at the balance sheet date is €65.36 million. Of the prior year amount of €105.36 million, €40 million expired on May 17, 2004.

At the Shareholders' Meeting on May 17, 2000, the Executive Board was authorized to issue bonds to a total nominal amount of €1 billion with conversion or option rights to new shares in the company. The authorization expires on May 16, 2005. To service the conversion and option rights arising from this authorization, it was resolved at the Shareholders' Meeting to create conditionally authorized capital of up to €50 million (2000 conditionally authorized capital).

In May 2004, convertible bonds were issued through the fully-owned subsidiary Linde Finance B.V. with a total nominal amount of €550 million while excluding shareholders' subscription rights. The convertible bonds grant, subject to adjustments to the conversion rate, conversion rights to a proportion of the shares in the subscribed capital of around €24.93 million through the issue of up to 9,737,615 shares.

Conditionally authorized capital of € 40 million (1999 conditionally authorized capital) was available to give the holder/creditors of convertible bonds or warrant-linked bonds the option and/or conversion rights or to establish conversion obligations to new shares in the company. The bonds could be issued to a total nominal amount of € 750 million, expiring on May 17, 2004, with a maturity period up to a maximum of 20 years. The authorization granted to the Executive Board has now expired, without the Board exercising its option to issue these convertible bonds.

Conditionally authorized capital of €15.36 million (2002 conditionally authorized capital) is available to operate the Linde Management Incentive Program (share option scheme).

The Company is also authorized to acquire up to 10 percent of subscribed capital through the purchase of own shares, expiring on October 31, 2005.

The German Securities Trade Act (WpHG) requires investors who have exceeded the threshold percentages of voting rights in companies listed on the stock exchange to notify the company. We have been informed of the following participating interests in the company:

Commerzbank Aktiengesellschaft, Frankfurt am Main, has notified us in accordance with § 41 (2), sentence 1, German Securities Trade Act that as of April 1, 2002 it holds 10.04 percent of the voting rights in Linde AG.

Deutsche Bank AG, Frankfurt am Main, has notified us in accordance with § 41 (2), sentence 1, German Securities Trade Act that as of April 1, 2002 it holds 10.38 percent of the voting rights in Linde AG. These rights are fully attributed to Deutsche Bank under § 22 (1), sentence 1, No. 1, German Securities Trade Act. In addition, it has notified us in accordance with §§ 21 (1) and 24, German Securities Trade Act that its subsidiary DB Value GmbH, Norderfriedrichskoog, exceeded the thresholds of 5 percent and 10 percent of the voting rights in Linde AG on October 11, 2002 and now holds voting rights amounting to 10.0006 percent. Allianz Aktiengesellschaft, Munich, has notified us in accordance with § 41 (2), sentence 1, German Securities Trade Act WpHG that as of April 1, 2002 it controls 12.62 percent of the voting rights in Linde AG. Allianz controls 12.55 percent of these voting rights in accordance with § 22 (1), sentence 1, No. 1, German Securities Trade Act and 0.06 percent of the voting rights in accordance with § 22 (1), sentence 1, No. 6, German Securities Trade Act. Allianz also notified us in accordance with § 41 (2), sentence 1, German Securities Trade Act in conjunction with § 24 of the same Act that Alico-Beteiligungsgesellschaft mit beschränkter Haftung, Munich, as of April 1, 2002 held 11.01 percent of the voting rights in Linde AG. Moreover, Allianz notified us in accordance with § 21 (1) German Securities Trade Act in conjunction with § 24 of the same Act that AZ-LIN Vermögensverwaltungsgesellschaft mbH, Munich, exceeded the thresholds of 5 percent and 10 percent of the voting rights in Linde AG on August 20, 2002 and now holds voting rights of 11.01 percent. Allianz AG, Munich, also informed us voluntarily that Alico-Beteiligungsgesellschaft mbH, Munich, still controls 11.01 percent of the voting rights in Linde AG. Since August 20, 2002, these voting rights have been fully attributed to Alico-Beteiligungsgesellschaft mbH in accordance with § 22 (1), sentence 1, No. 1, German Securities Trade Act.

Capital reserve

The capital reserve comprises the premiums arising on the issue of shares and the amount arising from the issue of the convertible loan. The costs of the issue have been reduced pro-rata (€1 million).

Retained earnings

Included under this heading are the past earnings of the companies included in the Group financial statements, to the extent that these have not been distributed. Also included in retained earnings are positive and negative differences arising on consolidation for acquisitions up to and including December 31, 1994 and adjustments not recognized through the income statement arising from the application of IFRS for the first time.

Cumulative changes in equity not recognized through the income statement

This heading comprises the differences arising from the translation of the financial statements of foreign subsidiaries and the effects of the remeasurement of securities and derivative financial instruments after tax being accounted for in equity rather than being recognized in the income statement.

Movements in the components of Cumulative changes in equity not recognized through the income statement:

in € million	2004			2003		
	Before tax	Tax effect	Net	Before tax	Tax effect	Net
Movement in currency translation differences	**−22**	**–**	**−22**	**−206**	**–**	**−206**
Movement in unrealized profits/losses from remeasurement of securities at fair value						
Movement in accumulated unrealized profits/losses	–	–	–	–	–	–
Realized profits/losses	–	–	–	−2	1	−1
Unrealized profits/losses on available-for-sale securities	**–**	**–**	**–**	**−2**	**1**	**−1**
Movement in unrealized profits/losses on derivative financial instruments						
Movement in accumulated unrealized profits/losses	–	–	–	–	–	–
Realized profits/losses	−3	–	−3	−2	–	−2
Unrealized profits/losses on derivative financial instruments	**−3**	**–**	**−3**	**−2**	**–**	**−2**

[27] Minority interests

The interests of the minority shareholders in equity relate mainly to the following Group companies:

in € million	Dec. 31, 2004	Dec. 31, 2003
Abelló Linde S.A., Barcelona	22	20
Linde Process Plant Company Ltd., Dalian	5	4
Linde Carbonic (Shanghai) Company Ltd., Shanghai	3	3
Bretagne Manutention S.A., Pacé	3	3
Various other companies	5	5
	38	**35**

[28] Provisions for pensions and similar obligations

in € million	Dec. 31, 2004	Dec. 31, 2003
Provisions for pensions	809	928
Provisions for similar obligations	31	55
	840	**983**

Pension provisions are recognized in accordance with IAS 19 *Employee Benefits* for obligations relating to future benefits and current benefits payable to eligible active and former employees of the Linde Group and their surviving dependants.

Different countries have different pension systems due to the variety of legal, economic and tax conditions applicable in each country. These are generally based on the length of service and the remuneration of the employees.

The provisions for similar obligations relate to bridging benefit payments in Germany and termination indemnities outside Germany.

Occupational pension schemes can generally be either defined contribution or defined benefit schemes. In the case of defined contribution plans, the company incurs no obligation other than the payment of contributions to an external pension fund. The total of all pension costs relating to defined contribution schemes in 2004 was €13 million (2003: €12 million).

In the case of defined benefit plans, the company's obligation is to meet the defined benefit commitments to active and former employees. Two different methods can be distinguished, the recognition of provisions for pensions and the use of externally financed pension schemes.

In 2003, operating assets were transferred to a trustee, Linde Pensionsfonds e.V., under a contractual trust arrangement (CTA) for the purpose of externally financing pension obligations in Germany. In 2004, a further transfer was made to the pension fund of €84 million. This amount represents the pension obligations to retired employees and future beneficiaries in the Refrigeration business segment sold during the fiscal year. The establishment of a CTA is based on the model of an Anglo-American pension trust, while taking into account fiscal and labor legislation in Germany.

Pension plans financed via external pension funds also exist in other countries, principally in the UK, the Netherlands, the United States, Switzerland, Norway, Spain and Sweden.

The amount of the pension obligation (actuarial present value of the defined benefit obligation, or DBO) is calculated using actuarial methods, which require the use of estimates.

In addition to assumptions about life expectancy and disability, the following assumptions also play a part, depending on the economic situation in the particular country, so that for countries outside Germany weighted average figures by obligation are given:

	Germany		Rest of Europe		USA		Other countries	
	2004	2003	2004	2003	2004	2003	2004	2003
Discount rate	4.75%	5.25%	4.73%	5.05%	5.98%	6.29%	8.13%	8.78%
Expected return on assets	5.25%	5.60%	4.31%	6.00%	6.19%	7.12%	10.00%	10.00%
Growth in future benefits	2.50%	2.50%	3.23%	3.01%	4.00%	3.08%	3.28%	4.88%
Growth in pensions	1.25%	1.50%	1.93%	1.92%	3.00%	2.54%	2.84%	3.60%

The growth in future benefits comprises expected future increases in salaries, which are estimated annually, taking inflation and the economic situation into account. The actuarial present value of the pension obligations calculated on the basis of the projected unit credit method is reduced by the fair value of the plan assets where these are held in an externally financed pension fund. If the plan assets exceed the obligations from the pension commitments, an asset is disclosed in accordance with IAS 19 *Employee Benefits*. According to IAS 19.58, an asset may arise where a defined benefit plan has been overfunded only if Linde, under its obligations as employer, has the right to receive a refund of the contributions in cash or to reduce future contributions. This did not apply in fiscal 2004.

If the assets do not cover the obligation, the net obligation after deducting any actuarial losses is recognized under provisions for pensions or as an asset.

Increases or decreases in the present value of the defined benefit obligation or the fair value of the plan assets may give rise to actuarial gains or losses, which might be caused, for example, by changes in the parameters used in the calculations, changes in estimates based on risk trends of pension obligations or differences between the actual and expected return on plan assets.

A review as to whether actuarial gains and losses should be recognized is carried out on the basis of individual plans, adopting the "corridor" approach.

Funding status of defined benefit pension obligations:

in € million	Germany		Rest of Europe		USA		Other countries		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Actuarial present value of pension obligations (defined benefit obligation)	1,029	1,003	839	791	59	58	5	5	1,932	1,857
Of which unfunded pension obligations	795	865	81	71	–	–	4	4	880	940
Of which funded pension obligations	234	138	758	720	59	58	1	1	1,052	917
Fair value of plan assets	234	138	661	605	51	52	1	1	947	796
Net obligation	795	865	178	186	8	6	4	4	985	1,061
Unrecognized actuarial gains (+)/losses (–)	–79	–25	–113	–114	–13	–9	–	–	–205	–148
Service cost not yet recognized	–	–	1	–	–	–	–	–	1	–
Not recognized as an asset in accordance with IAS 19.58	–	–	1	–	2	–	–	–	3	–
Balance sheet amount at Dec. 31	**716**	**840**	**67**	**72**	**–3**	**–3**	**4**	**4**	**784**	**913**
of which pension provision (+) or	716	840	89	84	–	–	4	4	809	928
pension asset (–)	–	–	–22	–12	–3	–3	–	–	–25	–15

Portfolio structure of plan assets	Dec. 31, 2004	Dec. 31, 2003
Shares	46%	45%
Fixed-interest securities	41%	39%
Other	13%	16%
	100%	**100%**

Other plan assets comprise mainly property, insurance and cash and cash equivalents.

Movement in plan assets in € million	2004	2003
Fair value of plan assets at the beginning of the fiscal year	796	653
Actual return from plan assets	70	37
Employers' contributions	114	171
Employees' contributions	11	12
Payments to beneficiaries	–30	–29
Asset transfers	–11	–
Other movements including effects of currency translation	–3	–48
Fair value of plan assets at the end of the fiscal year	**947**	**796**

The movements during the year in the balance sheet figures for pensions were as follows:

in € million	Germany		Rest of Europe		USA		Other countries		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Balance sheet amount at Jan. 1	840	937	72	81	–3	–	4	5	913	1.023
Pension expense	68	77	40	27	1	6	1	1	110	111
Pension payments	–46	–43	–3	–4	–	–	–	–1	–49	–48
Contributions to external pension funds	–84	–131	–28	–32	–1	–8	–1	–	–114	–171
Transfers	–62	–	–15	–	–	–	–	–	–77	–
Effect of changes in exchange rates	–	–	1	–	–	–1	–	–1	1	–2
Balance sheet amount at Dec. 31	**716**	**840**	**67**	**72**	**–3**	**–3**	**4**	**4**	**784**	**913**
of which pension provision (+) or pension asset (–)	716 –	840 –	89 –22	84 –12	– –3	– –3	4 –	4 –	809 –25	928 –15

The pension expense relating to defined benefit plans can be analyzed as follows:

in € million	Germany		Rest of Europe		USA		Other countries		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Current service cost	24	24	16	16	1	4	–	–	41	44
Interest cost	51	53	39	41	4	4	1	1	95	99
Expected return on plan assets	–7	–	–37	–36	–4	–4	–	–	–48	–40
Amortization of gains (–)/losses (+)	–	–	14	6	–	2	–	–	14	8
Amortization of past service cost	–	–	1	–	–	–	–	–	1	–
Plan curtailments/settlements	–	–	7	–	–	–	–	–	7	–
	68	**77**	**40**	**27**	**1**	**6**	**1**	**1**	**110**	**111**

Actual income on plan assets in external pension funds was €70 million (2003: €37 million). This meant that actual income was significantly higher than expected income on plan assets of €48 million.

The individual components of the net pension expense for the following year are calculated on the basis of existing data. The expense for newly acquired pension entitlements and the interest expense for each respective fiscal year are determined each year on the basis of the prior year's defined benefit obligation at the relevant valuation date. The calculation of the expected return on plan assets is based on the expected percentage rate for the prior year.

If the net cumulative unrecognized actuarial gains and losses exceed the greater of 10 percent of the defined benefit obligation and 10 percent of the fair value of the plan assets, the excess is amortized over the expected average remaining working lives of the employees participating in the plan (generally 15 years).

[29] Other provisions

in € million	Non-current		Current		Total	
	2004	2003	2004	2003	2004	2003
Provisions for taxes	**–**	**–**	**173**	**92**	**173**	**92**
Obligations from delivery transactions	51	50	225	222	276	272
Warranty obligations and risks from transactions in course of completion	26	13	232	294	258	307
Obligations relating to personnel	52	33	323	334	375	367
Other obligations	24	16	128	93	152	109
Miscellaneous provisions	**153**	**112***	**908**	**943***	**1.061**	**1.055**
Restructuring schemes	**24**	**28**	**26**	**69**	**50**	**97**
Total other provisions	**177**	**140**	**1,107**	**1,104**	**1,284**	**1,244**

* Prior year figures restated.

The provisions for obligations from delivery transactions comprise mainly provisions for sales deductions and for materials invoices which have not yet been received.

The provisions for warranty obligations and risks from transactions in course of completion comprise mainly provisions for anticipated losses on transactions in course of completion, litigation, guarantees and warranty obligations, as well as provisions for transaction and disposal costs.

The provisions for obligations relating to personnel comprise mainly provisions for obligations relating to pre-retirement part-time work, outstanding holidays, anniversaries, and wages and salaries not yet paid. The provision for obligations relating to pre-retirement part-time work is based on individual contractual agreements.

The provisions for restructuring schemes comprise personnel costs and costs arising from the down-sizing of production sites.

At the balance sheet date, the maturity profile of Other provisions was as follows:

in € million	Jan. 1, 2004	Changes in Group structure*	Utilization	Release	Addition	Dec. 31, 2004
Provisions for taxes	**92**	**–4**	**61**	**11**	**157**	**173**
Obligations from delivery transactions	272	–32	136	30	202	276
Warranty obligations and risks from transactions in course of completion	307	–14	74	46	85	258
Obligations relating to personnel	367	–27	214	12	261	375
Other obligations	109	–7	39	48	137	152
Miscellaneous provisions	**1,055**	**–80**	**463**	**136**	**685**	**1,061**
Restructuring schemes	**97**	**–6**	**38**	**3**	**–**	**50**
Other provisions	**1,244**	**–90**	**562**	**150**	**842**	**1,284**

* Including currency adjustments.

[30] Financial debt

Financial debt comprises interest-bearing obligations of the Linde Group, analyzed as follows:

in € million	Non-current Due in 1 to 5 years		Due in more than 5 years		Current Due within 1 year		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Subordinated bond	–	–	396	395	–	–	396	395
Convertible bond	487	–	–	–	–	–	487	–
Other bonds	1,302	1,772	–	147	137	403	1,439	2,322
Bank loans and overdrafts	45	34	–	13	168	227	213	274
	1,834	**1,806**	**396**	**555**	**305**	**630**	**2,535**	**2,991**

Of the bank loans and overdrafts, an amount of €8 million (2003: €8 million) is secured by mortgages. The weighted average interest rate for bank loans and overdrafts was 4.2 percent in 2004 (2003: 4.0 percent).

The bonds are analyzed as follows:

Fixed-interest bonds **Issuer**	Nominal volume in relevant currency (ISO code)	EUR[2] in million	Average weighted residual term (in years)	Average weighted effective interest rate[1] in percent
Linde Finance B.V., Amsterdam	200 million CZK	7	1.22	6.2
Linde Finance B.V., Amsterdam	1,872 million EUR	1,858	4.48	6.2
Linde Finance B.V., Amsterdam	12,000 million JPY	86	1.86	0.8
Linde Finance B.V., Amsterdam	200 million PLN	52	1.12	12.8
Linde Finance B.V., Amsterdam	1,500 million SKK	43	3.11	8.0
Linde Finance B.V., Amsterdam	10 million USD	7	0.57	5.8
		2,053		

1) Effective interest rate in relevant currency.
2) Includes adjustments relating to hedging transactions.

Variable-interest bonds Issuer	Nominal volume in relevant currency (ISO-Code)	EUR[2] million	Average weighted residual term (in years)	Average weighted effective interest rate[1] in percent
Linde Finance B.V., Amsterdam	500 million CZK	16	3.5	2.9
Linde Finance B.V., Amsterdam	155 million EUR	155	2.62	2.8
Linde Finance B.V., Amsterdam	6,560 million JPY	47	1.49	0.6
Linde Finance B.V., Amsterdam	70 million USD	51	1.18	2.7
		269		

1) Effective interest rate in relevant currency.
2) Includes adjustments relating to hedging transactions.

Subordinated bond

In June 2003, a subordinated bond for €400 million was issued. It has no final maturity date, although there is a right to call the loan from July 4, 2013. If the right to call the loan is not exercised on this date, the increased coupon will attract interest at a variable rate (3 month Euribor +3 3/8 percent). The right to call the loan will then be available every quarter on the due date for interest payment. The coupon payment may be suspended as soon as Linde AG fails to pay a dividend. Coupon payments may be suspended for a maximum period of 5 years. If Linde AG resumes the coupon payments, those payments which have not previously been disbursed are made up.

Convertible bond

In May 2004, a convertible bond with a nominal value of €550 million was issued. It has a maturity period of 5 years and an interest rate of 1.25 percent. The conversion terms are described in more detail in Note [26] on equity.

[31] Liabilities from financial services

Liabilities from financial services comprise mainly obligations under finance leases of €411 million (2003: €386 million) from sale and leaseback transactions to refinance lease agreements with customers.

They also include guaranteed residuals of €54 million (2003: €59 million) given in the course of sales of leased equipment to leasing companies, where such guaranteed residual values exceed 10 percent of the fair value of the leased equipment.

Further obligations of €58 million (2003: €66 million) relating to the financing of the leased property have also been recognized by the Linde Group. These leased assets are recognized in the balance sheet due to the character of the lease agreement.

Liabilities from financial services are reduced over the lease term. They have the following residual terms at the balance sheet date:

in € million	Dec. 31, 2004	Dec. 31, 2003
Total minimum lease payments (gross)	**594**	**581**
Due within one year	188	175
Due in one to five years	379	374
Due in more than five years	27	32
Present value of minimum lease payments	**523**	**511**
Due within one year	174	162
Due in one to five years	326	322
Due in more than five years	23	27
Finance charge included in the minimum lease payments	**71**	**70**

[32] Trade payables, Other liabilities

in € million	Non-current		Current		Total	
	2004	2003	2004	2003	2004	2003
Percentage of completion (PoC)	–	–	495	483	495	483
Other	6	5	699	676	705	681
Trade payables	**6**	**5**	**1,194**	**1,159**	**1,200**	**1,164**
Advance payments received from customers	5	34	81	60	86	94
Taxes	15	2	180	172	195	174
Social security	–	–	47	48	47	48
Liabilities due to affiliated companies	–	–	12	6	12	6
Liabilities due to related companies	–	–	4	2	4	2
Sundry liabilities	36	26*	251	302	287	328
Other liabilities	**56**	**62**	**575**	**590**	**631**	**652**
	62	**67**	**1,769**	**1,749**	**1,831**	**1,816**

* Of which other liabilities of €15 million (2003: €12 million) due in more than 5 years.

Percentage of completion trade payables of €495 million (2003: €483 million) relate to advance payments received on construction contracts, where these exceed the state of completion of the contract.

Of the sundry liabilities, none (2003: none) are secured by mortgages.

[33] Deferred income

Deferred income comprises:

in € million	Non-current		Current		Total	
	2004	2003	2004	2003	2004	2003
Deferred income from leases	72	82	105	96	177	178
Other deferred income	4	10	22	30	26	40
	76	**92**	**127**	**126**	**203**	**218**

Deferred income from leases relates principally to the deferral of revenue from the sale of industrial trucks, where the risks associated with residual value remain with the Linde Group. The revenue is deferred on a straight-line basis over the period to the first possible claim to the guaranteed residual value.

Also disclosed here are profits from sale and leaseback transactions, amortized on a straight-line basis over the term of the underlying lease agreement.

The deferred income from leases is due within the following periods:

in € million	Non-current		Current		Total	
	2004	2003	2004	2003	2004	2003
Deferred income on sales with guaranteed residual values	53	64	65	58	118	122
Deferred income on sale and leaseback transactions	16	15	38	37	54	52
Miscellaneous	3	3	2	1	5	4
	72	**82**	**105**	**96**	**177**	**178**

Other information

[34] Share option scheme

It was resolved at the shareholders' meeting of Linde AG held on May 14, 2002 to introduce a share option scheme for management (Linde Management Incentive Program 2002), under which up to 6 million subscription rights can be issued.

The aim of this share option scheme is to allow around 330 members of the worldwide management team to participate in price rises in Linde shares and thereby in the increase in value of the company. Participants may be granted options within the next four years to subscribe to Linde shares in annual tranches, each with a term of seven years. The intention is to launch the scheme on a revolving basis each year, with Linde reserving the right to redefine the participants for each tranche of the scheme. The Supervisory Board determines the allocation of subscription rights to the members of the Executive Board of Linde AG. Otherwise, the Executive Board, with the approval of the Supervisory Board, determines the number of options to be issued.

The options confer the right to subscribe to shares in Linde AG at the exercise price. The exercise price for acquiring new shares in Linde AG is 120 percent of the base price. The base price is the average closing price of Linde shares in XETRA trading on the Frankfurt stock exchange over the last five days before the issue date of the options. The establishment of the exercise price also fulfills the legal requirement for a performance target linked to the rise in the share price of the company. It only makes economic sense to exercise the option if the share price exceeds the exercise price. Setting a performance target of a 20 percent increase in share price links the motivation of the participants in the share option scheme closely to the interests of shareholders, who are seeking to achieve a medium-term increase in the value of the company.

The option conditions provide for a qualifying period for the share options of two years from their date of issue. At the end of this period, the options can be exercised during the entire option term, i.e. during the five years from the end of the qualifying period, excluding any blocked periods. These are the periods from three weeks before to two days after the public reporting dates of the company and the last two weeks before the end of the fiscal year until two days after the announcement of the annual results and 14 weeks before until the third banking day after the annual general meeting of the shareholders. In order to meet the option entitlements of the option holders, Linde AG may elect to provide own shares which it has repurchased in the market, or to issue new shares out of the share capital conditionally authorized for this purpose or, instead of providing new shares, to make a payment in cash per option which represents the difference between the exercise price and the XETRA closing price of Linde shares on the exercise date. These arrangements allow for flexibility in the exercise of the subscription rights. It may make economic sense to use own shares where these are available rather than increasing share capital or making a payment in cash. Moreover, if Linde uses own shares, it can avoid diluting the equity of the company. The decisions as to how the option entitlements will be met will be made in each case by the appropriate executive bodies of the company, which will be directed solely by the interests of the shareholders and of the company. For share options issued to members of the Executive Board, it is envisaged that, with effect from the 2004 tranche, the Supervisory Board will be able to decide to restrict the exercise of options if there are exceptional unforeseen movements in the price of Linde shares. This was not the case in 2004.

Participation in the Linde Management Incentive Program requires no investment from the executives entitled to options. Instead, it is an additional component of their remuneration package.

As stated in Note [7] Accounting Policies, Linde AG will not be adopting IFRS 2 on accounting for share-based payment issued by the International Accounting Standards Board in February 2004 until the fiscal year 2005.

According to IFRS 2 *Share-based Payment*, the total value of share options granted to management will be determined at the issue date using an option price valuation model. The total value calculated of the share options at the issue date will then be allocated as a personnel expense over the period in which the company receives service in return from the employee. This period will generally be the same as the agreed qualifying period. The other side of the entry will be made directly in equity.

If the Standard had been applied in 2004, the following additional expense would have had to be recognized in the income statement. The table shows options based on the share option scheme introduced in 2002.

Option values	Options issued		Notional expense 2004
	Executive Board	Other management	
1st tranche (2002)	240,000	760,000	€2.8 million
2nd tranche (2003)	240,000	777,600	€3.6 million
3rd tranche (2004)	240,000	764,500	€2.3 million

As at December 31, 2004, 26,100 of the options received had expired.

The calculation of the expense is based on the fair value of the subscription rights issued, using the Black-Scholes option price model. The fair value for the subscription rights on the issue date was calculated as being €9.84 for the first tranche, €7.16 for the second tranche and €7.92 for the third tranche. This was based on the following measurement parameters:

Black-Scholes option price model	1st tranche	2nd tranche	3rd tranche
Date of valuation	July 22, 2002	June 6, 2003	May 27, 2004
Exercise price (€)	59.86	35.34	50.87
Expected share volatility (%)	21	32	23
Risk-free interest rate (%)	4.76	3.20	4.11
Term to end of performance period (years)	7	7	7
Expected dividend yield (%)	2.27	3.72	2.76

[35] Derivative financial instruments

The Linde Group is exposed to interest rate, currency and price change risks in the course of its operating activities. These risks are reduced by the use of derivatives. There are clear and uniform Group-wide guidelines as to the use of derivatives, and compliance with these guidelines is constantly monitored.

The main derivatives used in the Linde Group are interest rate swaps, combined interest rate/currency swaps and forward exchange transactions. Occasionally, options are also used. Derivative financial instruments are generally recorded on the trading day.

The counterparties have first-class credit ratings. The creditworthiness of the contracting parties is constantly monitored and is subject to clearly defined limits. The Linde Group's exposure to the risk of counterparty default is negligible.

Currency risks

Linde generally enters into forward exchange transactions to hedge the exposure to risks arising from fluctuations in receivables, payables and liabilities denominated in foreign currencies as well as from outstanding contracts and anticipated transactions. If forecasted transactions are to be hedged, the rules for cash flow hedges are generally applied.

The change in the fair value of the derivatives is recognized in Cumulative changes in equity not recognized through the income statement. In 2004, the positive fair values of derivatives recognized in equity amounted to €4 million (2003: €2 million) and the negative fair values to €2 million (2003: €0 million).

The Group sometimes adopts a portfolio approach for foreign currency risks arising from the project business in the Linde Engineering division. Under this approach, the individual risks are matched centrally and the net position is hedged using forward exchange transactions or FX options. As this approach does not comply with the rules for hedge accounting set out in IAS 39, the changes in the fair values are recognized immediately in income.

Forward exchange transactions are also used to hedge the exposure to foreign currency risks arising from internal financing. The changes in the fair values of these transactions are recognized directly in the income statement as they are offset by the corresponding opposite effects from the measurement of the underlying transactions.

The Linde Group also accounts for embedded derivatives in accordance with the rules set out in IAS 39 *Financial Instruments: Recognition and Measurement*. These derivatives only occur in the Linde Group when existing purchase/sale contracts are concluded in a currency which is not the functional currency of one of the contracting parties. Gains and losses on these embedded derivatives are recognized immediately in net income.

Interest rate risks

The Group is refinanced mainly through the issue of bonds and medium-term notes in various currencies. Linde hedges the exposure to the resulting future interest rate and currency risks by entering into appropriate interest rate and combined interest rate/currency swaps. These economic hedges are reflected in the balance sheet by applying the rules for hedge accounting. Where future interest and capital cash flows are hedged, this gives rise to a cash flow hedge. The remeasurement to fair value of these swaps is recognized directly in Cumulative changes in equity not recognized through the income statement and disclosed separately. In 2004, the negative fair values of derivatives reported in this way amounted to €1 million (2003: €4 million).

Interest rate derivatives, which hedge the exposure to future changes in the fair value of liabilities as a result of interest rate and currency volatility, are accounted for under the rules for fair value hedges. In the 2004 fiscal year, the figure for positive fair values was €63 million (2003: €94 million), while negative fair values amounted to €28 million (2003: €34 million). In addition to hedging individual capital market liabilities, Linde manages interest rate risks carefully at Group level. To achieve this, it enters into interest rate swaps and interest rate options, which have the effect of transforming liabilities at variable interest rates into fixed-interest liabilities.

Price change risks

To hedge against price change risks, a small number of electricity derivatives are used. The changes in the fair values of these derivatives are recognized directly in equity as cash flow hedges. In fiscal 2004, the total negative fair value of these derivatives was €4 million (2003: positive fair value of €2 million).

At December 31, 2004, Linde AG held derivative financial instruments to hedge against exposure to interest rate risks, currency risks and price change risks, which are shown as cash flow hedges, with a maximum period to maturity of 18 months (2003: 30 months).

Measurement information for financial instruments

The fair value of financial instruments is determined using stock exchange prices, reference prices (e.g. ECB reference prices) or recognized calculation models. The calculations are based on the following interest curves:

Interest curves	EUR	USD	GBP	JPY	PLN	CZK	SKK
Interest for six months	2.23%	2.77%	4.8%	0.0%	6.5%	2.6%	3.4%
Interest for one year	2.36%	3.08%	4.8%	0.1%	6.4%	2.8%	3.3%
Interest for five years	3.19%	4.10%	4.9%	0.7%	6.1%	3.6%	3.9%
Interest for ten years	3.77%	4.72%	4.9%	1.5%	5.8%	4.1%	4.3%

The fair values thus determined are disclosed in the balance sheet under Other receivables and other assets or Other liabilities.

The nominal amounts represent the total purchase and sale amounts of the derivatives, which are not offset. At the balance sheet date, the fair values and nominal amounts are as follows:

Fair value of derivative financial instruments in € million	Non-current Due in 1 to 5 years		Due in over 5 years		Current Due within 1 year		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Assets								
Forward exchange transactions*	4	–	–	–	40	30	44	30
Foreign currency options	–	–	–	–	1	–	1	–
Swap transactions	76	97	1	5	6	20	83	122
Interest rate options	2	3	–	1	–	–	2	4
Electricity derivatives	–	–	–	–	–	2	–	2
	82	**100**	**1**	**6**	**47**	**52**	**130**	**158**
Liabilities								
Forward exchange transactions*	1	1	–	–	27	24	28	25
Foreign currency options	–	–	–	–	–	–	–	–
Swap transactions	43	67	4	11	20	4	67	82
Interest rate options	2	–	–	1	–	–	2	1
Electricity derivatives	1	–	–	–	3	–	4	–
	47	**68**	**4**	**12**	**50**	**28**	**101**	**108**

Nominal amounts	2004	2003	2004	2003	2004	2003	2004	2003
Assets								
Forward exchange transactions*	58	11	–	–	784	589	842	600
Foreign currency options	–	–	–	–	10	–	10	–
Swap transactions	1,245	1,441	125	67	28	259	1,398	1,767
Interest rate options	175	300	–	50	25	–	200	350
Electricity derivatives	–	5	–	–	–	13	–	18
	1,478	**1,757**	**125**	**117**	**847**	**861**	**2,450**	**2,735**
Liabilities								
Forward exchange transactions*	11	17	–	–	482	902	493	919
Foreign currency options	–	–	–	–	10	–	10	–
Swap transactions	593	913	95	420	200	164	888	1,497
Interest rate options	75	100	–	50	–	–	75	150
Electricity derivatives	12	–	–	–	18	–	30	–
	691	**1,030**	**95**	**470**	**710**	**1,066**	**1,496**	**2,566**

* Including embedded derivatives from hybrid contracts.

[36] Group cash flow statement

The cash flow statement shows the source and application of funds in the fiscal years 2004 and 2003.

In accordance with IAS 7 *Cash Flow Statements*, cash flows from operating activities are distinguished from cash flows from investing and financing activities.

The cash and cash equivalents disclosed in the cash flow statement comprise all cash and cash equivalents disclosed in the balance sheet, i.e. cash in hand, checks in hand, balances with the German Federal Bank and cash at banks, with a maturity of three months or less. The cash and cash equivalents are not subject to any drawing restrictions.

The cash flows from investing and financing activities are determined on the basis of payments, whereas the cash flow from operating activities is derived indirectly from earnings after taxes on income.

When the cash flow from operating activities is calculated, the changes in assets and liabilities are adjusted for the effects of currency translation and changes in Group structure. As a result, it is not possible to reconcile the figures to the differences between the headings in the published Group balance sheet.

Interest paid, distributions received and income taxes paid included in the cash flow from operating activities have been disclosed separately. The change in leased assets as a result of additions and disposals has also been disclosed under operating activities.

The investing activities comprise additions to tangible assets, financial assets and intangible assets, as well as additions to capitalized development costs. Additions and disposals have been translated at average rates. Additions to securities held as current assets are also shown here. In fiscal 2004, securities of €84 million were acquired for the external financing of pension obligations under a Contractual Trust Arrangement (CTA) and transferred to a trustee. The amount represents the pension obligations to retired employees and future beneficiaries in the Refrigeration business segment which has now been sold.

[37] Segment information

Segment information by activity

The segment information by activity shows the different products supplied by the Gas and Engineering segment (with both combined figures and figures split into the Linde Gas and Linde Engineering divisions), as well as those supplied by the Material Handling business segment.

The Linde Gas division focuses on the production, sale and distribution of gases for applications in industry, medicine, environmental protection and in research and development. In addition, this division offers technical application know-how, specialized services and the necessary hardware to use the various gases.

The Linde Engineering division is involved in the conception and realization of turnkey industrial plants for the petrochemical industry, for the production of hydrogen and synthesis gases and the treatment of natural gas, as well as in the construction of air separation and pharmaceutical plants. This division develops and manufactures plant components and offers specialized services.

The figures for the Gas and Engineering business segment have been shown for the first time as combined figures, to fairly reflect the close economic relationship between the two divisions. The prior year figures in the Corporate segment have been reduced by the amounts arising on consolidation relating to the Gas and Engineering business segment.

The Material Handling business segment comprises three divisions: Linde Material Handling, STILL and OM Pimespo. These develop, manufacture and sell forklift trucks and warehouse equipment. These divisions also offer a comprehensive range of service packages and financial services. The Linde Material Handling business segment also develops, manufactures and sells hydraulic components.

The Corporate column includes amounts which cannot be allocated to the segments. These include expenses incurred by the Corporate Center. Also included here are minor Group activities which cannot be allocated to a particular segment and are thus posted directly to the Corporate Center. Consolidation entries made to reconcile segment figures to total Group figures are also recorded here.

The same accounting policies as those used in the Group financial statements are also used in the segments. Overhead costs incurred by the Corporate Center are not allocated to the segments.

Intra-Group transactions are generally conducted at market prices. The capital expenditure relates to additions to intangible assets, tangible assets and leased assets.

Segment information by region

For the segment information by region, sales are determined on the basis of the location of the customer. Capital expenditure and long-term segment assets are determined on the basis of the location of the company.

Reconciliation of segment assets/liabilities to balance sheet
in € million

	Dec. 31, 2004	Dec. 31, 2003
Fixed assets	7,675	7,702
Inventories	942	1,107
Trade receivables	1,454	1,570
Other segment assets (excluding tax claims)	649	664
Securities, cash and cash equivalents	567	561
Segment assets	**11,287**	**11,604**
Deferred taxes and tax claims	304	311
Total balance sheet assets	**11,591**	**11,915**
Provisions (excluding pension and tax provisions)	1,111	1,152
Trade payables	1,200	1,164
Other segment liabilities	639	696
Segment liabilities	**2,950**	**3,012**
Pension provisions	840	983
Financial liabilities	3,058	3,502
Minority interests	38	35
Equity	4,043	3,851
Capital employed	**7,979**	**8,371**
Deferred taxes	294	266
Provisions for taxes	173	92
Tax liabilities	195	174
Total balance sheet equity and liabilities	**11,591**	**11,915**

[38] Employees

The average number of employees (including part-time employees pro-rata) analyzed by function is as follows:

	2004	2003
Production	21,729	22,998
Sales and distribution	16,287	15,441
Research and development	1,440	1,482
Administration	5,148	5,423
	44,604	45,344
Trainees	932	934
	45,536	**46,278**

[39] Recommendation for approval of the annual financial statements and appropriation of the profit of Linde AG

The Executive Board recommends that the annual financial statements of Linde AG, which show retained earnings of €149,159,218, be approved as presented.

The Executive Board recommends that the retained earnings of €149,159,218 for the year ended December 31, 2004 be applied as follows: payment of a dividend of €1.25 per share (2003: €1.13) on the 119,327,374 shares entitled to dividends.

[40] Related party transactions

In addition to the subsidiaries included in the Group financial statements, Linde AG is related, directly or indirectly, while carrying out its normal business activities, to a multiplicity of affiliated but not consolidated companies, joint ventures and associates. The business relationships with these companies are conducted under normal market conditions. Related companies which are controlled by the Linde Group or over which the Linde Group may exercise significant influence are disclosed in the list of shareholdings arranged by business segment.

The full list of Group shareholdings has been filed in the Commercial Register of the Local Courts (Amtsgerichte) of Wiesbaden, Munich, Aschaffenburg, Bad Hersfeld, Essen, Frankfurt, Hamburg, Reutlingen, Vechta and Würzburg.

The volume of transactions of the Linde Group with these related parties in fiscal 2004 was as follows:

Services provided by the Group to related parties:

in € million	2004	2003
Engineering services	1	2
Sale of Material Handling equipment	208	189
Sale of industrial gases	11	10
	220	**201**

Services provided by related parties to the Group:

in € million	2004	2003
Rental and lease agreements Material Handling	8	36
Services Material Handling	12	13
Power units Material Handling	29	23
Other services	101	31
	150	**103**

Some of the members of the Supervisory Board and the Executive Board are, or have been in the past year, active as members of the Supervisory or Executive Boards of other companies. Linde has a normal business relationship with almost all these companies. The sale of products and services to these companies takes place under the same conditions as for non-related third parties. The current business relationships with the shareholders, Deutsche Bank AG, Commerzbank AG and Allianz AG, encompass syndicate services for securities issues, other investment banking services, credit business, money market business and currency transactions, as well as insurance cover in the normal course of business.

At the balance sheet date, receivables from related parties were as follows:

in € million	2004	2003
Linde Gas	6	4
Material Handling	48	35
	54	**39**

Amounts due to related parties can be analyzed as follows:

in € million	2004	2003
Linde Gas	9	5
Material Handling	5	8
	14	**13**

[41] Additional information about the Supervisory Board and Executive Board

Supervisory Board

The emoluments of the Supervisory Board are determined at the shareholders' meeting based on a proposal from the Executive Board and Supervisory Board and set out in item 11 of the bylaws of Linde AG. Each member of the Supervisory Board receives annual fixed emoluments of €3,000. The variable remuneration for each member of the Supervisory Board is €600 for each €0.01 by which the dividend declared by the shareholders' meeting exceeds a dividend of €0.10 per share with full dividend entitlement distributed to the shareholders.

Accordingly, if a dividend of €1.25 is declared, the variable remuneration of each member of the Supervisory Board is €69,000. The Chairman of the Supervisory Board receives three times this amount, while each Deputy Chairman and each member of the Standing Committee receives one and a half times this amount. The Chairman of the Audit Committee receives an additional €30,000 and every other member of the Audit Committee receives €15,000. If a member of the Supervisory Board holds several offices which pay a higher level of remuneration at the same time, he or she only receives the remuneration for the office which is the most highly paid. Linde AG reimburses the members of the Supervisory Board for any necessary expenses incurred and the VAT on their emoluments. The company also pays the members of the Supervisory Board an attendance fee of €300 for their participation in an ordinary meeting of the Supervisory Board. In fiscal 2004, the total emoluments of the Supervisory Board for discharging their duties in the parent company and in the subsidiaries were €1,739,489 (2003: €1,543,491)*. Of this amount, €126,467 (2003: €87,085) relates to fixed emoluments and €1,592,490 (2003: €1,435,527) to variable emoluments. In the past two fiscal years, there have been no loans to members of the Supervisory Board. Moreover, the members of the Supervisory Board have received no emoluments or benefits for any personal services they have provided, such as consultancy or mediation services.

* Including VAT.

Executive Board

Emoluments of the Executive Board in €	2004	2003
Fixed emoluments	2,690,738	2,839,632
Variable emoluments	5,744,627	4,090,214
Total cash emoluments	8,435,365	6,929,846

The fixed emoluments also include benefits in kind. The variable emoluments comprise a dividend-related bonus and a bonus which takes into account the achievement of expected returns on investment and of personal targets.

Under the share option scheme (Linde Management Incentive Program), 240,000 options with a fair value at the issue date of €7.92 per option (2003: €7.16) were granted in fiscal 2004, as in the previous year, to the members of the Executive Board. The total fair value of these options was €1,900,800 (2003: €1,718,400).

In the past two fiscal years, there have been no loans to members of the Executive Board.

Remuneration paid to former members of the Executive Board and their dependants amounted to €2,713,060 (2003: €3,402,688).

A provision of €32,579,626 (2003: €29,244,809) has been made in the Group financial statements for current pensions and future pension benefits in respect of former members of the Executive Board and their dependants.

In the financial statements of Linde AG, a provision of €25,401,353 (2003: €23,890,455) was made.

Interests in share capital

Members of the Supervisory Board and the Executive Board of Linde AG hold shares and options amounting to less than 1 percent of issued share capital.

Members of the Supervisory Board and the Executive Board are required to disclose in accordance with § 15 a of the German Securities Trade Act their own transactions in the shares of Linde AG or in related financial instruments, if the minimum threshold is exceeded. During the fiscal year, Linde AG received one notification which it published immediately on the company's website.

[42] Declaration of compliance with the German Corporate Governance Code

On March 15, 2004, the Executive Board and the Supervisory Board of Linde AG approved the prescribed declaration pursuant to § 161 German Stock Corporation Law (AktG) on the recommendations of the German Corporate Governance Code and made it available to shareholders on a permanent basis. The declaration of compliance has been published on the Internet at *www.linde.com/InvestorRelations/CorporateGovernance*.

A detailed commentary on corporate governance at Linde is set out in the Corporate Governance section of this report.

[43] Contingent liabilities and Other financial commitments

Contingent liabilities in € million	Dec. 31, 2004	Dec. 31, 2003
Bills endorsed and discounted	25	16
Guarantees	70	97
Warranties	14	24
Securities for third-party liabilities	–	–
	109	**137**

Litigation

Neither Linde AG nor any of its Group companies are involved in any current or foreseeable legal or arbitration proceedings which could have a significant effect on the economic situation of the Group or have had such an effect in the past two years. Appropriate provisions have been made in the relevant Group companies for contingent financial commitments from other legal or arbitration proceedings.

Other financial commitments in € million	Dec. 31, 2004	Dec. 31, 2003
Capital expenditure commitment	84	55
Obligations under non-cancelable operating leases	476	410
Other	73	78
	633	**543**

Total future minimum lease payments under non-cancelable operating leases are analyzed by due date as follows:

in € million	Dec. 31, 2004	Dec. 31, 2003
Nominal future minimum lease payments		
Due within one year	135	124
Due in one to five years	266	259
Due in more than five years	75	27
	476	**410**

Some of the future minimum lease payments relate to leased buildings, technical equipment, fixtures, furniture and equipment (procurement leases). The remainder relate to industrial trucks refinanced through sale and leaseback transactions which are then subleased to the end customer (sale and leaseback subleases).

The future minimum lease payments disbursed which relate to sale and leaseback transactions are offset by receipts from non-cancelable subleases with the same lease term.

in € million	Procurement leases		Sale and leaseback subleases	
	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003
Nominal future minimum lease payments (disbursements)				
Due within one year	81	78	54	46
Due in one to five years	154	177	112	82
Due in more than five years	71	27	4	–
	306	**282**	**170**	**128**
Nominal future minimum lease payments (receipts)				
Due within one year	–	–	51	44
Due in one to five years	–	–	102	77
Due in more than five years	–	–	4	–
	–	**–**	**157**	**121**

[44] Disclosures in accordance with § 292a HGB

The requirements set out in § 292a (1) German Commercial Code (HGB) for the preparation of the Group financial statements of Linde AG in accordance with International Financial Reporting Standards (IFRS) have been met.

The main differences between the accounting policies and consolidation methods used to comply with IFRS and the provisions of HGB are as follows:

Goodwill

Goodwill arising on the consolidation of companies acquired since 1995 is recognized as an asset in accordance with IAS 22 *Business Combinations* and amortized over its useful life. Under HGB, goodwill may be offset against retained earnings; the Linde Group availed itself of this provision until the end of 1999. For companies acquired after March 31, 2004, IFRS 3 *Business Combinations* was applied.

Development costs

In accordance with IAS 38 *Intangible Assets*, development costs are recognized as an intangible asset if manufacturing the products developed will generate future economic benefits for the Linde Group. Under HGB, intangible assets acquired for no consideration and internally-generated intangible assets may not be capitalized. All development costs are treated as a current expense.

Tangible assets

Under IFRS, movable tangible assets are depreciated using the straight-line method, instead of using the declining balance method which is also permitted under HGB; depreciation is based on the estimated useful life of the asset, rather than its tax life. Tax depreciation is not permitted in IFRS financial statements.

Purchase accounting

The assets and liabilities acquired on the purchase of companies are revalued as at the date of acquisition. Because of differences in depreciation periods and methods between HGB and IFRS (the declining balance method is no longer used), deviations have arisen in the net book values of the assets acquired and therefore adjustments have been required to the corresponding figures for goodwill.

Leases

The classification and accounting treatment of lease transactions in both IAS 17 *Leases* and HGB are based on economic rather than legal ownership. However, IFRS differs from HGB in the detail, i.e. it applies different criteria when determining economic ownership. Under international rules, the asset is recognized in the books of the company which carries both the risks and the rewards associated with the asset (risks and rewards approach).

Inventories

According to IAS 2 *Inventories*, inventories are stated at full absorption cost, whereas in the Linde Group under HGB they were measured at the direct costs of production until the end of 2001. In applying the lower of cost and net realizable value test for inventory valuation purposes, IFRS is influenced more by the sales market than is HGB. Therefore, it is possible that inventory valuations under IFRS may be higher than under HGB, with lower write-downs. Under IFRS, advance payments may not be offset against inventories, although this treatment is permitted under HGB.

Recognition of revenue (long-term contracts)

IAS 11 Construction Contracts requires revenue and profits for long-term contracts to be recognized by reference to the stage of completion of the contract (percentage of completion method).

Under HGB, however, revenue and profits are recognized only once the contract has been completed or identifiable parts of the contract have been delivered or services have been provided to the customer (completed contract method).

Derivative financial instruments

Under IAS 39 *Financial Instruments: Recognition and Measurement*, derivative financial instruments are accounted for at fair value, even if this exceeds cost.

The gain or loss arising from changes in the fair value of financial instruments used to hedge future cash flows is recognized directly in equity under Cumulative changes in equity not recognized through the income statement (cash flow hedges). The gain or loss arising on the settlement of these contracts is not included in net income until the due date of the underlying transaction. In contrast, the gain or loss from changes in the fair value of derivative financial instruments used to hedge the exposure to changes in the fair value of assets or liabilities is recognized immediately in net income (fair value hedges).

Under HGB, there is no mandatory approach for the recognition and measurement of derivative financial instruments, with the result that the measurement is based on the principles of historical cost, realization and unequal treatment of losses and income.

Securities

There is a fundamental difference between the accounting treatment of securities under IFRS as compared with HGB. According to IFRS, available-for-sale securities are accounted for at fair value. According to HGB, securities must not be reported at a value higher than acquisition cost (acquisition cost principle) and should be stated at the lower of cost and market value (principle of unequal treatment of losses and income).

Provisions for pensions

The provisions for pensions are calculated using the projected unit credit method in accordance with IAS 19 *Employee Benefits*, which – in contrast to the going concern method usually applied in Germany in accordance with § 6a of the German Income Tax Law (EStG) – takes into account expected future increases in pensions and salaries.

Other provisions

According to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, provisions are recognized when an external obligation exists, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount provided should be based on the most probable outcome. Provisions in the HGB financial statements are reported at a valuation which takes into account the concept of prudence. Expense provisions allowed under HGB are not permitted under IFRS.

[45] Significant Group companies

Affiliated companies

Business segment Gas and Engineering Linde Gas	Country (registered office)	Group holding in %	Equity in € million
Linde Gas Austria	A	100.0	134
Linde Gas Pty. Ltd	AUS	100.0	46
Linde Gas Brazil	BR	100.0	67
PanGas	CH	100.0	150
Linde Gas Columbia	CO	100.0	33
Linde Technoplyn	CZ	100.0	199
AGA Linde Healthcare GmbH & Co. KG	D	100.0	2
Tega-Technische Gase und Gasetechnik GmbH	D	100.0	1
Linde Gas Denmark	DK	100.0	7
Abelló Linde Spain	E	74.8	88
Linde Gas France	F	99.8	142
Linde Gas Finland	FIN	100.0	113
Linde Gas Great Britain	GB	100.0	30
Linde Hellas E.P.E.	GR	100.0	26
Linde Gas Hungary AG	H	100.0	141
Linde Gas Italy	I	100.0	139
Linde Gas Mexico	MEX	100.0	39
Linde Gas Norway	N	100.0	49
nv Hoek Loos	NL	100.0	187
Linde Gas Poland	PL	99.9	78
Linde Gas Puerto Rico	PR	100.0	10
AGA S.A.	RA	100.0	19
Linde Gas Chile	RCH	100.0	38
Linde Gas Romania	RO	100.0	31
AGA AB	S	100.0	606
Singapore Syngas Pte. Ltd	SGP	100.0	66
Linde Gas USA	USA	100.0	430
AGA Gas C.A.	YV	100.0	16
Linde Engineering			
Linde Kryotechnik AG	CH	100.0	8
Linde-KCA-Dresden GmbH	D	100.0	48
Selas-Linde GmbH	D	100.0	5
Société d'Application des Techniques Linde S.A.R.L.	F	100.0	5
Linde Impianti Italia S.p.A.	I	100.0	1
Linde Engineering USA	USA	100.0	13

Affiliated companies

Business segment	Country (registered office)	Group holding in %	Equity in € million
Material Handling			
Linde Fördertechnik GmbH	A	100.0	10
Linde Materials Handling Pty. Ltd	AUS	100.0	-18
Linde Lansing Fördertechnik AG	CH	100.0	7
Linde-Xiamen Gabelstaplergesellschaft mbH	CN	100.0	27
Linde Material Handling Czech Republic	CZ	100.0	20
Linde Material Handling Ibérica, S.A.	E	100.0	27
Fenwick-Linde France	F	100.0	96
Linde Material Handling Great Britain	GB	100.0	102
Linde Güldner Italiana S.p.A.	I	100.0	14
Linde Milenz Truck A/B	S	100.0	13
Linde Lift Truck Corporation	USA	100.0	21
Linde Material Handling (Pty) Ltd	ZA	100.0	4
STILL N.V.	B	100.0	4
STILL GmbH	D	100.0	104
STILL WAGNER GmbH & Co KG	D	100.0	27
STILL, S.A.	E	100.0	12
STILL S.A.R.L.	F	100.0	41
STILL Materials Handling Ltd	GB	100.0	2
STILL ITALIA S.p.A.	I	100.0	9
STILL Intern Transport B.V.	NL	100.0	9
IBERCARRETILLAS, S.A.	E	100.0	6
OM Carrelli Elevatori S.p.A.	I	100.0	58
Other affiliated companies			
MATRA-WERKE GmbH	D	100.0	4
Linde Ladenbau GmbH & Co. KG	D	100.0	4
Linde Finance BV	NL	100.0	22

Associates

Business segment Gas and Engineering Linde Gas	Country (registered office)	Group holding in %
HELISON PRODUCTION S.p.A.	DZ	51.0
Oy Innogas Ab	FIN	50.0
TLF Tjeldbergoddens Luftgassfabrik DA	N	37.8
Business segment Material Handling		
JULI Motorenwerk, k.s.	CZ	50.0
Linde Leasing GmbH	D	45.0
Lansing Linde Creighton Ltd	GB	49.0
Lansing Linde Sterling Ltd	GB	49.0
Lansing Linde Trifik Ltd	GB	32.1
Komatsu Forklift Co. Ltd	J	35.0
Linde High Lift Chile S.A.	RCH	45.0

Declaration of the Executive Board

The Executive Board of Linde AG is responsible for the preparation, completeness and accuracy of the Group financial statements, the Group management report and for the additional information given in the annual report.

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), previously known as International Accounting Standards (IAS). The Group management report includes an analysis of the net assets, financial position and results of operations of the Group, together with explanatory comments thereon, as required by the provisions of the German Commercial Code (HGB).

Our efficient internal management and control systems and the use of uniform guidelines throughout the Group ensure the reliability of this data. We have received confirmation from those responsible in each division and from the chief executives of each company of the soundness of the financial data reported to the Corporate Center and of the effectiveness of the related control systems. The internal audit department performs reviews on a continuous basis across the Group to ensure compliance with the guidelines and the reliability and effectiveness of the control systems.

The risk management system established for the Linde Group ensures that, in accordance with the requirements of company law, developments that might endanger the continuance of the Linde Group as a going concern are identified early, so that measures may be taken to counter the risks if necessary.

In accordance with the shareholders' meeting resolution, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft have audited the Group financial statements drawn up in accordance with International Financial Reporting Standards and the Group management report, and issued an unqualified opinion thereon.

The Group financial statements, the Group management report and the audit report were discussed in detail in the presence of the auditors at the meeting of the Supervisory Board to approve the financial statements.

The outcome of the audit is presented by the Supervisory Board in its report on pages 10 to 13 of this annual report.

Dr. Wolfgang Reitzle
President of the Executive Board
of Linde AG

Dr. Peter Diesch
Member of the Executive Board
of Linde AG

Auditors' report

"We have audited the consolidated financial statements, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the financial statements, of Linde Aktiengesellschaft, prepared by the Company for the business year from January 1, 2004 to December 31, 2004. The preparation and content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Linde Group for the business year in accordance with International Financial Reporting Standards.

Our audit, which also extends to the Group management report prepared by the Executive Board for the business year from January 1, 2004 to December 31, 2004, has not led to any reservations. In our opinion, on the whole, the Group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the Group management report for the business year from January 1 to December 31, 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and a Group management report in accordance with German law."

Düsseldorf, February 28, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Rolf Nonnenmacher	Michael Gewehr
Wirtschaftsprüfer	Wirtschaftsprüfer

Further Information

Other Board memberships

Supervisory Board

Members of the Supervisory Board of Linde Aktiengesellschaft are members of the following other German supervisory boards and of comparable German and foreign boards:

Dr. Manfred Schneider
Chairman of the Supervisory Board of Linde AG

- External offices:
  Allianz AG
  Bayer AG (Chairman)
  DaimlerChrysler AG
  Metro AG
  RWE AG
  TUI AG

Hans-Dieter Katte
Deputy Chairman of the Supervisory Board of Linde AG, Chairman of the Works Council, Linde Engineering Division, Linde AG

Michael Diekmann
Second Deputy Chairman of the Supervisory Board of Linde AG,
Chairman of the Executive Board of Allianz AG

- External offices:
  BASF AG
  Lufthansa AG

- Group offices:
  Allianz Lebensversicherungs-AG (Chairman)
  Allianz Versicherungs-AG (Chairman)
  Allianz Global Investors AG (Chairman)
  Dresdner Bank AG (Chairman)

◦ Group offices:
  Assurances Générales de France
  (Vice-President of the Management Board)
  Riunione Adriatica di Sicurtà S.p.A.
  (Vice-President of the Management Board)

Dr. Josef Ackermann
Spokesman for the Executive Board and Chairman of the Group Executive Committee of Deutsche Bank AG

- External offices:
  Bayer AG
  Lufthansa AG
  Siemens AG

• Membership of other German supervisory boards.
◦ Membership of comparable German and foreign boards

Supervisory Board

Dr. Karl-Hermann Baumann
Chairman of the Supervisory Board of Siemens AG
(until January 27, 2005)

- External offices:
  Deutsche Bank AG
  E.ON AG
  Schering AG
  Siemens AG (Chairman, until January 27, 2005)
  ThyssenKrupp AG (from January 21, 2005)

Dr. Gerhard Beiten
Attorney-at-Law,
Member of the Executive Board of Landesverband Bayern der Deutschen Schutzvereinigung für Wertpapierbesitz e.V. (DSW)

Siegried Friebel
(from November 9, 2004)
Chairman of the Works Council, Linde-KCA-Dresden GmbH

Gerhard Full
Former Chairman of the Executive Board of Linde AG

Gernot Hahl
Chairman of the Works Council, Linde Gas Division, Linde AG, Worms

Joachim Hartig
Chairman of the Works Council, Linde Material Handling Division, Linde AG, Aschaffenburg

Thilo Kämmerer
Trade Union Secretary on the Executive Board IG Metall Frankfurt

Klaus-Peter Müller
Spokesman for the Executive Board of Commerzbank AG

- External offices:
  Steigenberger Hotels AG

◦ External offices:
  Assicurazioni Generali S.p.A.
  Parker Hannifin Corporation

◦ Group offices:
  Commerzbank International S.A. (CISAL), Luxembourg
  Commerzbank (Switzerland) AG

Kay Pietsch
Chairman of the Works Council, STILL GmbH, Hamburg

Prof. Dr. Jürgen Strube
Chairman of the Supervisory Board of BASF Aktiengesellschaft

• External offices:
Allianz Lebensversicherungs-AG
BASF Aktiengesellschaft (Chairman)
Bayerische Motorenwerke Aktiengesellschaft
Bertelsmann AG
Commerzbank AG
Fuchs Petrolub AG (Chairman)
Hapag-Lloyd AG

Wilfried Woller
(from October 16, 2004)
Trade Union Secretary, IG Bergbau, Chemie, Energie;
responsible for the Moers region

• External offices:
Deutsche Steinkohle AG

◦ External offices:
Wohnungsbaugesellschaft Glückauf mbH (Supervisory Board)
RAG Trading GmbH (Supervisory Board)

Frank Zukauski
Production Director, STILL GmbH

Retirements from the Supervisory Board in fiscal year 2004:
(This information applies as at the date of retirement from the Board.)

Rüdiger Bouillon
(Retired on October 15, 2004)
Former Department Head of Main Executive Committee of IG Bergbau, Chemie, Energie; responsible for humanization of collective bargaining policy

Hans-Gerhard Bude
(Retired on October 1, 2004)
Deputy Chairman of the Works Council, Linde Kältetechnik GmbH & Co. KG, Cologne-Sürth

• Group offices:
Linde Kältetechnik Verwaltungs GmbH

• Membership of other German supervisory boards.
◦ Membership of comparable German and foreign boards

Executive Board

In addition to their individual management functions within the Group and group companies, members of the Executive Board of Linde Aktiengesellschaft are members of the following other German supervisory boards and comparable German and foreign boards:

Dr. Wolfgang Reitzle
President and Chief Executive Officer

• External offices:
Allianz Lebensversicherungs-AG
Deutsche Telekom AG
(since February 10, 2005)

• Group offices:
Linde Kältetechnik Verwaltungs GmbH
(Chairman, until October 31, 2004)
STILL GmbH (Chairman)

Dr. Aldo Belloni
Member of the Executive Board

◦ Group offices:
nv Hoek Loos, Netherlands
(Deputy Chairman of the Supervisory Board)

Dr. Peter Diesch
Member of the Executive Board

Hubertus Krossa
Member of the Executive Board

• External offices:
Bauknecht Hausgeräte GmbH

• Group offices:
Linde Kältetechnik Verwaltungs GmbH
(until October 31, 2004)
STILL GmbH

Retirements from the Executive Board in fiscal year 2004:
(This information applies as at the date of retirement from the Board.)

Hero Brahms
(Retired June 30, 2004)
Member of the Executive Board

• External offices:
Deutsche Post AG
Georgsmarienhütte Holding GmbH
KarstadtQuelle AG
Wincor Nixdorf AG

• Membership of other German supervisory boards.
◦ Membership of comparable German and foreign boards

Management organization

Executive Board	Responsible for business segment	Central functions
Dr. Wolfgang Reitzle, President and Chief Executive Officer	Corporate Center	Investor Relations, Communications, Organization, IT, Legal, Internal Audit, Business Development
Dr. Aldo Belloni	Gas and Engineering	Patents
Dr. Peter Diesch		Accounts, Controlling, Financial Control, Mergers & Acquisitions, Tax, Personnel
Hubertus Krossa	Material Handling	

Business segment

Gas and Engineering	Linde Gas	Linde Engineering
Dr. Aldo Belloni, Spokesman	Dr. Aldo Belloni, Spokesman	Werner Schwarzmeier, Spokesman
Georg Denoke	Georg Denoke	Dr. Markus Raab
Dr. Rainer Goedl	Dr. Rainer Goedl	Dr. Bruno Ziegler
Werner Schwarzmeier	Lennart Selander	
Lennart Selander	Peter Stocks	
Peter Stocks		

Material Handling	Linde Material Handling	STILL GmbH
Hubertus Krossa, Spokesman	Dr. Stefan Rinck, Spokesman	Dr.-Ing. Rolf Karg, Spokesman
Dr. Stefan Rinck	Erwin Bruckmoser	Dr. Lorenz Zwingmann
Ralf Speth	Klaus Heinrich Hofmann	
	Georg Silbermann	**OM Carrelli Elevatori S.p.A.**
		Dr. Daniele Signorini

Central functions

Accounts	Björn Schneider
Controlling	Karl-Heinz Birkner
Financial Control	Erhard Wehlen
Communications, Investor Relations	Dr. Harry Roegner
Mergers & Acquisitions	Matthias von Plotho
Organization, IT	Dr. Peter Wroblowski
Personnel	Christian Molsen
Legal	Lothar Dressel
Internal Audit	Detlef Hübner
Tax	Michael Weißberg
Business Development	Michael Ullrich

*As at March 15, 2005

Review of the year

January The Refrigeration business segment was hived off to create an independent legal entity. With annual sales of about €900 million and 6,300 employees worldwide, the company, Linde Kältetechnik GmbH & Co. KG, is the number two provider of refrigerated and freezer display cases.

Linde Gas merged formerly separate American companies. All industrial gas activities are bundled in Linde Gas LLC, institutional healthcare is bundled in the company LifeGas LLC and the company INO Therapeutics is to handle everything associated with the INOmax® business.

Linde Engineering has once again proved its strength in the Chinese market by winning two orders to construct air separation plants, for Wuhan Iron and Steel Group (the third-largest steel producer in China) and Taiyuan Iron and Steel Co. (TISCO), China's largest producer of high-grade steel.

February Linde Gas received another major contract from the Hungarian chemical company BorsodChem RT for the long-term supply of oxygen and nitrogen. To meet this customer's needs, Linde will construct another on-site air separation plant at BorsodChem. The plant will have a value of around €22 million.

March Linde sold the Refrigeration business segment for €325 million to the American Carrier Corporation, a company in the United Technologies Corporation (UTC) Group. The sale was subject to the approval of the anti-trust authorities. Together with the Carrier Corporation (the cooling system division of UTC), Linde Refrigeration will become part of a globally-positioned refrigeration specialist.

April Linde Material Handling (LMH) and STILL exhibited several innovative products and services at bauma+mining 2004, one of Europe's largest trade fairs for construction machinery. At the forefront of LMH's stand were the new 394 diesel truck, the new natural gas forklift (including filling station) and the hydromotor. STILL presented the new PartnerPlan (a material-flow management system) and a new internet portal for used trucks.

May Bavarian Prime Minister Dr. Edmund Stoiber attended the official opening of the Carl von Linde Academy at Munich Technical University on May 3. This interdisciplinary academy pursues the objective of educating engineers and scientists and instilling in them an entrepreneurial mindset. At the same time, the academy strives to intensify the exchange between science and industry.

Despite a bomb threat, which caused a two-hour delay, the Linde AG shareholders' meeting was held according to schedule. The shareholders at the meeting agreed to pay out an unchanged dividend of €1.13 per share.

June On June 24, 800 guests from industry, politics, and the media celebrated Linde's 125th anniversary in Höllriegelskreuth, Germany. Festivities for employees and customers were held throughout the anniversary year both in Germany and abroad.

Ceremonial groundbreaking for the construction of a new air separation plant for the Czech energy company Sokolovská uhelná. Linde Engineering will build the new plant (total investment: €62 million) and then turn over operation in 2005 to Linde Technoplyn, Linde's gas company in the Czech Republic.

Linde Gas further expanded its gas business in Malaysia and acquired the company Hydrogas Malaysia Sdn. Bhd., the largest provider of liquefied carbon dioxide and dry ice for the Malaysian and Singaporean food and beverage industry .

July Dr. Peter Diesch was appointed CFO and Labor Director of Linde, succeeding Hero Brahms, who has held these positions on the Executive Board for the past eight years. Dr. Diesch has been a member of the Linde AG Executive Board since mid-May.

August Linde Gas acquired a carbon dioxide liquefaction plant on the east coast of Thailand, thereby further expanding Linde's presence in the rapidly growing market for gases in Southeast Asia. Sixty employees work at this plant where they produce liquefied carbon dioxide, a product that can be used to freeze food such as fish and poultry.

September Linde Gas won a fifteen-year contract to supply hydrogen to ENAP, the Chilean national oil company, making Linde Gas the market leader for industrial gases in that country. Linde's Chilean subsidiary, AGA S.A., will finance, construct and operate a hydrogen plant for this purpose. The entire on-site project has an investment value of 70 million dollars.

October Effective October 1, Linde Kältetechnik GmbH & Co. KG was transferred to the Carrier Corporation, a company in the United Technologies Corporation (UTC) Group.

In the middle of October, the topping-out ceremony took place for the helium liquefaction plant in the Algerian port city of Skikda. HELISON Production S.p.A. was joined by its two joint venture partners, the Algerian energy supplier Sonatrach and Linde Gas. Linde Engineering was responsible for the planning and construction of the plant.

November On November 16, the European Patent Office in Munich declared Linde's European patent for the use of nitric oxide to treat respiratory failure to be invalid. This patent was issued to General Hospital Corp. in the United States in 1997. Linde has been selling the INOmax® product in the United States since 1999 and in Europe since 2002 as the globally exclusive licensee. The business in the United States will not be affected by this decision.

December Linde concluded a long-term contract with Bayer Material Science AG, a subsidiary of Bayer AG, for the supply of the hydrogen and carbon monoxide to Niederrheinwerke Dormagen. This makes Linde one of the leading suppliers of these two industrial gases in Germany.

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Five-year summary

		HGB 2000	HGB 2001	IFRS 2001	IFRS 2002	IFRS 2003	IFRS 2004
Sales	€ million	8,450	9,076	8,833	8,726	8,992	9,421
Domestic	%	23.8	25.0	24.9	22.9	22.9	21.4
Foreign	%	76.2	75.0	75.1	77.1	77.1	78.6
Earnings							
Earnings before interest, taxes on income and amortization of goodwill (EBITA)	€ million	775	795	764	647	556	785
Earnings before taxes on income (EBT)	€ million	481	505	447	356	287	518
Net income[1)]	€ million	273	285	241	240	108	274
Earnings per share[2)]	€	2.29	2,39	2.02	2.01	0.91	2.30
Dividend	€ million	135+26[3)]	135	135	135	135	149
Dividend per share[2)]	€	1.13+0.22[3)]	1.13	1.13	1.13	1.13	1.25
No. of shares[2)]	in 000s	119,262	119,262	119,262	119,262	119,262	119,327
Asset structure							
Fixed assets	€ million	7,936	7,856	8,544	8,037	7,702	7,675
Inventories[4)]	€ million	814	852	1,047	994	1,107	942
Trade receivables[5)]	€ million	1,734	1,840	2,034	1,874	1,760	1,668
Cash and cash equivalents	€ million	521	424	531	480	561	567
Other assets	€ million	670	494	712	821	785	739
Total assets	€ million	11,675	11,466	12,868	12,206	11,915	11,591
Capital structure							
Equity[1)]	€ million	4,096	4,249	4,356	4,119	3,886	4,081
Provisions	€ million	2,219	2,217	2,097	2,146	2,227	2,124
Financial debt	€ million	4,180	3,798	3,795	3,294	2,991	2,535
Other liabilities	€ million	1,180	1,202	2,620	2,647	2,811	2,851
Total equity and liabilities	€ million	11,675	11,466	12,868	12,206	11,915	11,591
Cash flow statement							
Capital expenditure (incl. financial assets)	€ million	979	717	965	913	967	1,037
Amortization and depreciation	€ million	677	689	870	919	948	902
Cash flow from operating activities	€ million	705	1,039	891	1,145	1,281	1,249
Employees		47,021	46,168	46,168	46,034	46,164	41,383
Domestic	%	38.7	38.7	38.7	38.1	37.3	35.4
Foreign	%	61.3	61.3	61.3	61.9	62.7	64.6
Key ratios							
Equity ratio[1)]	%	35.1	37.1	33.8	33.7	32.6	35.2
Return on capital employed (ROCE)[6)]	%	9.8	9.0	7.9	7.0	7.7	9.5
EBITA return on sales[6)]	%	9.2	8.8	8.6	7.4	7.6	8.3
Cash flow from operating activities as percentage of sales	%	8.3	11.4	10.1	13.1	14.2	13.3

1) After minority interests.
2) Refers to number of shares at December 31.
3) Special dividend.
4) Under HGB, less advance payments received.
5) Includes Receivables arising from financial services.
6) Before special items.

Glossary

Alpha-Sablin process
A new process developed jointly by Linde and Sabic to produce linear alpha olefins, which are used as intermediate products: e.g. in the manufacture of polyethylene, synthetic lubricants, softeners and detergents.

Balanced Scorecard
Strategy-based management information system which offers an integrated approach for a balanced presentation of all significant financial and management data.

Coil-wound heat exchanger
Central component of natural gas liquefaction plants, which is used to cool down and liquefy natural gas or as a precooler.

Cold box
Complete ready-to-use unit, equipped with pipes, fitted with instruments and containing heat exchangers, used to separate gases at low temperatures.

Cracking plant
In a cracking plant, long hydrocarbon chains are "cracked" into shorter ones.

Credit line, syndicated
Credit line which is agreed with a group of banks (syndicate) on the same terms.

Cryogenic separation
Separation of gas mixtures using very low temperatures, e. g. separation of air into oxygen, nitrogen and noble gases.

Cupola furnaces
Smelting furnaces used to manufacture cast products in foundries.

Currency swaps
Swaps of capital amounts denominated in different currencies.

Debt Issuance Program (DIP)
Outline agreement for the issue of financial instruments, such as bonds, on the capital market.

EBITA
Abbreviation for Earnings before Interest, Taxes and Amortization. Here, earnings before the financial result (the balance of net interest, income from associates and other investment income), taxes on income and the amortization of goodwill.

Euro Commercial Paper Program (ECP)
Capital market program for short-term notes on the euro market.

Hydrogenation of coal
Process used to produce hydrocarbons with chains of different lengths from coal.
Depending on the length of the chain, the products may be gaseous (methane, ethane, propane, butane) or liquid (higher alkanes, used for example in gasoline and diesel fuel).

Inertization
Here, a process used to treat hazardous waste materials (such as those arising from the addition of certain gases) in order to render the materials harmless.

Intralogistics
Name of an industry sector. Comprises the entire organization, implementation and optimization of internal material flows in industrial and trading companies and in public institutions, using technical systems such as forklift trucks and warehouse equipment, as well as services.

Leadership appraisals
Appraisal interviews where a manager's performance, competence and potential are evaluated. The strengths and development needs of the individual set out in the performance report are crucial in establishing well-targeted personnel development programs. The results of the appraisals enable us to identify managers with potential in the context of our succession planning and ensure that we prepare them to accept increasing responsibility. They also create a high level of transparency about management potential in the Linde Group.

LNG
Liquefied Natural Gas, regarded as a fuel with a promising future, due to its high energy density, constant combustion value and high level of purity.

LPG
Liquefied Petroleum Gas, a mixture of the hydrocarbons propane and butane, which liquefy at the ambient temperature and at a low level of excess pressure and then take up only 1/260 of their gaseous volumes.

Net foreign currency position
The balance of liabilities in foreign currencies and receivables in foreign currencies from operating and financial transactions.

PET
A multi-purpose, light, unbreakable plastic employed principally in reusable packaging for the food industry, which can easily be recycled after use.

Polyurethane
An extremely versatile plastic which is used in the most diverse areas: e.g. as foam for upholstered furniture, mattresses and sponges or for coating carpets, insulating foam in buildings, and as varnishes and adhesives etc.

Pressure swing adsorption
Process for cost-effective separation and purification of various raw gases and gas mixtures.

ROCE
Abbreviation for Return on Capital Employed. This yield on capital is calculated in the Linde Group as the ratio of earnings before taxes on income, after adding back financial costs for pensions (interest expenses less the expected return on plan assets), to the average amount of capital employed. In the business segments and divisions, ROCE is the ratio of EBITA, after adding back the interest costs for pension provisions, to the average amount of capital employed.

Six Sigma
A systematic and rigorous approach to consistent and sustainable improvements in the processes of the company. The aim of this program is to reduce potential errors in all procedures and processes to a minimum and to continue to improve quality and customer satisfaction.

Tesla
The SI unit of magnetic flux density, named after Nicola Tesla (1856-1943), a Serbian-American engineer and scientist.

Treasury
The Treasury department ensures that the company has sufficient liquid resources and capital.
It invests surplus funds, reduces financial risks and optimizes costs and income arising from financial transactions.

Financial Calendar

Press Conference on Annual Results
March 22, 2005
Städelmuseum, Frankfurt am Main

Analysts' Conference
March 22, 2005
Städelmuseum, Frankfurt am Main

Interim Report
January - March 2005
May 4, 2005

Shareholders' Meeting 2005
June 8, 2005, 10.00 am
International Congress Center, Munich

Dividend Payment
June 9, 2005

Interim Report
January – June 2005
August 4, 2005

Fall Press Conference
November 3, 2005
Corporate Center, Wiesbaden

Interim Report
January – September 2005
November 3, 2005

Shareholders' Meeting 2006
Mai 4, 2006, 10.00 am
International Congress Center, Munich

Shareholders' Meeting 2007
June 5, 2007, 10.00 am
International Congress Center, Munich

Contact

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This report and the annual financial statements are available in both German and English and can be downloaded from our website at *www.linde.com*. An interactive online version is also available at this address.

Further copies of the report and additional information about the Linde Group can be obtained from us free of charge.

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