2004 2005 2006

Annual Report 2003

Tomorrow.

The Themes. The Markets. The Technologies.

Linde

LeadIng.

Linde highlights →

Linde Financial Highlights
in € million

		2003	2002	Change
Share				
Closing price	€	42.70	35.00	22.0%
Year high	€	43.40	57.59	−24.6%
Year low	€	22.80	32.50	−29.8%
Market capitalization		5,092	4,174	22.0%
Per share				
Earnings	€	0.91	2.01	n/a
Dividend	€	1.13	1.13	n/a
Cash flow from operating activites	€	10.74	9.60	n/a
No. of shares (in 000s)		119,262	119,262	n/a
Group				
Sales		8,992	8,726	3.0%
Orders received		9,079	9,322	−2.6%
EBITA before special items		671	648	3.5%
EBITA		544	647	−15.9%
Earnings before taxes on income (EBT)		287	356	−19.4%
Net income		108	240	−55.0%
Return on capital employed (ROCE) before special items		7.7%	7.0 %	n/a
EBITA-Return on sales before special items		7.5 %	7.4 %	n/a
Capital expenditure (excluding financial assets)		856	867	−1.3%
Cash flow from operating activites		1,281	1,145	11.9%
Equity		3,851	4,086	−5.8%
Total assets		**11,915**	**12,206**	**−2.4%**
Number of employees at 31 December		46,662	46,521	0.3%

Business Segments 2003
in € million

	Sales	Orders recieved	EBITA[1]	Capital expenditure[2]	Number of employees
Gas and Engineering	5,031	5,037	659	421	21,622
Linde Gas	3,843	3,847	598	397	17,420
Linde Engineering	1,270	1,474	61	24	4,202
Material Handling	3,063	3,116	156	411	18,190
Refrigeration	866	891	14	29	6,361

1) Before special items.
2) Excluding financial assets.

Company profile

Linde Group

Linde is an international technology group which has a leading market position in each of its three business segments, Gas and Engineering, Material Handling and Refrigeration. With around 46,600 employees, we achieved sales in fiscal 2003 of €8.992 billion.

We will continue to concentrate on the expansion of our international business and pursue our policy of earnings-based growth. Our primary focus is on markets with potential for the future, such as Asia, the US and Eastern Europe.

Gas and Engineering

In the Gas and Engineering business segment, we are bundling our competences in industrial gases and plant construction, with the two divisions collaborating successfully to target selected market segments. The most important example of this is the on-site business, where Linde Engineering and Linde Gas work together to supply major consumers with industrial gases from plants which are installed directly on the customer's own site.

As a leading international supplier of industrial and medical gases, Linde Gas is also expanding the fast-growing Healthcare section and continuing to press forward with 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, the Linde Group 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 trucks. Our business success in this segment, which we are repeating in emerging markets such as Asia, is based on products at the cutting edge of technology and an extensive range of service options from financing to full fleet management.

Refrigeration

As Europe's market leader, we supply industrial refrigerated and freezer display cases, as well as refrigeration technology, for all areas of the retail food trade. We set the pace in terms of design, cost-effectiveness and environmental protection, working together with our customers to develop comprehensive tailor-made solutions based on our key account management. We are also the only company in the market to offer turnkey competence in the new growth markets of Eastern Europe, Asia and South America.

Annual Report 2003 of Linde AG

Contents

Executive Board

Members of the Executive Board

Dr. Wolfgang Reitzle
Born in 1949
Doctorate in Engineering Science
Member of the Executive Board
since 2002
President of the Executive Board and
Chief Executive Officer
since January 1, 2003

Hero Brahms
Born in 1941
Diplom-Kaufmann
Finance, Labor Director
Member of the Executive Board
since 1996

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
Diplom-Kaufmann
Business segments
Material Handling (Marketing and Sales)
and Refrigeration
Member of the Executive Board
since 2000

No longer a member of the Executive Board:
Dr. Hans-Peter Schmohl
Born in 1944
Doctorate in Engineering Science
Business segment
Material Handling (Spokesman)
Member of the Executive Board
since 2000
Retired on December 31, 2003

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

Letter to Shareholders

Ladies and Gentlemen,

The year 2003 has presented us with major challenges. Who would have thought that the economic upturn which was universally predicted for the second half of the year would fail to materialize? Or that growth in the eurozone would not even reach 0.5 percent, while in Germany there would be zero growth?

There may be increasing signs of a global economic recovery, but these are due mainly to noticeable upturns in North America and Asia. It remains to be seen to what extent this renewed activity will act as a stimulus to the economies of Germany and Europe.

Against this background, Linde is focusing on two key strategic goals. The first is to optimize our procedures and processes to maintain a high level of competitiveness and pursue our policy of earnings-oriented growth, even when there is an economic downturn. The second is to continue to drive forward the globalization of the company, thereby reducing our current and past dependence on economic developments in Europe.

We have made some progress in fiscal 2003 towards achieving both these overall objectives and, as a result, despite generally disappointing global economic trends and unfavorable currency movements, have succeeded in achieving at Group level the sales and earnings forecasts we made in spring 2003. We have increased our operating result (EBITA) before special items by 3.5 percent to €671 million. The special items relate principally to expenses of a provident nature of €70 million to secure and expand our optimization programs and costs of €20 million for the reorganization of our Australian activities in the Material Handling business segment. We have also set up provisions of €50 million for transaction and disposal costs in respect of the sale of the Refrigeration business segment and for divestment from peripheral activities, for which we have made a provision this year.

We were able to achieve a slight increase in Group sales of 3.0 percent to €8.992 billion, although new orders of €9.079 billion could not quite equal the high level achieved in the previous year (€9.322 billion). Owing to the special items referred to here, net income for the year fell from €240 million to €108 million, despite a significantly improved financial result.

In these difficult conditions, the increase, albeit slight, in our earning power is the first sign that we are on track to achieve lasting improvements in our international competitiveness. Therefore, our dividend policy will remain constant. The Executive Board and the Supervisory Board of Linde AG will propose to the Shareholders' Meeting to be held on May 18, 2004, that a dividend of €1.13 per share be paid, a figure that is the same as in the prior year.

All our business segments have made progress during the year towards achieving their forecast rates of return for 2005 in line with budget.

In the Linde Gas Division, which has a target return on investment of 11 percent, we have made significant improvements to efficiency under our optimization program, especially in the areas of distribution and purchasing, reducing our costs by around €50 million. We are seeking to realize cost cuts totaling €150 million by the end of 2004 and will therefore continue to focus on streamlining our administrative procedures.

As one of the leading suppliers of industrial and medical gases in the world, we want to position ourselves so as to exploit the potential for growth in the international gases market even more effectively than in the past. We shall be concentrating particularly on the continued expansion of our on-site business – supplying industrial gases from plants situated directly on the user's site – as well on the healthcare and hydrogen markets, both of which have a promising future.

In the Linde Engineering Division, we are also well-positioned throughout the world in segments which are likely to grow. In fiscal 2003, for example, we were awarded some of the largest contracts in Asia, especially in China. With our clear focus on markets of the future such as natural gas, hydrogen and oxygen plants, we are confident that we will achieve our target return on investment of 16 percent.

In the Material Handling business segment, our program TRIM.100, designed to make further improvements to our international competitiveness, is having a positive effect. We have achieved cost savings in fiscal 2003 of €30 million by increasing the proportion of identical components used in the three brands, rationalizing the distribution structure and consolidating our purchasing activities. By the end of the year 2005, we are aiming to reduce costs by a total of €150 million. To achieve this, we will make further adjustments to our production capacities, phase out preassembly as planned and combine administrative functions. Based on these measures and on the continued expansion of our US and Asian business, our target return on investment is 16 percent.

On January 1, 2004, we hived off the Refrigeration business segment to form a legally independent entity. This move has given us more scope to determine the future orientation of the business, and has created the conditions necessary for the sale of the business segment. On March 15, 2004, we signed an agreement for the sale of the Refrigeration business segment to the US company Carrier Corporation, a subsidiary of United Technologies Corporation (UTC, Hartford, Connecticut), subject to the approval of the appropriate antitrust authorities. Together with Carrier, this transaction will create a global refrigeration specialist which will be able to achieve a leading position in this competitive international market and which will have the opportunity to achieve above-average growth.

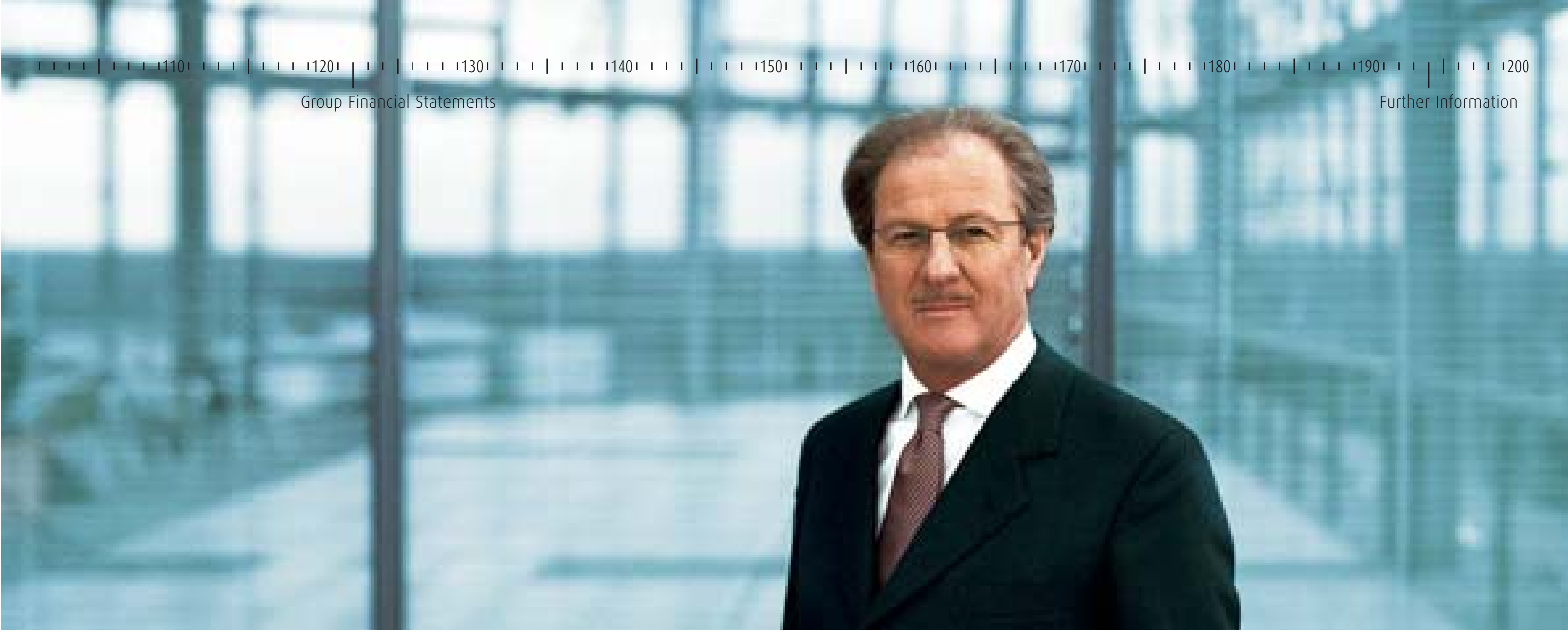
The schemes in the individual business segments briefly outlined here demonstrate that we are well-positioned to achieve our overall target at Group level – a return on investment of 10 percent – by the middle of the decade.

We are also on course as regards improvements to the balance sheet structure of our company. Excluding liabilities under leases, which relate mainly to the Material Handling business segment, we have reduced our net financial liabilities in fiscal 2003 by just under a further €400 million to around €2.4 billion. This means that in the past three years we have achieved a total reduction in our financial liabilities of around €1.4 billion.

Aside from various restructuring schemes in the business segments, we have launched new initiatives throughout the Group to ensure continuous improvements in our operating performance. Our main focus here is on the introduction of the Balanced Scorecard in July 2003 and the commencement of the Six Sigma program in spring 2003.

The Balanced Scorecard involves considerable expansion and standardization of existing Group systems for identifying performance indicators. The individual operational measures taken by the business segments are now even more closely linked with the strategic goals of the Group. This enables us to manage the various business processes more effectively and efficiently.

The aim of Six Sigma is to reduce potential errors in all procedures and processes to a minimum. At the same time, we want to improve quality, achieve substantial cost reductions and, finally, continue to increase customer satisfaction. These objectives have all been achieved in the first 16 successfully completed projects in the Material Handling business segment. Over the coming years, we will gradually be extending this program across all areas in the Group.



To ensure the progress of our Company in the future, we have also restructured our employee development programs and devised a comprehensive personnel strategy. Sustainable business success in the Linde Group will only be achieved as a result of the qualifications and hard work of our employees. Performance-related remuneration schemes, efficient human resource management and appropriate further qualifications are the key elements in this concept.

Ladies and gentlemen, there is no doubt that we have continued to improve the productivity of the Linde Group in the past fiscal year. We intend to pursue this policy with great vigor, constantly subjecting our structures, procedures and processes in future to close examination, always searching for potential improvements. Only then will we be fit enough to cope with the challenges posed by international competition and be able to exploit effectively the excellent opportunities presented by both the established markets and the markets of tomorrow.

If we understand this, Linde, a leading global technology group with new ideas and high aspirations, will be well-equipped to achieve future success, continuing the traditions of the company which celebrates its 125th anniversary this year. A company which has always stood for and will continue to stand for technology, innovation and entrepreneurial spirit.

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

Supervisory Board

Members of the Supervisory Board

Dr. Manfred Schneider
Chairman (from May 27, 2003)
Chairman of the Supervisory Board of Bayer AG

Hans-Dieter Katte*
Deputy Chairman (from May 27, 2003)
Chairman of the Works Council, Linde Engineering Division, Linde AG, Höllriegelskreuth Works

Michael Diekmann
(from May 27, 2003)
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

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

Rüdiger Bouillon*
Department Head of Main Executive Committee of IG Bergbau, Chemie, Energie; responsible for humanization of collective bargaining policy

Hans-Gerhard Bude*
(from May 27, 2003)
Deputy Chairman of the Works Council, Linde Kältetechnik GmbH & Co. KG, Cologne-Sürth Works

Gerhard Full
(from May 27, 2003)
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*
(from May 27, 2003)
Trade Union Secretary on the Executive Board of IG Metall Frankfurt

Klaus-Peter Müller
(from May 27, 2003)
Spokesman for the Executive Board of Commerzbank AG

Kay Pietsch*
(from May 27, 2003)
Chairman of the Works Council, STILL GmbH, Hamburg Works

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

Frank Zukauski*
Production Director, STILL GmbH

Supervisory Board committees
Members as at December 31, 2003:

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*

No longer members of the Supervisory Board, with effect from the Shareholders' Meeting on May 27, 2003:

Dr. Hans Meinhardt
Chairman,
former Chairman of the Executive Board
of Linde AG

Jakob Staub*
Deputy Chairman,
Chairman of the Works Council,
Linde Refrigeration Division,
Linde AG,
Cologne-Sürth Works

Dr. Henning Schulte-Noelle
Second Deputy Chairman,
Chairman of the Supervisory Board
of Allianz AG

Otto Forchel*
Trade Union Secretary on the Executive Board
of IG Metall Frankfurt

Dr. Martin Kohlhaussen
Chairman of the Supervisory Board
of Commerzbank AG

Rainer Schmidt*
Adviser to the Works Council,
STILL GmbH, Hamburg Works

*Employees' representative

Memberships of other German supervisory boards and of comparable German and foreign boards are shown on pages 195 to 198.

Report of the Supervisory Board

Dear shareholders,

During the fiscal year 2003, the Supervisory Board has been closely involved in reviewing the situation of the company. We have carried out our duties in accordance with legal provisions, company statutes and company by-laws. These duties involve advising the Executive Board on the running of the company and monitoring executive management. The Executive Board provided us with comprehensive, up-to-date personal and written reports at our 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. Moreover, both Chairmen held regular consultations on the Group's strategic direction and its risk management.

The Supervisory Board held four ordinary meetings and one constitutive meeting during fiscal 2003. No member of the Supervisory Board attended fewer than half the meetings.

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 November 2003, we approved the Linde Group's capital expenditure program for 2004.

During the year under review, the principal subjects on which there were consultations between the Supervisory and Executive Boards were the strategic deliberations of the Executive Board and the adoption of their proposals, the outlook for the Group and its individual business segments, 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 business and performance of the company of the sustained economic downturn and of the appreciation of the euro against the dollar. Another important matter on which the Supervisory Board was consulted was the measures taken by the Executive Board to reduce financial liabilities as well as to cut costs and increase efficiency.

The Executive Board presented to us in detail the progress of the optimization programs introduced in the Material Handling business segment, in particular, and in the Linde Gas Division, as well as the hiving off of the Linde Refrigeration business segment into a fully-owned subsidiary. Structures and processes were reviewed and streamlined, so as not only to continue to improve the competitiveness of all the business segments, but also to secure it in the long term. The Supervisory Board supports the measures taken by the Executive Board.

On March 15, 2004, we concluded an agreement with the US company United Technologies Corp. for the sale of the Refrigeration business segment.

Corporate governance

We dealt in detail, at a number of meetings and in written documents, with the adoption of the German Corporate Governance Code by Linde, which we approved. Corporate governance is reviewed at regular intervals and, if necessary, modified. The Executive Board and the Supervisory Board issued an updated declaration of compliance with the German Corporate Governance Code in June 2003. At our meeting in March 2004, we approved the declaration of compliance with the revised version of the Code which came into force on July 4, 2003, and made it available to shareholders on a permanent basis on the company's website. 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 this annual report.

Committee meetings

The Supervisory Board's standing committee held three meetings and passed two resolutions in telephone proceedings. The main issues were personnel matters relating to members of the Executive Board, the amount and structure of remuneration payable and the determination of those components of the remuneration of the Executive Board that were based on bonuses or shares.

The audit committee held three meetings in 2003. With the auditors and the Executive Board present, it discussed the annual financial statements of Linde AG and the Group financial statements, the management reports and the proposed appropriation of profit. It also issued the audit mandate to the auditor, determined key audit issues, agreed the audit fees and monitored the independence of the auditors. Moreover, the audit committee obtained information about corporate risk management, in particular in relation to the financial risk management system.

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

Detailed reports on the meetings and the work of the committees were presented at the plenary meetings.

Financial statements

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main, audited the financial statements for the year ended December 31, 2003 for Linde AG and the Linde Group, as well as the management reports for Linde AG and the Linde Group. 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 profit. At the meeting of the Supervisory Board to approve the financial statements on March 15, 2004, 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, 2003 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

The term of office of all the members of the Supervisory Board expired at the close of the shareholders' meeting held on May 27, 2003. Three shareholder representatives and three employee representatives ceased to be members of the Supervisory Board, which was newly elected for a term of five years. The Supervisory Board expressed its thanks to the retiring members for their constructive and reliable contribution to the board, acknowledging in particular the services performed by Dr. Meinhardt in his long association with Linde, which included holding the position of Chairman of the Executive Board until 1997 and Chairman of the Supervisory Board from that date.

At the constitutive meeting of the Supervisory Board, Dr. Manfred Schneider was elected Chairman, Mr. Hans-Dieter Katte was elected Deputy Chairman and Mr. Michael Diekmann was elected Second Deputy Chairman of the Supervisory Board.

Dr. Hans-Peter Schmohl retired from the Executive Board of the company on December 31, 2003.

With effect from July 1, 2004, we have appointed Dr. Peter Diesch as a full member of the Executive Board.

The Supervisory Board would like to thank the Executive Board and all employees for their commitment and hard work in fiscal 2003.

Wiesbaden, March 15, 2004
For the Supervisory Board

Dr. Manfred Schneider
Chairman

Corporate Governance

The corporate goals of good responsible management and supervision and the achievement of sustainable value added, which are included in the recommendations set out in the German Corporate Governance Code, have always been central to the strategy of the Linde Group. Close, effective cooperation between the Executive and Supervisory Boards and consideration of the interests of shareholders, as well as an open style of corporate communication, combine to create transparency in the legal and corporate environment, thereby promoting the trust of our national and international investors, our business partners, our employees and the general public.

Declaration of compliance with the German Corporate Governance Code

In December 2002, the Executive Board and Supervisory Board made their first declaration of compliance with § 161 of the German Stock Corporation Law (AktG), according to which Linde complied with the recommendations made by the Government Commission on the German Corporate Governance Code with one deviation. The deviation was that the Chairman of each Supervisory Board committee did not receive special compensation for performing that duty. On May 27, 2003, it was resolved at the Shareholders' Meeting to amend the Articles of Association so that they specify compensation for members of the Supervisory Board. Subsequently, in June 2003, the Executive Board and the Supervisory Board published an updated declaration of compliance, which stated that Linde AG complied with the recommendations of the Government Commission on the German Corporate Governance Code as amended on November 7, 2002. Linde complies with the extended version of the Code published in July 2003, with the one deviation that the figures for compensation paid to the Executive Board and the Supervisory Board are not individualized.

On March 15, 2004, 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 at *www.linde.com* on the Company's website:

"1. Since its last declaration of compliance on June 23, 2003, Linde AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code as amended on November 7, 2002.

2. Linde AG complies with the recommendations of the Government Commission on the German Corporate Governance Code as amended on May 21, 2003, with the following deviations:

No individualized figures are disclosed for compensation paid to members of the Executive Board (4.2.4, sentence 2 of the Code) and to members of the Supervisory Board (5.4.5(3), sentence 1). 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 components based on long-term performance."

Suggestions made in the German Corporate Governance Code

Linde complies with the suggestions made in the Code, with few deviations. Only that part of the Shareholders' Meeting which precedes the general discussion is transmitted on the Internet. The current chairmanship of the audit committee is held by the Chairman of the Supervisory Board; however, in accordance with procedural rules, the duties of the Chairman can be discharged 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 linked to the Linde AG dividend: i.e. it does not contain any components based on the long-term performance of the company.

Management and control structure

Linde AG, an international company with its registered office in Wiesbaden, Germany, is subject to the provisions of the German Stock Corporation Law, the German Codetermination Law and the regulations of the capital market, as well as the provisions of its bylaws. As a German stock corporation (Aktiengesellschaft), with its organs the Executive Board and the Supervisory Board, Linde has a two-part management the shareholders and for the welfare of the company.

The Supervisory Board

The Supervisory Board consists of 16 members. In accordance with the German Codetermination Law, it has equal numbers of shareholder and employee representatives. The shareholder representatives are elected by the Shareholders' Meeting, while the employee representatives are elected in accordance with the provisions of the German Codetermination Law. Members of the Supervisory Board may not be older than 72.

The Supervisory Board appoints and advises the Executive Board and supervises its management of the company.

The members of the Supervisory Board disclose conflicts of interest arising from any advisory or executive role in other companies to the Supervisory Board; significant conflicts of interest which are not temporary result in the removal of the member from his seat on the Board. In its report to the Shareholders' Meeting, the Supervisory Board provides information about conflicts of interest and their treatment.

The Supervisory Board has set up three committees from among its members.

The Standing Committee submits proposals to the Supervisory Board for the appointment and removal of members of the Executive Board and prepares employment and remuneration policies for the Executive Board. It makes decisions on behalf of the Supervisory Board on employment, pension and other contracts or agreements with members of the Executive Board. Moreover, it advises regularly on long-term succession planning for the Executive Board and reviews the activities of the Supervisory Board to ensure that they are performed efficiently.

The Audit Committee prepares the decisions of the Supervisory Board on the adoption of the annual financial statements and the approval of the Group financial statements, issues mandates to the auditors and monitors and reviews their independence. It also deals with risk management issues.

The Mediation Committee, which is established in accordance with the provisions of the German Codetermination Law, submits proposals to the Supervisory Board for the appointment of members of the Executive Board if the required majority of two-thirds of the votes of the members of the Supervisory Board is not achieved in the first ballot.

The Executive Board

The Executive Board of Linde AG (which currently consists of four members) manages the company and conducts its business. It is bound to the interests of the company and is responsible for achieving sustainable increases in the value of the company. It decides on the strategic direction of the company, obtains the Supervisory Board's approval of this, and ensures that the overall strategy is implemented. Moreover, it is responsible for annual and multi-year budgets and for the preparation of quarterly, annual and Group financial statements. It also ensures that appropriate risk management procedures are adopted and that detailed reports are delivered promptly and on a regular basis to the Supervisory Board, which cover all strategic issues relevant to the Group, medium-term corporate planning, business development, the risk situation and risk management. Procedures and transactions effected by the Executive Board which are of fundamental importance require the approval of the Supervisory Board. During their term of office, members of the Executive Board are subject to comprehensive covenants not to compete. They immediately disclose any conflicts of interest which arise to the Supervisory Board and notify their fellow board members.

Emoluments of the Executive and Supervisory Boards

The emoluments of the Executive Board comprise both fixed and variable amounts. The remuneration scheme of the Executive Board consists of cash remuneration and stock 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, up to 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. In the Notes to the Group financial statements, the compensation paid to members of the Executive Board in fiscal 2003 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. Like the majority of German listed companies, 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 is more appropriate to 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 members of our Supervisory Board in fiscal 2003 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.

Shareholders and the Shareholders' Meeting

Linde AG regularly informs its shareholders about its business performance, financial position and results of operations.

The shareholders protect their interests and exercise their voting rights at the Shareholders' Meeting. Each share confers the right to one vote.

The annual shareholders' meeting takes place during the first six months of each fiscal year. The agenda for the shareholders' meeting, including the required reports and documents for the shareholders' meeting, is also published on the company's website; the notice of the shareholders' meeting, together with any relevant documents, can be sent electronically on request.

To make it easier for shareholders to protect their interests by exercising their vote, Linde will provide a proxy accountable to the shareholders for the annual shareholders' meeting. In the notification of the shareholders' meeting, it is explained how voting instructions can be issued prior to the shareholders' meeting. The shareholders are also free to appoint a proxy of their choice.

The Executive Board of Linde AG submits the annual financial statements and the Group financial statements to the Shareholders' Meeting. As the decision-making body of our shareholders, the Shareholders' Meeting resolves on the appropriation of net income and the discharge of the acts of the Executive Board and the Supervisory Board, elects the shareholder representatives to the Supervisory Board and appoints the auditors. The Shareholders' Meeting also resolves on amendments to the Articles of Association, changes in the capital structure and essential corporate measures.

Transparency

Linde AG is obliged to comply with the principle of equal treatment of all shareholders. The company uses the Linde website to provide shareholders and investors with consistent up-to-date information. In addition to the Group financial statements, annual financial statements and interim reports, shareholders and third parties are kept informed about current Group developments through the use of ad hoc announcements and press releases. Linde publishes a financial calendar containing all significant scheduled dates and corporate publications, with sufficient advance notice.

To provide information to the capital market and to the general public, Linde conducts analysts' conferences, press conferences and/or teleconferences whenever the quarterly or annual results are published. Regular events where the Chief Executive Officer and the Chief Financial Officer meet investors and financial analysts also ensure that there is a continuous exchange of information with the financial markets.

According to § 15 a of the German Securities Trading Law, the members of the Executive Board and the Supervisory Board of Linde AG are required to disclose the purchase and sale of shares in the Company. As of the balance sheet date, Linde AG had received two notifications, which it published without delay. There were no shareholdings subject to the disclosure requirements of No. 6.6(2) of the German Corporate Governance Code as of December 31, 2003.

Accounting and risk management

The Group financial statements of Linde and the interim reports are prepared in accordance with the principles set out in the International Financial Reporting Standards (IFRS), while the annual financial statements of Linde AG are prepared in accordance with the provisions of the German Commercial Code (HGB).

Linde's monitoring and risk management system is continuously being developed by the Executive Board and adapted to changing circumstances. The efficiency of the system is also subject to review both by auditors within and outside Germany.

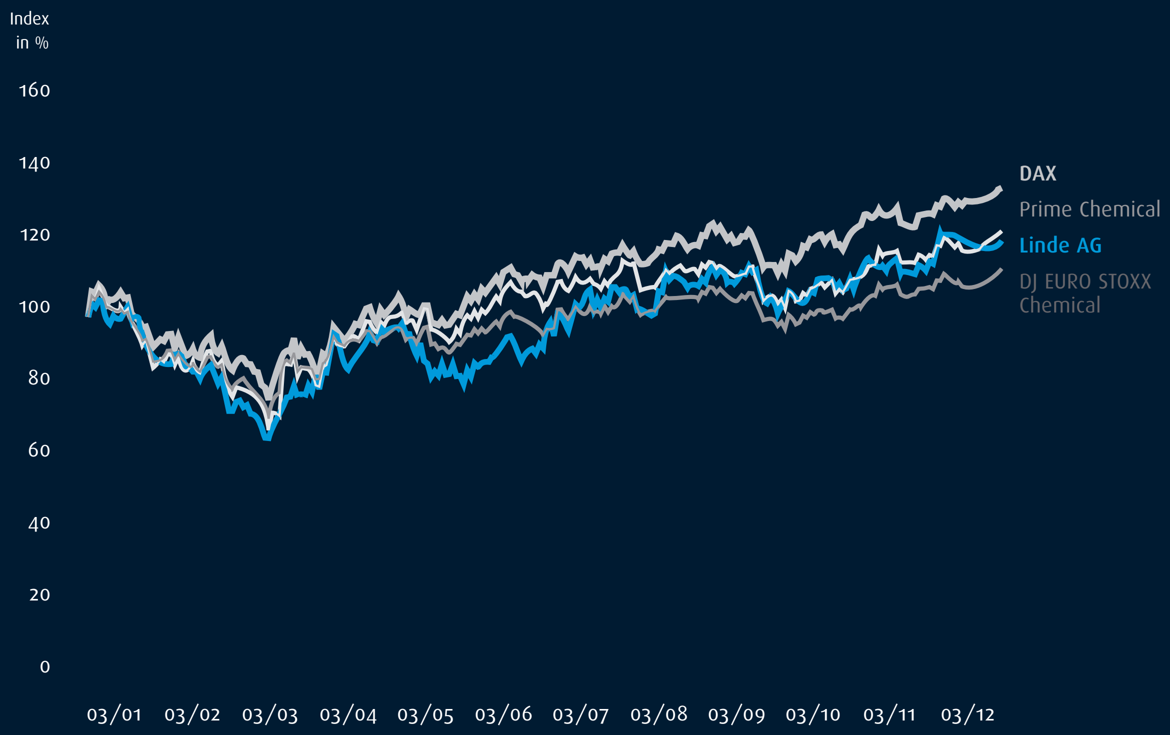
Wiesbaden, March 15, 2004
Linde Aktiengesellschaft

The Supervisory Board The Executive Board

Linde Shares

The sharply falling share markets at the beginning of 2003 had an adverse effect on the performance of Linde shares. Then, in the course of the year, our shares were able to benefit from the dynamic recovery on the international stock markets. The closing price of €42.70 represented an increase in value of 22.0 percent in comparison with the previous year, or an increase of 26.7 percent including the dividend. Within the industry sector, the performance of Linde shares has therefore been satisfactory.

Linde shares: Performance in 2003



Linde Shares

Stock market turnaround

After three disappointing years in succession, there were signs of the long-awaited turnaround in the international stock markets in the course of 2003. However, at the beginning of the year, the Iraq conflict and uncertainty about the effect of the SARS virus on the Asian economy caused the downward trend of the previous year to continue. On March 12, the German Share Index (DAX) slumped to 2,203, its lowest point since Spring 1995. As the year progressed, the rapid conclusion to major fighting in the Middle East and the economic recovery in the United States and Asia led to a significant upturn in the international stock markets. The DAX rose by more than 70 percent from its lowest point in March to a figure at December 31, 2003, of 3,965 (2002: 2,983), or by 37.1 percent over the fiscal year. In view of the anticipated global economic recovery, cyclical shares gained the most from this upward trend. However, share prices rose more slowly in the chemical sector, which is less sensitive to economic conditions. The Prime Chemical Index, for example, which comprises the main German chemical shares, increased by only 24.7 percent.

Linde shares: Satisfactory share performance within the industry sector

The rapid stock market falls at the beginning of the year also had an adverse effect on the Linde share price. Then, in February, there was additional pressure on the price, when the international credit rating agency Standard & Poor's announced a change to the accounting treatment of pension obligations in its rating system. Under the new method of calculation, the net indebtedness of Linde AG was around €1 billion higher than before.

Despite intense pro-active communication with the capital market, where we set out to demonstrate clearly that the sound financial structure of our Company remained unchanged, this news, which led subsequently to a downgrading of Linde's credit rating from A- to BBB+, triggered off in the short term a sharp fall in the Linde share price to a low for the year of €22.80 on March 12.

However, following dynamic activity on international stock markets, Linde shares made a significant recovery, reaching their highest price for the year of €43.40 on December 2. The closing price of €42.70 represented an increase of 22.0 percent in comparison with the previous year, or an increase of 26.7 percent including the dividend.

The movement in the price of Linde shares has been satisfactory in comparison with other companies in the industry sector. Taking dividend payments into account, Linde shares have slightly outperformed the Prime Chemical Index and performed significantly better than the major international chemical indices. The DJ Euro STOXX Chemical index, for instance, rose by a mere 13.4 percent.

Linde performance in comparison with the most important indices	2003	Weighting*
Linde (including dividend)	+ 26.7%	–
Linde (excluding dividend)	+ 22.0%	–
DAX	+ 37.1%	0.82%
Prime Chemical	+ 24.7%	7.23%
DJ EURO STOXX	+ 17.8%	0.16%
DJ EURO STOXX Chemical	+ 13.4%	4.55%
FTSE Eurotop 300	+ 12.4%	0.91%
FTSE E300 Chemical	+ 6.7%	3.91%
MSCI Europe	+ 15.3%	0.20%

*As at December 31, 2003

Ten-year summary of Linde share portfolio

The portfolio value of €10,000 invested in Linde shares at the end of 1993 would have increased to €13,336 by the end of 2003 – including reinvested cash dividends and proceeds from rights issues. This represents an absolute increase in value of around 33.4 percent or an annual return of 2.9 percent. By comparison, the DAX achieved average annual growth of 5.8 percent in the same period. The Prime Chemical Index increased by 9.8 percent and an REXP bond index portfolio by 6.2 percent.

Capital market based figures		2003	2002
Shares with dividend entitlement for the fiscal year	No.	119,262,134	119,262,134
Closing price at year-end	€	42.70	35.00
Year high	€	43.40	57.59
Year low	€	22.80	32.50
Total dividend Linde AG	€ million	134.8	134.8
Market capitalization*	€ million	5.092	4.174
Average weekly volume	No.	2,470,000	2,070,000
Volatility* (250 days)	%	39.26	31.00
Information per share			
Cash dividend	€	1.13	1.13
Dividend yield	%	2.6	3.2
Operating cash flow	€	10.74	9.60
Earnings before goodwill	€	2.06	3.05
Earnings after goodwill	€	0.91	2.01

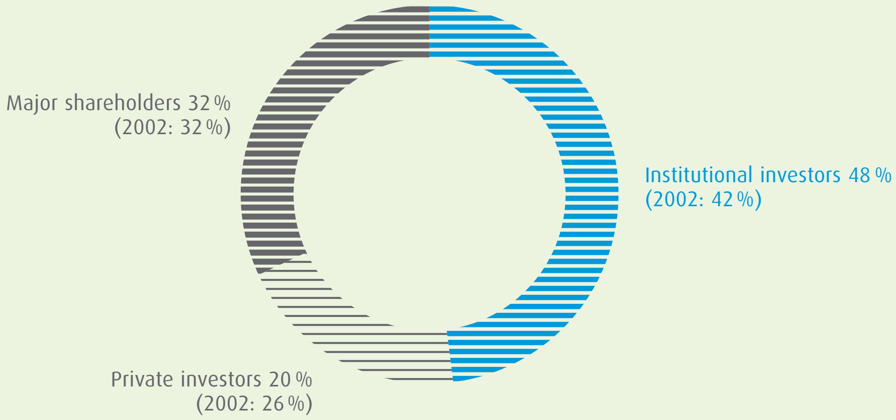
*As at December 31

Classification as chemical shares – now also in DAX

Since the end of 2002, as a result of the increased importance of the Gas and Engineering business segment to the whole Group, Linde shares have no longer been classified as capital goods shares by the major international index companies but as chemical shares. To be consistent, in September 2003, the German Stock Exchange also altered Linde's classification in the DAX and admitted Linde into the Prime Chemical Index.

Shareholder structure

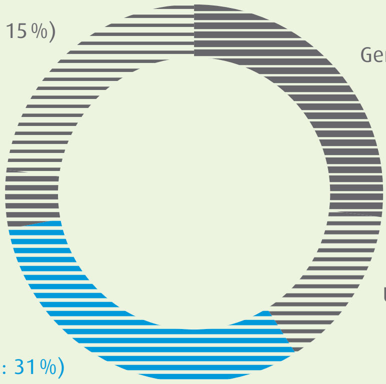
The holdings of our major shareholders remained unchanged during the fiscal year. Allianz AG continues to hold 12.3 percent of the shares, while Deutsche Bank AG and Commerzbank AG both hold 10 percent.



Prior year figures have been adjusted to reflect changes in the data collection method.

In our annual shareholder identification survey conducted as at the balance sheet date, December 31, 2003, we determined that the proportion of institutional investors has risen to 48 percent (2002: 42 percent), taking into account changes in the method of data collection. 20 percent of the shares were owned by private investors (2002: 26 percent).

Institutional investors – Holdings by region



Prior year figures have been adjusted to reflect changes in the data collection method.

During the year, there were shifts in the geographical distribution of our institutional investors. North America became our most significant capital market, although the percentage of institutional investors there remained at 31 percent. After a fall in 2002, the proportion of UK investors has increased – from 11 percent to 14 percent. These developments confirm the high levels of interest in our Company from the most important international capital markets.

On the other hand, the proportion of German institutional investors in Linde has fallen and stands currently at 27 percent (2002: 38 percent). It should, however, be noted that German investors are also increasingly investing in international markets.

Dividend payment

At the Shareholders' Meeting to be held on May 18, 2004, the Executive Board and Supervisory Board of Linde AG will propose payment of a dividend of €1.13 per share, which is unchanged from the previous year. This means that shareholders will achieve a dividend yield of 2.6 percent based on the year-end close.

Resolutions of the Shareholders' Meeting on May 28, 2003

Subject to authorization by the Supervisory Board, the Executive Board of Linde AG was empowered to acquire 10 percent of share capital in own shares by October 31, 2004.

In addition, resolutions were passed to amend the articles of incorporation of Linde AG to take account of the German Transparency and Publicity Law which has come into effect and of the recommendations of the German Corporate Governance Code on the remuneration of the Supervisory Board.

2005 targets for return on capital employed

Return on capital employed (ROCE, see glossary for calculation) is the key measure of success in the individual business segments and in the Group. We published our existing ROCE targets for the first time in Spring 2003 and still expect to achieve these on schedule by the end of 2005.

We are currently exploring the possibility of using additional performance ratios in the Group to measure the success of our value-based management.

ROCE targets	ROCE 2003	ROCE 2005
Linde Gas	10.1 %	11 %
Linde Engineering	14.8 %	16 %
Material Handling	9.7 %	16 %
Refrigeration	6.1 %	8 %
Group	7.7 %	10 %

Investor relations activities stepped up

Interest in Linde from German and international investors and financial analysts has continued to increase since the change in the top management of the Company on January 1, 2003. In response to this interest, we have focused on the expansion of our investor relations activities during the year. In numerous meetings and teleconferences, at road shows and investors' conferences, we have explained and discussed in detail the current situation of the Group and our future strategic goals. The response of the international capital markets has been predominantly positive.

To ensure that we provide rapid, precise and comprehensive information about our Company to as many interested parties as possible, we have also made further improvements to the Investor Relations section of our website *www.linde.com*. We have redesigned the structure of the website to make it more user-friendly and have continued to increase the total amount of information available. For example, we provide quarterly reports, current presentations and analysts' assessments which are all up to date. We have also greatly expanded the corporate governance section, enabling us to meet strict transparency requirements on the Internet as well. Various independent surveys have confirmed the high quality of our investor relations website during the fiscal year.

Our investor relations team (+49 611 770-128) is available for questions and information about Linde shares. You are also welcome to e-mail any questions you may have to *investorrelations@linde.com*.

Linde share information

Type of share	Bearer shares
Stock exchanges	All German stock exchanges, Zurich
Security refence numbers	ISIN DE0006483001
	WKN 64 83 00
Bloomberg	LIN GR
Reuters (Xetra)	LING.DE

Markets of the Future

An essay by Prof. Dr. Thomas Straubhaar

In the 21st century, the world has become a global village. The wave of globalization which has swept across the world has left a remarkable trail in its wake. Things that used to seem foreign are now much closer to us, sometimes physically, sometimes in a virtual sense. Increasing numbers of people are crossing geographical frontiers with ease by car, plane or ship, while fundamental technical innovations such as microelectronics and optic fiber or satellite technology allow the most important current events to be transmitted right around the earth to appear almost instantly on screens in people's living-rooms.

As the world becomes more mobile, it is not only physical distances but also economic distances which are dwindling. Momentous changes in the world of politics, such as the collapse of the Communist regimes in Eastern Europe and the rapprochement in the European Union (EU), not to mention the technical opportunities provided by the Internet, have created product markets and labor, capital and financial markets which are much more extensive and much more closely linked than ever before.

Against this background, it is therefore not unreasonable to pose the question whether any new future markets remain to be discovered by international companies.

They do exist. The wave of globalization will continue to sweep across the world, affecting increasing numbers of people and geographical regions and opening up new growth sectors. After all, everyone has a common objective – to continue to improve living conditions worldwide. As a direct result of globalization, increasing numbers of people will have access to clean water and better basic medical care and education. Thanks to new ways of producing, storing, transporting and distributing food, fewer people will go hungry than ever before, even though the world population will increase once again by almost 50 percent to between 8 and 10 billion.

> "As the world becomes more mobile, it is not only physical distances but also economic distances which are dwindling."

As a result of this development, the need for logistic infrastructure will again increase significantly. Also of the utmost importance as a driving force in economic growth is the energy market, because energy consumption always rises as countries become more prosperous. If this increased demand is to be met in a manner which is sustainable, there will be a significant rise in the proportion of environmentally friendly fuels, such as hydrogen and wind and solar energy, used to generate power throughout the world. There will also be a continuing demand for intelligent solutions to the problem of generating energy from natural gas.

There is no doubt that international companies are in an excellent position to achieve greater productivity, if they are quick and knowledgeable enough to tap the enormous potential in the emerging economic regions.

"International companies are in an excellent position to achieve greater productivity, if they are quick and knowledgeable enough to tap the enormous potential in the emerging economic regions."

Be this as it may, the freedom to travel does not apply equally to all the people in the world, the effects of globalization have not yet been felt in all the world's nations and not everywhere in the world is integrated into the global economy. Some countries, however, have kicked the door to opportunity wide open: i.e. Eastern Europe and South-East Asia, led by China, India and Vietnam.

For countries in the European Union, Eastern Europe is undoubtedly the most accessible market of the future, in the true sense of the term.

May 1, 2004 is the crucial date on which ten Central and Eastern European countries join the EU. After a short transition period, a common economic area will emerge, stretching from Portugal in the South-West to Estonia in the North-East of Europe, in which there is free movement of goods, services, capital and people – an enlarged market with more opportunities for all.

Western European companies will be able to establish subsidiaries in Eastern Europe – swiftly and with little bureaucracy. Eastern Europeans will be able to work in Western Europe and around 75 million people will become new EU nationals. These are people who have a great desire to catch up, as their standard of living is still well below that of the existing EU countries. In the new accession states, the average per capita income in real terms (i.e. adjusted for differences in purchasing power) is half that of the 15 current EU Member States. This much is evident: Eastern Europe is a huge growth market right on the threshold of Western Europe.

The performance figures in the South-East Asian economic area are no less impressive. One has only to look at the demographics. Currently, 1.3 billion people live in China and 1.1 billion in India. Together, this represents around one-third of the world population, and that proportion is rising. The Indian population, in particular, will continue to grow apace. Experts anticipate that, by the year 2050, India will be the most highly-populated country in the world with 1.6 billion people, followed by China which will have 1.4 billion people. In South-East Asia, Indonesia, Bangladesh, the Philippines and Vietnam will all be population giants, with more than 100 million inhabitants each.

In contrast, Europe has an ageing and declining population. In 50 years or so, Russia, with an estimated population of around 100 million, will be the only European country among the 15 most highly-populated countries of the world. Within the same time period, Germany, currently in twelfth place, is expected to drop down to 24th position. Whereas around 12 percent of the world population currently lives in Europe, this figure is expected to fall to a mere 7 percent by 2050.

In South-East Asia, it is not only the demographic story which is exceptional. The economic development which has taken place in the past few years is clearly evident. Following the slump in 1997/1998, the fast-developing nations of South-East Asia, with China at the forefront, embarked once again on an exciting period of growth. At the beginning of the current decade, the economic growth rate was over 6 percent, well above the average for the world economy and for the established industrialized countries. The gross domestic product (GDP) of China rose at an average annual rate of 10 percent in real terms in the 1990s. Despite the problems in the global economy and the SARS virus, China has continued to experience dynamic economic growth in the last five years. As a result, China has now risen to become the sixth most important national economy in the world. Its GDP in 2004 is expected to be around US$ 1,500 billion.

It is now only a matter of time until China achieves economic power equivalent to that of France, the United Kingdom or even Germany and then becomes one of the top three national economies in the world (alongside the United States and Japan). This is because the largest country in Asia is also continuing to climb up the world rankings for foreign trade. China is currently in sixth position for both imports and exports.

"A market of the future is no sure-fire success. Long-term success will therefore depend on how quickly the ever more rapid structural changes are accepted by society."

A rising population and a dynamic economy combine to create ideal conditions for future trade with international companies, especially as the emerging South-East Asian market is exceptionally keen to catch up with the West.

Taking the average per capita income as the measure, only European countries currently appear in the top 10 after the frontrunners, the United States and Japan. The average annual per capital income in China of around US$ 1,000 is only 3 percent of the figure for the United States and less than 5 percent of the German figure. The comparison with India is even more graphic. There, the average annual per capita income is less than US$ 600.

One does not need to have studied economics to understand the extent of the economic potential hidden within South-East Asia and the vast scale of the sales markets which will emerge there, not only for consumer goods, but also for capital goods. The growing demand for cars, home entertainment equipment and leisure goods will have the effect of stimulating demand for machinery, plant, commercial vehicles, warehouses and other capital goods, not to mention the related services, such as financing, insurance and project management.

"Anyone who thinks only in geographical dimensions is missing the point. It will no longer be space but time that becomes the key strategic dimension for future success."

However, a market of the future is no sure-fire success. Indeed, amidst impressive economic successes and totally justified expectations, it is easy to forget that in South-East Asia neither society nor politics has been able to keep pace with the rate of economic growth. In China, the regime is attempting the difficult task of walking the tightrope between a socialist market economy and greater liberalization and democratization, without leaning too heavily towards the latter. In India, cultural, religious and political centrifugal forces need to be contained. In Vietnam, unemployment and inflation remain at a high level, the transformation is by no means complete and new waves of privatization will cause even more job losses.

The markets of tomorrow may be at the mercy of short-term influences, which can all of a sudden cast doubt on future growth opportunities. Wars, unrest, strikes, political instability, blockades of economic reform and a lack of acceptance of new technologies by society are the principal brakes on economic growth.

Long-term success will therefore depend on how quickly the ever more rapid structural changes are accepted by society, how long it takes for new technologies to gain access to the production process and when the benefits of technical progress and increased labor productivity reach the masses and bring them increased purchasing power.

All these factors make highly complex demands of international companies which compete in the world market. This is true particularly when everyone is in agreement on the geographical definition of growth markets, as is the case, for example, with South-East Asia and Eastern Europe.

Achieving a competitive advantage in this environment will only be possible if we recognize a crucial concern. In the global economy of the future, which will be classified by function, markets defined by geographical area will lose their strategic significance. Anyone who thinks only in geographical dimensions is missing the point. It will no longer be space but time that becomes the key strategic dimension for future success. Almost 100 years after Albert Einstein exploded the myth of a three-dimensional conception of the physical world with his equation for relativity, $E=mc^2$, his pioneering discoveries are finally having an effect on economic life. In order to succeed in the markets

Prof. Dr. Thomas Straubhaar is President of the Hamburg World Economic Archive (HWWA) and Director of the Institute for Integration Research at the University of Hamburg and of the Europa College in Hamburg.

of the future, it will be vital to extend beyond a geographical focus to include a time axis, thus creating a multi-dimensional matrix. In a world in which the most obscure corners have been explored and in which any competitor can penetrate any market, the challenge to companies is to recognize not only regional developments but also future trends more accurately and at an earlier stage than their competitors and to draw the appropriate conclusions for their own behavior.

The dimensions of time and space are both continuing to contract. Or, as Hermann Lübbe, the German philosopher of time and history, skillfully put it "The present is shrinking". For managers of international companies, this means that increasingly complex circumstances have to be recognized, analyzed and dealt with in ever shorter periods of time, under conditions which are becoming more difficult, while in many areas the new ground to be covered is completely unknown. There is an increase in uncertainty as to where, when and what to expect. In fact, managers could do with more time than before to ensure that they make the right decisions. However, global competition means that this time is no longer available.

Therefore, he who is fastest wins. Growth markets are not simply god-given; they are man-made. They arise when local markets combine to form a genuine world market and they are created by people who are quicker and have brighter ideas than others about how to meet the new human needs emerging in the wake of continuing globalization, in ways which are more effective, more appropriate and more efficient. They have to respond to demand which has often not yet been created and which may therefore still be largely unidentified.

The vital ingredient is nothing less than innovation, the fundamental driving force behind change. Also required is the capacity of certain individuals to seize the initiative sooner than others and to pursue new paths more quickly than the competition.

“The vital ingredient is nothing less than innovation, the fundamental driving force behind change.”

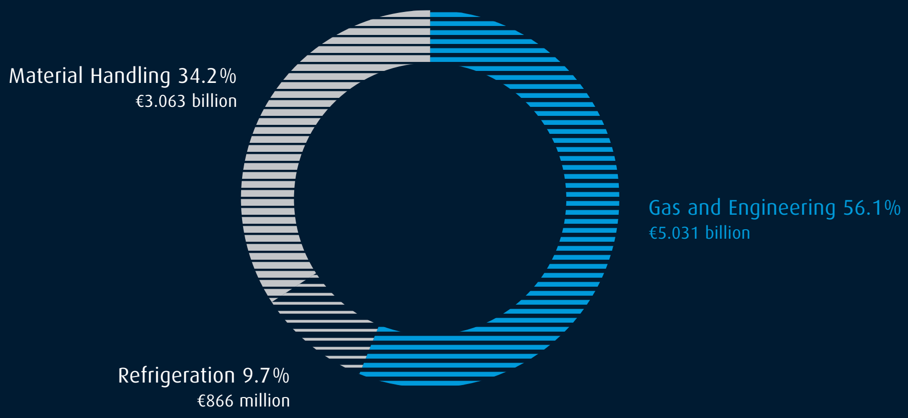
Those in demand will be people who understand how to handle knowledge and who can both develop and implement new ideas. Curiosity, creativity and motivation are the key factors which will determine whether companies rise or fall and whether the markets of tomorrow grow or shrink.

In which direction are the markets of tomorrow heading? Towards quality and innovation.

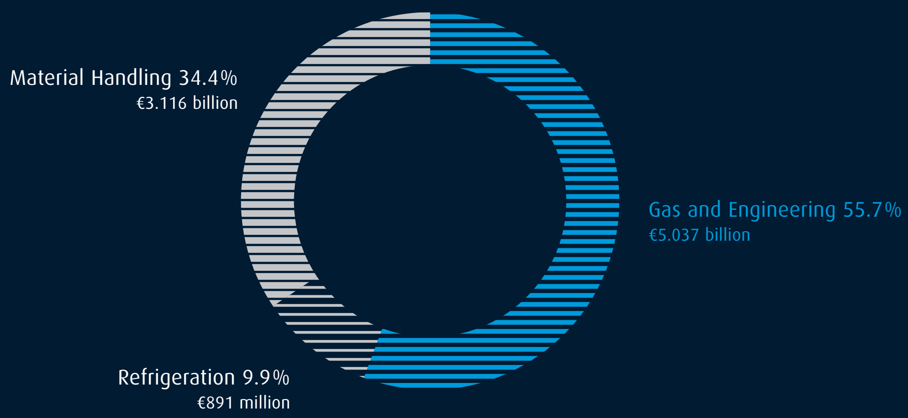
To achieve market success, you have to proceed at the right pace and offer a quality range of products and services. This is true more than ever in our increasingly globalized and networked world, the furthest corners of which have already been explored. The markets of tomorrow may be found anywhere – they just need to be exploited using good ideas, products and services. All our business segments are focusing therefore on emerging markets, such as those in Asia and Eastern Europe, while at the same time achieving above-average rates of growth in highly developed industries. Our future lies in expanding those segments which show the greatest promise, such as Healthcare or the market for air separation plants. And developing innovative products such as the new 39x forklift truck series.

The Business Segments

Sales: Analysis by business segment



Incoming orders: Analysis by business segment



Gas and Engineering

The Gas and Engineering business segment operates in technological fields which offer great potential for the future – across the globe.

Linde Gas, a leading supplier of industrial, medical and pharmaceutical gases, is focusing particularly on the expansion of healthcare and the environmentally friendly fuel hydrogen.

Linde Engineering, which develops its own processes and technologies, is targeting growth markets in international plant construction, increasingly by applying its specialist competence to plants producing hydrogen, oxygen and olefins, and natural gas treatment plants.

The two divisions are working together to develop and expand our profitable on-site business, where we supply industrial gases to large-scale consumers from plants situated directly on the user's site.

On-site business: Reinforcing our market leadership in Eastern Europe

The on-site segment, which supplies industrial gases to the customer from plants situated directly on the user's site, remains a major growth area for Linde Gas. Our involvement in a large number of projects has significantly strengthened our leading position in markets in which we have been successful for many years, for example in Eastern Europe. Moreover, we have continued to develop territories where future growth is expected, such as China. Linde Gas is able to benefit here from close cooperation with Linde Engineering, which is at the forefront of technology for air separation plants and hydrogen plants.

Linde Engineering is currently constructing an air separation plant for the production of oxygen and nitrogen in Romania on behalf of the local subsidiary of Linde Gas. From 2005, this plant will be used to supply the chemical company Oltchim SA on the basis of a long-term delivery contract. The new plant is the first air separation plant to be built in Romania since the collapse of the Communist system in 1990.

We are in the process of building the largest air separation plant in the Czech Republic, in Vřesová in the western part of the country. From 2005, Linde Gas will supply the energy company Sokolovská Uhelná with oxygen and nitrogen from this plant. In addition, we will supply the liquefied products generated by this air separation plant, the output of which is 300 tonnes per day, to markets in the Czech Republic and in South-east Germany. The plant is equipped with VAROX technology, which enables it to vary the amount of oxygen supplied. This innovative process gives us the flexibility to adjust levels of production, enabling us to respond rapidly to individual customer requirements.

Linde Gas favours long-term partnerships and has concluded several multi-year agreements with the Hungarian chemical company BorsodChem RT for the supply of hydrogen, carbon monoxide, oxygen and nitrogen. Under these contracts, which have a total value of around €250 million, we shall be building an additional steam reformer (see glossary) and an air separation plant on the Kazinbarcika site next to the existing plant.

Linde Gas is the only western gases company in Russia with its own production facilities. We are cooperating with other international companies to develop this promising market still further. The two on-site nitrogen and hydrogen production systems we are currently installing for a customer in the glass industry in Klin, north-west of Moscow, are examples of this cooperation. This new plant will supply the Glaverbel Group, which is owned by the Japanese company Asahi Glass. Glaverbel is the largest manufacturer in the world of sheet-glass for buildings and vehicles.

A substantial investment in Finland will ensure that Linde Gas continues to strengthen its market leadership in Scandinavia. In Tornio, in northern Finland, we are building an air separation plant with a value of around €50 million. The plant will commence production in 2005, supplying the steel production plant of the Finnish high-grade steel manufacturer AvestaPolarit with oxygen, argon and nitrogen. The contract term is 15 years. AvestaPolarit is one of the world's major producers of high-grade steel.

To meet increasing demand from the Chinese chemical company Xiang Lu Petrochemicals, we will be constructing another air separation plant in Haicang for the production of gaseous oxygen and nitrogen. Furthermore, we aim to supply gaseous nitrogen to other customers in the region along a 30 kilometer long pipeline. The project also consists of a plant to generate liquefied products, which Linde Gas would use to supply the market in the up-and-coming region of Fujian.

Cylinder and bulk: Strengthening our position in growth markets

In the cylinder and bulk businesses, we are deliberately focusing our activities in those markets expected to benefit from above-average levels of growth. For example, a new plant for the production of liquefied carbon dioxide (CO_2), located in Becej in Serbia and Montenegro, came onstream in summer 2003 through our subsidiary Linde Carbo Dioxid. The product quality meets the high standards set for food, with Linde Carbo Dioxid, for example, fulfilling the requirements to be an approved supplier for Coca-Cola. The new plant represents only the beginning of our involvement in Serbia and Montenegro. The next stage will see us continuing to develop the industrial gases and medical and therapeutic gases business throughout this region.

In Romania, we will also continue to expand our industrial gases business and we anticipate bringing a new acetylene plant and the associated filling station into operation in the autumn of 2004. The new plant is located in Timisoara.

In the Shanghai region of China, which has recently experienced meteoric growth, Linde is to construct a specialty gases plant for the production of silane and other electronic gases. Silane is a silicon-hydrogen compound, used particularly in the semi-conductor industry. The new plant will be one of the biggest of this type ever built by Linde.

Healthcare: A future growth market with an extensive product range

Demographic changes are ensuring that healthcare is becoming a growth market. In the developed industrialized countries today, 15 percent of the population is already aged 65 or over, while in the next 20 to 30 years this percentage is set to virtually treble. The result is that an increasing number of people will be dependent on medical care, especially long-term medical care for chronic diseases. For reasons of cost as well as quality of life, care will increasingly take place in patients' homes, unless acute hospital treatment or therapy is absolutely necessary.

It is against this background that the Healthcare segment, i.e. the medical and therapeutic gases business, is growing in importance in the Linde Group. Our healthcare activities have been grouped together in the company Linde Gas Therapeutics. This company comprises four business divisions: Institutional, Respiratory Homecare, INO Therapeutics and GEMI (Gas Enabled Medical Innovations).

The Institutional segment supplies medical gases such as oxygen and nitrous oxide as well as various related services to hospitals, prescribing physicians and ambulance services.

Respiratory Homecare provides oxygen therapy, sleep therapy and ventilation therapy for care in the home of patients with pulmonary diseases.

The activities of our subsidiary, INO Therapeutics Inc., are based on INOmax™ (nitric oxide), a product it has developed for inhalation, which is being used successfully for the treatment of term and near-term neonates with respiratory failure.

In the GEMI product development unit, we are concentrating our research and development activities on finding potential new applications for gases in medicine.

The Healthcare segment, i.e. the medical and therapeutic gases business, is a growth market for Linde. We offer a wide range of products and services: for instance, supplying medical oxygen to hospitals.

Institutional: Certification as a pharmaceutical gases company

The Institutional segment demands a high level of medical competence in its entire organization. Our aim is to become the preferred partner of doctors, pharmacists and nurses for the supply and optimal use of medical and therapeutic gases. In 2003, we have therefore continued to change, from a traditional supplier of medical and therapeutic gases into a pharmaceutical gases company, by implementing the global ROSES project.

ROSES aims to develop established medical and therapeutic gases – such as gaseous and liquid oxygen, nitrous oxide as well as oxygen and carbon dioxide mixtures – as fully-fledged pharmaceuticals. The declared objective is to obtain approval for these gases as pharmaceuticals in all European countries by the year 2007 at the latest. This initiative, with which we meet in full the rules set out in the EU Directives on the production and distribution of medical and therapeutic gases, will ensure the safe handling of our products – and make a significant contribution to the success of each type of therapy and the quality of patient care.

In the fiscal year 2003, a business model which has been successful in the US market for many years, providing extensive delivery and support services, has been included in the Institutional segment for the first time: LifeGas. The subsidiary of Linde Gas USA supplies its customers – homecare providers, physicians, clinics, and ambulance services – with a wide range of medical gases in cylinders. The compact, decentralized business units ensure a daily delivery service and 24/7 availability. LifeGas has been experiencing exponential growth for several years due to overall growth in demand, market share gains and geographical expansion.

Respiratory Homecare: High growth rates

Within the Healthcare section, the highest growth rates are in the homecare market. In the US, the demand for medical oxygen and other respiratory therapies for care at home is increasing at an annual rate of around 8 to 10 percent, while in Western Europe demand has increased by 15 percent and in Latin America by 20 percent.

To share in this growth, we are expanding our product range in different regions, targeting new areas of application and improving our business processes.

One example of this strategy is our acquisition of the Italian company Erma srl in December 2003. Erma is one of the leading suppliers of homecare in the Italian market, achieving sales in 2003 of a good €11 million with around 30 employees. The company, which has its registered office in Naples, has an extensive distribution and service network close to its customers, particularly in Central and Southern Italy.

Another example was the launch during the financial year of our “sleep therapy” products and services in several countries in Europe and Latin America following their success in the United States. Patients suffering from sleep apnea are able to be treated at home with oxygen and the appropriate equipment, supplied by Linde.

To support specific business processes in the Homecare segment, we have set up a centralized corporate IT platform in our core markets of America and Europe for the various countries in these two regions.

We currently have a presence in 30 countries across the world for our homecare products and services.

INO: Upward business trends

Since its official approval by the FDA in 1999, our product INOmax™ has been sold successfully in the United States. The gas mixture INOmax™, which has been approved as a pharmaceutical, contains the active drug substance nitric oxide and has the effect of dilating pulmonary blood vessels. It is part of our comprehensive INOtherapy™ range, which also provides the pharmaceutical infrastructure required for successful treatment.

In fiscal 2003, our INOtherapy™ business in the US and Europe continued to expand. We achieved a 22 percent increase before currency effects, with sales of €104 million.

In Europe, we anticipate sales revenue for the current fiscal year 2004 to be in the double-digit millions. Distribution commenced here in fiscal 2002. Also, registration applications are pending approval in several countries.

In addition to the development of INOmax™ as a treatment for term and near-term neonates, we are currently conducting clinical trials with INOmax™ to test its safety and efficacy in treating respiratory diseases in premature babies. We expect the new application for INOmax™ to be approved in 2006.

GEMI: Launch of an international research initiative

For more than 15 years, Linde has been supporting research institutions in their investigations of new applications for medical and therapeutic gases. To date, our principal involvement has been in Scandinavia. However, in future, these activities will be expanded to cover other countries.

With this aim in view, we have taken the initiative and set up the international GEMI Fund – jointly with Harvard Medical International, a charitable organization of Harvard Medical School, and the Swedish Karolinska Institute, one of the leading medical schools in Europe. From autumn 2003, under this research initiative for the development of innovative methods of treatment with medical and therapeutic gases, US$ 1 million will be made available every second year and allocated to between five and ten research projects around the world.

In 2003, the GEMI Fund awarded research grants to seven research centers in Europe and the US, which are investigating potential medical applications of nitric oxide, carbon monoxide and fluorocarbons.

Helium: Well-prepared for the future with our own helium source

World demand for helium rises annually by between five and ten percent. The use of helium is constantly increasing, particularly in the fields of medicine, research, science and technology, e.g. in glass fiber technology or in the construction of electronic switching circuits, but also as a result of the growing spread of magnetic resonance imaging (MRI), because superconductive coils are used in most MRI equipment. The equipment requires liquid helium to generate a temperature of minus 269 °Celsius to allow the coils to conduct electric current without any loss of power.

Linde will have access in future to its own helium source and will therefore be able to benefit from the growth market in helium. Back in summer 2002, we set up a production joint venture, Helison Production Company, S.P.A., with the Algerian energy supply company Sonatrach. This cooperation will involve the construction by Linde of the biggest helium liquefaction plant in the world on the eastern coast of Algeria. The plant should come onstream in summer 2005 and produce 17 million cubic meters of helium per annum – around 10 percent of total world production. In September 2003, we increased our cooperation with Sonatrach, setting up a distribution joint venture with Helison Marketing Ltd to market the helium produced worldwide.

Hydrogen: Driving forward the technology of the future

Against a background of depleting stocks of crude oil and in view of the introduction of carbon-free sources of energy, there is no long-term alternative to hydrogen. As the leading supplier of industrial gases and the biggest world producer of hydrogen plants, Linde will continue to drive forward the development of hydrogen technology. We see ourselves, therefore, as systems and technology partners working not only with oil and energy supply companies, but also with automobile manufacturers.

Consequently, we organized the German Hydrogen Day Media Forum on October 1, 2003, jointly with VDI-Wissensforum, the educational institution of the VDI (the Association of German Engineers). This trade conference was sponsored by the German Federal Ministry of the Environment, Nature Conservation and Nuclear Safety. The event elicited a positive response: around 250 people attended the conference, taking part in discussions with well-known speakers from the fields of economics, science and politics about the potential of hydrogen as an environmentally friendly energy source.

In addition to this initiative, we continued to demonstrate our competence in the hydrogen field in 2003 with a number of innovative projects.

In Tokyo, we started operating the first filling station in Japan for liquid hydrogen (LH_2). Vehicles can be filled with either LH_2 at a low temperature or with compressed gaseous hydrogen (CGH_2) with a filling pressure of 400 bar. The project is part of a Japanese government hydrogen production scheme, which proposes the construction of more filling stations in the Tokyo area. In the course of this contract, the Linde hydrogen technology used was certified for the key Japanese market.

Of the 21 filling stations for liquid hydrogen currently in existence worldwide, Linde has equipped 19 with their main components – in particular, innovative storage and filling systems.

Linde Gas has also developed a new process which significantly improves the long-term storage of low temperature liquid hydrogen (minus 253 °Celsius) in the vehicle: Hydrogen Fuel Injection (HyFI). This innovative compressor technology contributes towards higher engine performance and reduces fuel consumption, more than doubling the range of a hydrogen-powered vehicle with an internal combustion engine. We plan in the next few years to work together with partners in the automobile and supply industries to develop this patented system, currently at the trial stage, and bring it into production.

To support automobile manufacturers who are trialling alternative sources of energy, Linde Gas has equipped two testing bays for hydrogen-powered engines at the new Engine and Drive Train Test Center (MAT) of the South German Technical Inspection Association (TÜV Süddeutschland) with a complete hydrogen infrastructure and has undertaken to supply the hydrogen for this facility. The automobile industry uses the test center in Garching near Munich, which opened on January 31, 2003, to perform functional and longevity tests on its engines. The tests focus particularly on the harmful emissions, fuel consumption and handling qualities of the various drive technologies.

From autumn 2003, Linde has been able to demonstrate at Munich Airport how hydrogen can be produced, compressed, stored and tanked up on site. We have brought a steam reformer into operation there for BayernGas GmbH, which produces hydrogen and supplies the adjacent filling station. The plant is based on the ECOVAR™ concept, which was specially developed to cope with lower capacity levels and is flexible enough to adjust to the individual gas requirements of our customers. Since 1999, Linde has been supplying liquid hydrogen to the filling station at Munich airport.

Japan's first filling station for liquefied hydrogen, with innovative storage and filling systems designed by Linde, has begun operating in Tokyo.

Linde Engineering

Natural gas: A cost-effective and environmentally friendly energy source

Linde Engineering has a clear competitive advantage in the planning, project management and construction of turnkey industrial plants, i.e. our own proven process engineering know-how and extensive experience of key component production. We are concentrating our activities in the growth markets in international plant construction and are therefore increasingly focusing our specialist competence on plants producing hydrogen, oxygen and olefins, and on natural gas treatment plants.

The natural gas business looks particularly promising. Natural gas is a clean, cost-effective and environmentally friendly energy source, whether it is being recovered, processed or consumed, and it is expected to replace oil in many fields in the long term. Experts believe that known world reserves of natural gas will last for at least 150 years, around 100 years longer than world oil reserves. The market for natural gas plants is currently growing at an annual rate of about 5 percent. Linde Engineering provides small, medium-sized and large plants for this market.

We are in the process of building Europe’s largest natural gas liquefaction plant (LNG plant) near Hammerfest in Norway, north of the Arctic Circle, for the international Snohvit consortium. To ensure year-round progress in the construction of the northernmost industrial plant in the world, we rely on Global Sourcing and Global Engineering. This means that we are currently manufacturing individual plant components in the Netherlands, Belgium, Spain and Germany. The plant is due to be operational by 2006 at the latest.

Under the technology alliance which we concluded with the Norwegian oil company Statoil ASA, and which we have extended for a further five years, we are conducting a feasibility study for a ship-based LNG plant. In this study, we are examining the extent to which it is economic to recover and process natural gas, liquefy it at low temperature (minus 162 °Celsius) and load it onto tankers, whilst on the high seas, without being dependent on any land-based installations.

In Tuha in China, we are building a medium-sized LNG plant, in which the natural gas liquefied at low temperature for transport is loaded into heavy goods vehicle container-tanks fully automatically. The geographical location of this project also presents particular challenges for the delivery of large and heavy special parts. The plant, which will start production in the middle of 2004, is located around 2,500 kilometers as the crow flies from the nearest seaport, between the Gobi Desert, the Altai Mountains (Mongolia) and the Himalayas. Therefore, the main component of the plant, a coil-wound heat exchanger, was constructed, built and delivered in many pieces and assembled on site.

During the first half of 2004, Linde Engineering expects to complete a smaller natural gas liquefaction plant in Kollsnes, Norway. The liquefied natural gas, which is used, for example, as an environmentally friendly fuel for ferries, is distributed to six regional stations, which are each equipped with tanks, evaporators and loading gear.

Olefin plants: Set for expansion using our own technology

Good prospects are also evident in the market for olefin plants. Olefin plants produce the gases ethylene and propylene, important source materials for the plastics industry. The demand for ethylene is growing each year by around 4 percent, while that for propylene is rising at an even faster annual rate of 5 to 6 percent.

Innovative plant technology on the western coast of Norway. At this natural gas separation plant in Kollsnes we produce the environmentally friendly fuel LPG (Liquified Petroleum Gas).

A major growth area for Linde continues to be the supply of industrial gases to customers from plants situated directly on the user's site. From this synthesis gas plant, which began production in 2003, we supply Celanese AG at its site in Oberhausen, Germany.

Linde Engineering has its own ethylene technology and is able to construct turnkey olefin plants in all sizes. Here, we have the advantage of our own comprehensive manufacturing know-how in the industry and particularly in cracking furnaces (see glossary), the key component of olefin plants.

A new ethylene cracking furnace, which had been commissioned by the Austrian natural gas and chemical company OMV as part of its modernization scheme for the Burghausen site in Germany, was brought into operation in 2003. This furnace meets tighter environmental protection requirements, and sets standards, in particular, for pollution reduction and sound insulation. Moreover, the new plant, which is highly automated, complies with the highest safety standards, whilst having low maintenance costs.

We will also be building two new cracking furnaces at the OMV site in Schwechat, Austria, which will increase the annual production capacity of the ethylene plant by 150,000 tonnes or 60 percent.

We have been commissioned by the ethylene producer Noretyl AS, based in Rafnes in Norway, to take on the basic engineering for an entire olefin plant.

A commission to construct a new octene plant has reinforced our long-standing partnership with the South African energy and chemical company Sasol Limited in fiscal 2003. This is the second octene plant to be constructed by Linde for Sasol. Octenes (or Linear Alpha Olefins) are the sought-after starting materials and additives used in the manufacture of polyethylene, synthetic lubricants and bio-degradable detergents. This project will involve the delivery by Linde Engineering of a turnkey plant in return for a lump sum payment. In addition, we shall be modernizing five cracking furnaces at one of Sasol's existing olefin plants.

Hydrogen and synthesis gas plants: Close cooperation with Linde Gas

The key factor in our success in the growth market for the on-site supply of hydrogen and synthesis gases is the close cooperation between the Linde Gas and Linde Engineering Divisions (see Linde Gas, page 41).

An example of this is the hydrogen plant being built by Linde Engineering on behalf of Linde Gas in Terni, Italy, north of Rome. The unusual thing about this plant is that it is being operated by remote control from an existing plant in Milazzo in Sicily. Even the start-up can take place with no on-site operating personnel.

A plant for the production of the plastic polyurethane, built in Map Ta Phut in Thailand for the British BOC Group, the second biggest gases producer in the world, came on-stream in 2003. The plant also supplies hydrogen to a refinery, where it is used to desulfurize fuels. As a result of increasing efforts being made by the oil industry worldwide to produce fuels which are lower in sulfur and aromatics, the demand for hydrogen is expected to grow steadily in the years ahead. As the market leader in hydrogen plants, Linde Engineering will benefit from this development.

In the synthesis gases segment, Linde Engineering was awarded significant contracts in fiscal 2003, in Kazincbarzika in Hungary and in Mai-Liao, Taiwan. There we will build a plant for the production of hydrogen and carbon monoxide for a joint venture involving BP. In previous years, we have supplied plants to BP under two other joint ventures.

In Europe, two new Linde Engineering synthesis gas plants started production. In Porto Maghera, Italy, we are supplying gases to a plant producing basic chemicals for the chemical company DOW Italia S.r.L., while in Oberhausen in Germany, we are supplying gases to Celanese AG.

Air separation plants: New orders have more than doubled

The market for air separation plants which produce oxygen, nitrogen, argon and the noble gases continues to experience dynamic growth. New orders in this segment, which had already risen significantly to €217 million in fiscal 2002, increased still further in 2003 – to €476 million.

A significant proportion of this substantial increase relates to contracts from customers in the emerging industries in Asia. In China alone, we won contracts for three additional major plants. Already in 2002, we were awarded three out of the four major Chinese projects for which international tenders were invited. We are well-positioned in China with our own engineering and manufacturing plant.

During the year, Linde Engineering has chalked up successes in its air separation plant business in other growth markets in Asia and Eastern Europe. We are to construct three plants in Myanmar (Burma), Vietnam and Laos and four further plants in Russia and the Ukraine. In Japan, we have started operating the biggest plant in the country and have also been awarded the contract to build another large-scale plant to supply a steelworks. In Taiwan, we have completed an air separator which generates high purity products, for example for the electronics industry.

As a result of new processes which require very high quantities of oxygen, we are also anticipating an increasing demand for air separation plants in future. Iron smelting and the production of environmentally friendly fuels and methanol from natural gas (GTL, Gas to Liquids) plants both require output which is at the limits of what is currently feasible.

Linde Engineering is present in all markets and, as a technological leader, is particularly well-placed to benefit from the growth in demand from customers.

Material Handling

With its three brands, Linde, STILL and OM Pimespo, and its strategic partner Komatsu Forklift Co. Ltd (KFL), the Linde Group is one of the largest manufacturers of forklift trucks and warehouse equipment in the world and is the market leader in Europe. By developing innovative products and a range of services, we are increasingly serving new markets and market segments with great future potential. Our principal focus is on Asia, primarily China, and the continuing expansion of our service portfolio.

Improved position in growth markets in Asia and the United States

We achieved important successes during fiscal 2003, consolidating our market leadership in Europe, whilst at the same time continuing to open up fast-growing markets such as the US and Asia, where we do not yet have a significant presence. We have performed above expectations and improved our market share in China, which – with annual growth rates of 30 percent – is the most dynamic market in the world. In China, we are benefiting from our long-term strategy in major markets – handling sales and service through our own local manufacturing facilities. Production at our factory in Xiamen has doubled in the last three years.

In the other Asian countries, particularly in Japan, our cooperation with KFL and its sales organization is resulting in greatly improved access to the market. KFL is the second largest industrial truck supplier in Japan. In July 2003, Linde increased its investment in KFL to 35 percent, as planned, in acknowledgement of the success of the cooperation. This will create opportunities for us to participate fully in the double-digit growth of the South-East Asian market.

In Eastern Europe, where the market for forklift trucks and warehouse equipment has doubled in the last four years, we intend to exploit the potential for growth by concentrating on expanding our distribution. We have created the conditions to do so by acquiring Liftec Poland and Liftec Czech Republic, formerly importers of Linde-brand products and now fully-owned subsidiaries of the Linde Group. In addition, the Group brand STILL is increasingly expanding its European direct sales organization into the countries of Central and Eastern Europe.

TRIM.100 achieves diverse synergies

In autumn 2002, we initiated the TRIM.100 program, with the objective of generating sustainable improvements in our competitive ability and earning power in the Material Handling business segment. TRIM.100 focuses on measures designed to bundle competences across the areas of purchasing, production and logistics and to reinforce individual brand profiles within our differentiated multi-brand strategy.

As an example, we have achieved diverse synergies in the logistics sub-project, partly as a result of increasing the direct delivery of vehicles and spare parts to customers or service mechanics. We have also grouped together the storage of spare parts, headed by a neutral logistics services provider. These measures have significantly reduced production and delivery times and cut legal costs. In fiscal 2003, we have realized cost savings of €30 million under TRIM.100. By the end of the year 2005, the program should generate cost savings totaling €150 million.

Differentiating more clearly between our brands has enabled us to reinforce the positioning of Linde and STILL in the world markets, whilst at the same time taking into account the identity and autonomy of each brand.

Completing the 39x series of forklift trucks is the new 394 diesel forklift, which Linde first presented to the public at the “bauma 2004” international trade fair.

The OM Pimespo product range is being targeted at growing market segments not covered in this form by our other brands. OM Pimespo is the market leader in Italy and is promoting a quality product which is sturdy and reliable, offering tremendous value for money in comparison with the competitors in this segment. We will continue to expand the OM sales organization in Central and Eastern Europe and to improve our Italian production sites in Luzzara and Bari.

Further information about TRIM.100 is to be found in the Group Management Report, pages 92–93.

Market share maintained as a result of product innovations

The Material Handling business segment continued to improve its leading market position with new products, particularly in the market for counterbalanced trucks.

In fiscal 2003, the Linde brand added to the 39x engine counterbalance series introduced successfully in 2002 by launching onto the market the 393 diesel and LP gas truck series for loads of between 3 and 3.5 tonnes. The new models are typical pallet forklifts, used principally for loading and unloading heavy goods vehicles and for depositing goods in and removing goods from a block store (see glossary). There are numerous requirements for forklifts involved in the internal flow of materials. In addition to being sufficiently robust and reliable to withstand three-shift operation in all weather conditions, the trucks are expected to deliver exceptional warehouse turnaround at low operating cost and to provide a high level of comfort for the operator.

The 393 series incorporates many technical innovations to meet increased customer expectations. The new vehicle and transmission concept results in a substantial reduction in the weight of the forklift and therefore lower fuel consumption. At the same time, the 393 moves more pallets in a period of time than its predecessor model, despite this having had a faster turnaround than its competitors. This high level of cost-effectiveness means that we are able to help users handle increasing quantities of material flows and enable our customers to reduce their operating costs.

The key component of the new vehicle and transmission concept is the direct hydrostatic transmission developed by Linde, the major unique technical feature of the Linde brand. Hydraulic motors with a low number of revolutions drive the wheels without using conventional reduction gearing. In conjunction with the drive motor, this direct transmission leads to greater performance, whilst at the same time reducing the noise pollution for operators and the environment to 76 dB (A), a record low for this category of forklift.

As in the 392 series, we have applied the latest engine technology from the automobile industry to forklifts in the next size category. Working in close cooperation with Volkswagen, we have adapted the automobile manufacturer’s internal combustion engines so as to meet the requirements of an industrial engine. The result is that the new engines are not only more powerful, but also have lower emissions. These are well below the current EU limits for emissions of carbon monoxide, hydrocarbons and nitric oxides.

The 393 forklift series also leads the field in the area of ergonomics. The uncoupling of the lifting mast from the vehicle means that the forces operating on the lifting mast via the drive-shaft are directly transferred to the wheels, i.e. the load impact does not reach the chassis. An electronic fingertip joystick control called “Linde Load Control” also improves operator comfort. Minimal hand and foot movements are sufficient to carry out driving, turning and steering functions for the lifting equipment to the precise millimeter.

With the 39x forklift generation, Linde has developed a product for the world market. With the various series in this production line, we will not only reinforce our market leadership in our core market in Europe, but also exploit new opportunities in Asia and the US.

In Europe, and particularly in Germany, the trend towards building large distribution centers is continuing. Flows of materials within these vast material handling complexes are handled by industrial trucks such as reach trucks, which have the greatest flexibility of use. To meet this increasing demand, Linde expanded its selection of reach trucks in 2003 to include four new models. The extensive range is now able to handle loads of between 1 and 2.5 tonnes. The new warehouse equipment is characterized by its high performance and low service and operating costs and offers a high degree of comfort and safety.

These new products confirm the technical leadership of the Linde brand and the premium quality of its range of products and services.

In fiscal 2003, the STILL brand once again demonstrated its position in the vanguard of technology for electric trucks and introduced a significant innovation to the European market – the RX 50, which is available in load capacities from 1.0 to 1.6 tonnes. The new model offers a high level of comfort, outstanding ergonomic standards and, despite a lower level of fuel consumption, higher performance than its predecessor R 50, the bestselling electric truck of its class in the world.

During the year, OM Pimespo has also demonstrated its specialist competence in warehouse equipment. The pallet stackers, pallet trucks and horizontal order pickers (see glossary) newly launched in 2002 have been well-received by the market and have resulted in increased sales in this segment.

Expansion of our service business

Service business, contract hire and finance business, and trading in used trucks are all becoming increasingly important for the Material Handling business segment. Around 40 percent of total sales are now in this area, which also includes the financing and general management of truck fleets – and the trend is upwards in all our principal geographical markets.

Each of our brands is responding to these developments by offering flexible contract hire, leasing and finance schemes, maintenance contracts and customized consultancy services. STILL, for instance, with its product PartnerPlan, is increasingly positioning itself as an expert provider of logistics services. Depending on customers’ requirements, STILL can take on the maintenance of all forklift trucks and warehouse equipment, repair work or the annual testing for compliance with safety regulations. Its range of services also includes the hire of trucks with operators, operator training and machinery insurance.
In fiscal 2003, for example, STILL entered into a full service hire agreement for a five-year term with an international commercial vehicle manufacturer under a PartnerPlan. Under this agreement, the entire customer fleet of more than 1,600 vehicles will gradually be replaced.

With the new RX 50, the STILL brand has once again demonstrated its position in the vanguard of technology for electric trucks.

One of the services we provide which is becoming increasingly important is evaluating vehicle use. Specifically, all our brands use computer-aided consultancy tools to obtain data which is as precise as possible. Examples of these are the Linde Vehicle Management System (LFM) and the STILL-FleetManager™. Both these products increase the transparency of truck use for our customers, creating a basis for more efficient material flows within the organization. The systems include modules for operator and vehicle management and for operational and utilization analyses of individual trucks or entire fleets. As the data collection is based on their respective vehicle control systems, both products have been developed by the manufacturers themselves and are geared to the special requirements of their own industrial trucks.

Six Sigma program successfully launched

In fiscal 2003, we launched a Six Sigma program in the Group, which will gradually be rolled out across all areas of the Group. The aim of Six Sigma is to minimize potential errors in all operations and processes, so as to improve quality, achieve significant cost reductions and, finally, enhance customer satisfaction.

These objectives have been met in every respect in the first 16 successfully completed projects at German locations producing the Linde and STILL brands, based on a rigorous and systematic approach. We have, for example, achieved substantial potential savings as a result of quality improvements in the foundry operation and by reducing production times for customized vehicles.

Refrigeration

Linde's Refrigeration business segment is the market leader in Europe and number two in the world. To reinforce this position, we are focusing on global Key Account Management, production facilities located near our customers and an extensive and innovative product range. Not only in our core market of Western Europe, but also in the growth markets of Eastern Europe, Latin America and Asia.

Significant improvement in our position in the growth markets

Working in partnership with virtually all the major companies in the food retail trade, we aim to offer our international clientèle a one-stop comprehensive customer care package. Our range of goods and services comprises not only refrigerated and frozen food display cases and the corresponding refrigeration systems and shop fittings, but also project planning solutions ready for immediate use, shopfitting planning, assembly and responsive customer service.

Linde Refrigeration has expanded its infrastructure during the financial year, based on the global Key Account Management program, with the aim of improving these international services still further and enabling Linde to offer the services to an increasing extent in the growth markets.

In autumn 2003, we started operating a new CKD production facility (see glossary) for refrigerated display cases in the Shanghai area, which will significantly improve our position in the growth market of China. The new factory, which will make it possible to produce goods more cost-effectively on site, is expected to achieve an annual production capacity of 3,500 units from 2005/2006. We have been operating successfully in China since the year 2000 – at our site in Guangzhou, which produces multicompressor refrigeration systems.

The dynamism of the Asian market is also evident at our factory in Bangkok, Thailand. During fiscal 2003, we more than doubled our production of refrigerated display cases in comparison with the previous year and we anticipate a further increase of around 50 percent in 2004.

Our two Asian factories for the production of refrigerated display cases will ensure that we are well-placed to meet the needs of the markets in China, Taiwan, Korea and Hong Kong. From these locations, we will also seek to improve our market position in the APEC countries (see glossary), including Australia. In fiscal 2004, we are expecting growth in this region of 25 percent in comparison with the prior year.

We are also expanding our presence in the emerging markets of Eastern Europe, with a second factory in the Czech Republic for the production of refrigerated display cases. The new Mýto site, due to start operations in the second half of 2004, will ensure production is as inventory-efficient, transparent and cost-effective as possible and will relieve the pressure on our existing production site in Beroun. Moreover, the location of the two sites directly on the East-West axis of the Czech Republic, near Prague, means that both are ideally positioned to supply the neighboring regions.

Business in Eastern Europe has generally been good in 2003. In Russia, the Ukraine and Romania, we have been responsible for planning and equipping entire supermarkets for a number of leading companies in the retail food trade.

In Latin America, we are looking to extend our market leadership in Brazil to other major countries in the region, focusing particularly on Chile, Mexico and Argentina. We are making organizational changes in our subsidiary Seral do Brasil S.A. so as to significantly increase its export share. The measures will include the introduction of new distribution structures and will reinforce the brand image.

Our refrigerated display cases meet all our customers' requirements, providing highly reliable refrigeration at constant temperatures and being as environmentally friendly and cost-effective as possible, while their attractive design makes them stand out from the crowd.

New business unit for plug-in refrigerated cases

To continue to improve our position in the growing market for plug-in refrigerated cases, we set up a separate business unit for this segment on January 1, 2003 – the Compact Line business unit. This step is in response to the sales requirements of this particular market. For example, the customers purchasing plug-in refrigerated cases (mainly companies in the food and drinks industries) attach more importance to the presentation of individual brands and to the special placing of products in the supermarket to create an impact than the food retailers for whom Linde implements projects.

The new business unit will give Linde an advantage over its numerous small and medium-sized competitors in this segment, as it will combine the global presence and structures of an international group of companies with systems specially designed to meet the requirements of the market. Our customers can benefit from having a central point of contact to interpret their individual wishes and at the same time from having access to extensive logistics, support and advisory services.

This new concept has already proved a success. In fiscal 2003, there was double-digit growth in the sales of plug-in refrigerated display cases compared with the previous year. With annual growth rates of 5 to 10 percent, this market segment has excellent prospects for the future.

Expanding the product range

The Refrigeration business segment decided to expand its product range in 2003, with particular emphasis on ensuring that products are highly energy-efficient, cost-effective, practical, environmentally friendly and provide reliable refrigeration.

We have developed special self-service glass-door cabinets to meet the rising demand for premium meat products and fresh meat from certified sources. The goods can be displayed in these cabinets at a stable product temperature not exceeding 2 °Celsius for several days with no deterioration in quality. This enables our customers to cut their logistics costs and also to reduce their energy costs by up to 35 percent.

The successful “Evolution5” refrigerated display case program, which was introduced in 2002 and has generated increased sales figures in 2003, has been further extended during the year. We have focused on designing refrigerated multideck cabinets and frozen food display cases for specific customers. The modular system of Evolution5 allows us to respond quickly and easily to any specialized requirements from customers. Our new center-site program (see glossary) is designed to respond to the trend to display goods as attractively as possible.

Increasingly important in the refrigeration of display cases is the natural refrigerant carbon dioxide, which does not release substances harmful to the ozone layer or contribute towards the greenhouse effect. We are continuing to develop ecofriendly CO_2 refrigeration for freezer cabinets and have tripled the number of installations in food stores in the last year.

SAP R/3: Improving business processes

The introduction of the standard software SAP R/3, which will be completed in the first six months of 2004, will further improve the business processes in the Refrigeration business segment. The hardware and software standardization, for example, has simplified the administration and thereby reduced costs. Moreover, a common communications platform will enable us to benefit from synergies within the Group.

The changeover to SAP R/3 also entailed the introduction of an international construction link based on CAD applications. CAD applications support operations in electrical and mechanical construction. This will enable us to speed up our production processes generally.

Under SAP R/3, we have also centralized our helpdesk organization, significantly improving the availability of staff to deal with IT problems and thereby further increasing user satisfaction.

What is our vision of the medicine of tomorrow? Being a patient without feeling like one.

Medicine means life. A long and carefree life that is worth living. And where purposeful, precise innovation leads to medical progress, you will increasingly find Linde products and services. We supply medical and therapeutic gases and the necessary equipment for various forms of therapy, principally to patients with chronic obstructive pulmonary disease. Not only in hospitals, doctors’ surgeries and ambulances, but also increasingly in their own homes. Portable oxygen containers, for example, enable us to increase patients’ mobility. And thereby improve their quality of life.

「海洋博公園・沖縄美ら海水族館」

Research and Development

Sustainable business success can only be achieved through innovation. Wideranging research and development activities in fiscal 2003 have enabled us to optimize processes and process engineering across the Group and to introduce new products. As a result, we have been developing fast-growing market segments.

Linde Gas: New processes for industrial applications

In the Linde Gas Division, we have continued to improve the use of industrial gases for a wide range of industrial applications and have developed new processes to strengthen our position in a number of particularly promising operating areas.

Initial tests conducted in our technology center on inert gas tungsten welding of new materials in automobile manufacturing, e.g. magnesium work pieces, have produced positive results.

With its product line VERISEQ™, Linde Gas has developed a concept which meets the specific requirements of the pharmaceutical industry for its raw materials. VERISEQ™ covers gases such as nitrogen for inertization (see glossary), oxygen for the building of cells or carbon monoxide. The first product in the range to be launched on the market will be VERISEQ™ Liquid Nitrogen (LIN).

In 2003, Linde Gas has also developed a new solution to the problem of cooling liquid and viscous products (see glossary) and products in powder form in the food industry and in all areas of process engineering: the LIX-shooter™. This process involves spraying the refrigerant (nitrogen or carbon dioxide, liquefied at low temperature) from below into the relevant container (mixer, kneader, boiler or similar) with the product to be cooled. It extracts heat from the product and evaporates. Because the resulting cold gas has to flow upwards through the whole product, before it is siphoned off, the cooling effect is particularly strong. LIX-shooter™ achieves an even more powerful effect with runny products such as sauces, soups, chemical liquids or water.

In the area of surface coating technology, thermal spraying has continued in the past few years to find new applications. This includes a number of different spraying techniques, where even metallic materials can be applied to a surface to protect or finish it. Cold gas spraying is a new technology developed by Linde Gas, which enables coating to take place with no flame but at high speed. The advantage of this technique is that it produces thicker layers. In addition, oxidation is completely avoided, as a result of the minimal effect of temperature on the material.

Linde Engineering: Developing important components for plants

The Linde Engineering Division is continuing to develop major technologies for the growing air separation plant segment. We have introduced a new process for the recovery of the valuable noble gases krypton and xenon, which increases the yield by up to 30 percent. The first plant to use this innovative process is currently being constructed in Maanshan in China.

Moreover, we have been able to increase the efficiency of our air separation plants still further, by optimizing the packs (see glossary) – key components of the plants.

We have also carried out several projects to improve steam crackers. Steam crackers are petrochemical plants for cracking liquid or gaseous hydrocarbons into olefins, such as ethylene and propylene, using steam and heat. We have developed new techniques to prevent the carbonization of the cracking furnaces. The deposits formed as a result of carbonization reduce the efficiency of the cracking furnaces. We have also introduced new materials for the cracking tubes of steam crackers, which mean that a higher temperature can be used and the reaction can be accelerated, thus increasing the yield of the plant.

Linde Engineering has also made progress in natural gas treatment technology and has improved the processes for the liquefaction of natural gas and the production of synthetic fuels. We have transferred some of these projects under the terms of our technology alliance with the Norwegian oil company, Statoil ASA (see also page 48).

Our activities in the field of synthesis gas plants focused on further improvements to the reactors. We succeeded in reducing the oxygen requirements of the synthesis gas reactors and increasing their efficiency by developing new forms of insulation for burners and reactors.

Linde Engineering has developed a new patented process to produce methane more efficiently from synthesis gas, using high-temperature ceramic membranes, which conduct oxygen ions.

Finally, in fiscal 2003, we continued to optimize both the manufacturing and the efficiency of key Linde components for international plant construction. Examples of these components are specialized fittings and heat exchangers.

Material Handling: First fuel cell forklift in trials

In the Material Handling business segment, we are constantly working on making improvements to all our brands of forklift trucks and warehouse equipment, to ensure that they are easy to handle, ergonomic, environmentally friendly and cost-effective. The 393 Linde-brand series of engine-powered forklift trucks and the RX 50 STILL electric truck, successfully launched onto the market during the year, also underline the success of our activities. The special features of both these products are an outstanding level of comfort for the operator, low energy consumption and high turnaround (see also pages 55–56).

In collaboration with Linde Gas and Proton GmbH, STILL has also launched an innovative truck which looks particularly promising for the future – a fuel-cell-powered forklift, based on an electric truck, with a lifting capacity of 3 tonnes. The existing traction battery is replaced here by an equivalent fuel cell unit. Moreover, the team of experts has been able to fit the complete fuel cell system, including the hydrogen tanks and safety features, into the same amount of space. The operating time of a hydrogen-powered truck covers an eight-hour shift, while the handling and lifting features of the new system are superior to those of a battery-driven electric truck.

The first prototype of the fuel-cell-powered forklift is currently being used in the cargo area at Munich airport in a field test designed initially to last two years. The information gathered about performance, operator comfort, maintenance costs and the life of the truck will be taken into consideration when designing future pilot vehicles. The trial phase is embedded in the existing hydrogen infrastructure at Munich airport and should provide vital pointers for the hydrogen-powered working environment in the future.

You can read more about hydrogen, the technology of the future, on pages 46–47.

Refrigeration: Further improvements in reliable, temperature-stable refrigeration

The Refrigeration business segment has developed new processes to satisfy the demand of customers for reliable and stable temperatures in refrigeration systems and refrigerated display cases. The hot gas bypass defrosting system has enabled us to extend the area of application of refrigerant defrosting by using a reliable process which will not damage the goods. The new method maintains a stable product temperature of minus 1°Celsius to plus 2°Celsius and, since the defrosting process preserves the quality of the food products, it is particularly suitable for refrigerated multideck cabinets for meat products from certified sources, which are increasingly in demand.

The new ECO-TEV temperature control system is an additional improvement to our refrigeration systems. This electronic control system ensures highly stable temperatures in refrigerated units and reduces the cost of putting refrigeration systems into operation in our project business. It is also a simple task to upgrade existing refrigeration systems with the new control system. This will enable us to exploit new opportunities, particularly in the growing market for Long Distance Services (LDS, or remote monitoring systems).

We have developed new design concepts for product lighting and for the colors of our refrigerated display cases, in order to meet the ever-increasing demand from the food retail business for goods to be displayed as attractively as possible.

Employees

Our claim that Linde is a leading company, exemplary in every respect, applies particularly to the area of employee development programs. Sustainable business success in the Linde Group will only be achieved as a result of the qualifications, commitment and hard work of our employees. Therefore, in fiscal 2003 we have devised a comprehensive personnel strategy, substantial elements of which have already been introduced. The cornerstones of this concept are competitive performance-related remuneration schemes, efficient human resource management, appropriate further qualifications and sound initial training.

New job evaluation system introduced

The introduction of a new job evaluation system was the main focus of personnel management in the Linde Group in fiscal 2003. Using the evaluation system developed by Hay Group, the American consultancy firm, we analyzed the functions of all our executive personnel in Germany and classified them into seven tiers, creating a grading system. This allows us to make an overall comparison of the individual functions on the basis of their respective classifications – regardless of job titles and management levels – and to identify opportunities for the personal development of our employees. The grading system will also form the basis for determining salary ranges.

After introducing the system in Germany, we started to evaluate the management and technical functions at our most important locations outside Germany in Autumn 2003. The results from France and the United Kingdom are now available. The system will have been implemented worldwide by the beginning of 2005.

In the course of fiscal 2004, we will go beyond the executive personnel category in Germany and also start to evaluate functions to which the regular pay scale does not apply and incorporate them into the Linde grading system.

New rules for variable remuneration

With effect from January 1, 2004, we have introduced new rules for the variable remuneration of all executive personnel in Germany. The existing system – a combination of bonuses in the form of dividends and discretionary bonuses – has been superseded by a new profit-related and performance-related system (ELV). The ELV system is an important tool of our value-based management. Our aim is to boost the motivation of our managerial personnel with tangible incentives and to increase the extent to which they identify with Linde and are loyal to the Company, thereby promoting a collective focus on critical operational and strategic corporate and divisional goals. Agreements on targets, which will be made in future with all managerial personnel, are the keystone of the ELV system. The amount of the variable remuneration depends on the extent to which the employee achieves his or her objectives by the end of the fiscal year.

Stepping up our human resource management

Linde intends in future to rely more heavily on its own junior staff to fill managerial posts. In order to create an environment where it is possible to identify and coach top performers and prospective high-flyers, we have stepped up our human resource management in the year under review, launching a Leadership Appraisal scheme in two of the business segments. This evaluation tool enables us to have fair and frank discussions with staff about their management strengths and weaknesses and helps us to devise personal development programs for the individuals concerned. We will gradually implement the Leadership Appraisal scheme in the other business units too, as it is an important component of our strategic human resources development and forms the basis of effective Group-wide succession planning to fill vacant management positions in the Linde Group.

Communication with employees: a management tool

Fair and frank communication between senior and junior personnel is a crucial factor in creating an exemplary management culture. To encourage exchanges of views between employees and executive personnel, we have continued to improve our existing communication platforms during the year and have implemented various pilot projects. In fiscal 2004, we will make further progress with these measures, introducing structured communication with employees across the whole of Germany. Topics for discussion will be: how we would evaluate our teamwork over the past year, where we have scored successes, what opportunities there are for improvement, what expectations, interests and targets exist and what positive steps could be taken to make teamwork even more effective across the whole Group.

Expanding our integrated employee development program

In fiscal 2003, we provided additional training for employees and managers in all the business segments to prepare them for the assumption of new or more demanding responsibilities. In each case, our training approach was customized and tailored to the needs of the various target groups. The programs covered both general topics such as communication, teamwork, project management and leadership, and more specific subjects aimed at various occupational groups, such as a continuing professional development scheme for managers of air separation plants. These activities enable us to keep our skilled personnel completely up to date.

Moreover, we devised a universal system which offers the various target groups opportunities for promotion. This integrated concept comprises national and international Junior Management Circles, as well as Employee Development Circles for middle management, the Global Leadership Program for our top-level executives, and Linde Gas University or the Management Conference for the senior executives in the Linde Group. The activities of Linde University are also based on this system which is designed to foster talent in the Group.

The national and international Junior Management Circles have continued to operate in the past year in almost all locations in the Linde Group. For us, they are an important element in encouraging our junior staff to move up the ladder and in the increasing globalization of the Group, as well as in establishing a clear Linde identity. The fact that the Junior Management Circles are a successful tool in employee development is clear from the fact that, within the framework of the succession process, technical and management functions were being filled in 2003 with employees from among the participants in the scheme. Therefore, we intend to continue expanding our activities in this area in future.

In Spring 2004, we launched our Global Leadership Program for top-level executives. The first stage is to offer around 30 top executives in the Linde Group the opportunity to get to grips with current strategic and management topics at the highest level and to tackle real general project work. Three modules lay the foundations for the rigorous performance-oriented professional development of our top management personnel. Linde's partner in the Global Leadership Program is the internationally renowned business school INSEAD, based in Fontainebleau in France. The Global Leadership Program is one of Linde University's first learning modules.

December 2003 saw the start of the second series in the Linde Gas University program for management personnel in the Linde Gas Division. Here, the participants become conversant with current developments and thinking in their own business environment. They also have the opportunity to discuss the implementation of the strategy relevant to their division. Eminent guest-speakers open up the horizons of the participants, facilitating intensive work on important subjects at a high level. The first group of executives from the Linde Gas Division completed the Linde Gas University program in 2003 and will be followed by three further groups.

The Management Conference organized by Linde in May 2003 in Berlin for the 400 most senior executives in the Group was a complete success. All those attending had the opportunity to find out about the corporate strategy and the successful implementation of the current core projects. Moreover, a significant part of the conference was devoted to the complex subject of management culture. The presentations given by recognized experts in their fields and encounters with outstanding public figures provided everyone with a number of different approaches to a critical evaluation of their own patterns of management behavior. The conference, therefore, not only contributed to an increase in a common understanding of management, but was also useful in the sense that it improved communication and intensified cooperation between managers across the whole Company.

Increased marketing at universities

In fiscal 2003, we continued to step up our recruitment activities for undergraduates and graduates, so that Linde will continue to attract highly-qualified young engineers and natural scientists over the next few years. In doing so, our recruitment team, which comprises technical experts and human resource specialists, has developed a number of university marketing guidelines. These have led to Linde presenting a modern corporate image at all the recruitment fairs and gaining access to many potential employees.

In 2003, we also stepped up our collaboration with universities and colleges in many areas and improved the way in which we look after our trainees, working students and graduands throughout the Group.

Modifying our practical training

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 heavily involved in the field of training. Our commitment has continued in fiscal 2003 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.

Quality, Safety and Environmental Protection

One of the prime objectives of our business is to achieve outstanding quality in all our products, processes and services. At the same time, our guiding principle is to ensure the highest possible safety levels in the manufacture and use of our range of products. We supply environmentally friendly products in all our business segments, whilst supporting the safety and environmental protection measures of our customers.

Quality

Achieving and maintaining an extremely high level of customer satisfaction is vital to the continuing success of an internationally competitive company. We are fulfilling these aspirations by constantly monitoring and improving the quality of our products and services. In all the business segments, the tools we employ are incorporated into the quality management systems, which support the operating business effectively in the individual business units. Most of the operations of Linde AG and of the Group companies in Germany have systems that comply with the ISO 9000/2000 standard.

In order to continue to improve our business processes, during the year we introduced a Six Sigma program at German sites in the Material Handling business segment, which we plan to extend gradually across the whole Group. One of the main aims of Six Sigma is to improve the quality of products and processes by adopting an integrated, systematic approach, which will result in further increases in the level of customer satisfaction (see also the Material Handling section, page 57).

With the introduction of scorecards, we have greatly expanded and standardized the existing systems for analysis in the Group, enabling us to manage all the business processes more effectively and in a way which is more performance-based. We have dovetailed the previous long-term planning process of the Group more closely with the individual operational measures of the business segments, which has helped us to focus consistently on common Group objectives.

As part of our integrated management system for quality, safety and environmental protection in the Linde Gas Division, are currently implementing a special system, which aims to prove the safety and quality of our gases and applications in the food business, HACCP or Hazard Analysis and Critical Control Points.

In addition, Linde Gas has introduced a computer-aided tool for the prompt processing of claims. This will enable us to react even more quickly to critical requirements in the competitive international market.

In the Material Handling business segment, we have introduced significant measures to improve our processes and operations as part of our optimization program TRIM.100. The Supplier Management sub-project, for instance, has developed a new standardized evaluation system for suppliers, based on existing local solutions. The implementation should be complete by the end of 2004.

(You can find more information about TRIM.100 in the Material Handling section on pages 53-55, and in the Group management report on pages 92–93).

Guidelines and directives

Linde has always given the highest priority to safety in the manufacture and use of its products and processes – whether in the operating processes or in distribution and storage. Moreover, we offer to give effective support to our customers in their safety and environmental protection measures.

To ensure that this self-image is translated into reality in our daily work, the management of Linde Gas has adopted the following worldwide guidelines for quality, safety and environmental protection:

Linde Gas is firmly committed to protect the employees' health whilst preserving a good environment and avoiding damage to property. Linde Gas products and services meet customer requirements and all persons in the company strive to exceed customer expectations. In order to achieve this the Operational Board has adopted the following:

Linde Gas develops and markets gases, gas technology, equipment and related services which help the customers to increase the efficiency and quality as well as contributing to an improvement of safety, health and the environment.

Products and services are developed considering safety, health and environmental aspects and customer expectations.

Linde Gas managers accept compliance with this policy and national legislation as a key responsibility. They are committed to improve the safety and health at work of all employees and to protecting the public, the environment and property from any adverse effect of the operations. Furthermore, they lead and involve their personnel to continuously improve the quality of products and services and to achieve an excellence in customer focus.

Linde Gas personnel are aware of the impact of their activities on safety, health, environment and quality and accept personal responsibility for achieving the goals of this policy.

The working conditions for all Linde Gas personnel are safe and continuously improved with the ultimate objective that all activities are performed without accidents, other risks to health and losses.

Linde Gas plants are designed and operated to minimize any adverse effects. Security aspects of our installations are handled with due care.

Linde Gas openly informs employees, the customers, the authorities and the neighbors of the impact of its operations.

Contractors are selected using evaluation criteria that include their safety, environmental and quality performance, and their operations should be in line with this policy.

Linde Gas customers receive comprehensive information on the transport, handling and use of the products.

Applying these guidelines consistently, we exceed by far the minimum legal requirements for environmental protection and safety. We are reducing the environmental effects of our operating processes and improving safety in the operation and use of our products and processes. It is not unusual for these measures to result in cost savings because, for example, we are minimizing waste, further reducing energy consumption and constantly improving organizational operations.

In the other business segments and divisions, we have incorporated into our quality management manuals mandatory principles and regulations and the operational standards dealing with quality, safety and environmental protection. These regulations have been put into force by the relevant management and apply exclusively to that particular business unit. Under the subsidiarity principle (see glossary) we center and tailor our objectives and procedures to the specific requirements of each location.

Safety

The Linde Gas Division continued with the implementation of the Major Hazard Review Program, part of its risk management scheme, at major plants where gases are produced, bottled or stored. The program, which was launched in 2002, contributes towards the early identification of potential risks which could lead to accidents or damage to property or to the environment, analysis of their causes and the introduction of appropriate security and control measures.

In fiscal 2003, we started to implement the new Occupational Safety Ordinance at the German locations of all the business segments and divisions. The issuer of the ordinance has laid down a medium-term timetable for its implementation, and the individual business units of the Linde Group will spend several years implementing it.

To heighten the sensitivity of local management and employees to the importance of occupational safety at the various locations of Linde Gas, a safety award scheme was launched a few years ago for those establishments which are exemplary in this field. In 2003, our international Site Safety Award was presented to the INO Therapeutics site in Port Allen in the United States, for being the site with the highest number of hours worked since the last lost time accident. The Company Safety Award, for which the subsidiaries compete, was presented to Linde Technoplyn in the Czech Republic and to AGA SA in Columbia for the lowest accident rates.

In addition to this global initiative, Linde Gas promotes occupational safety and environmental awareness with a number of regional and local activities. In South America, for example, we launched a zero accidents campaign, to increase the safety-consciousness of employees still further.

Linde Gas pays particular attention to the safe transportation by road of its products. The principal aim of our global safety scheme is the prevention of road accidents, to ensure that our gases are delivered safely, reliably and on schedule to our customers.

Moreover, we offer our drivers, apprentices and other young employees the opportunity to take part in operational safety courses.

To boost our high levels of safety and environmental protection still further, we have focused in the Linde Material Handling business segment on continuing to develop the established ArGUS management system for occupational safety and hygiene and environmental protection, extending, for example, the systematic self-evaluation of foremen's trades within the various production locations. In addition, further improvements were made to the reciprocal general audits of the production departments. These enable us to identify possible weaknesses and opportunities for improvement at an early stage and to continue to reinforce the importance of safety-consciousness and environmental awareness in everyday working life.

The introduction of a standard analysis structure for industrial accidents and moderated safety discussions in Linde Material Handling have also had a positive effect – the number of accidents in this business segment has fallen by 60 percent.

Environmental protection

In the paint shops in Germany, we have successfully implemented measures to reduce further any organic emissions (VOC, Volatile Organic Compounds emissions), by switching, for example, from wet paint to paint systems using low levels of solvents and, increasingly, by using a cataphoric submersion paint technique (see glossary). Paints containing solvents will in future be used only sparingly – for repairing older products.

By introducing new sand binder systems in the foundry for the production of the counterbalances for Linde-brand trucks, we have succeeded in substantially reducing these organic emissions by around 60 percent.

The high level of environmental awareness across the Linde Group is exemplified by our subsidiary, STILL GmbH. This company has responded to the appeal from the Hamburg Environmental and Health Authority and the Hamburg Industrial Association and is participating voluntarily in the testing and coordination of a scheme to monitor carbon dioxide.

Linde has also made progress in fiscal 2003 in the field of water pollution control. In the Linde Material Handling business segment, we have created new storage facilities and bottling plants for fuels, ancillary materials and operating materials, which will raise safety levels in the treatment of materials which may cause water pollution.

At the Hamburg site, the largest factory for STILL-brand products, we have been able to cut down fresh water consumption by around 20 percent compared with the previous year. In the medium term, we will seek to reduce consumption still further.

For years, waste collection systems, with separation of different sorts of waste, and effective waste management have been mandatory across the Linde Group. We are adopting a range of measures to ensure that we continue to improve our efficiency in this area. The Linde Material Handling foundry is an example of the steady progress we are making. We have succeeded here in optimizing the flow of molding materials, thereby reducing the amount of waste by about 10 percent.

Product-related environmental protection

All the Linde business segments sell environmentally friendly products. Moreover, we support our customers by providing a number of services for the effective handling of natural resources.

For more than 30 years, Linde has been planning, developing, supplying and building industrial plants which contribute to environmental protection. In fiscal 2003, the Linde Engineering division has consolidated its leading position in the waste treatment plant segment in Germany with two new contracts. In France and Spain, we were also able to acquire important projects for this type of plant.

Our subsidiary Linde-KCA-Dresden GmbH is to build sewage treatment plants in Germany, Taiwan and Algeria. We already have a presence in Algeria with a water treatment plant.

As a leading supplier of industrial gases and the biggest world producer of hydrogen plants, we are concentrating on driving forward the development of hydrogen technology, which we believe has a promising future, against a background of declining oil reserves (see also Linde Gas section, pages 46–47).

In addition, Linde Gas has collaborated with Uniquema, an international company for specialty chemicals, to develop a product for ecofriendly dry cleaning, Washpoint™. In this process, conventional organic solvents, which often pollute underground water are replaced by liquid CO_2.

The Material Handling business segment aims to ensure that its new product developments are as ecofriendly as possible. The 393 Linde-brand truck series and the STILL RX 50 electric truck are the latest examples to endorse this claim.

In collaboration with Linde Gas and Proton GmbH, we have also developed the first prototype of a fuel-cell-powered forklift, which has been trialed since 2003 in a long-term field-test at Munich airport (see also Research and development section, pages 66–67).

In the Refrigeration business segment, our product innovations also focus on achieving the highest possible level of ecofriendliness. One of the characteristic features of our refrigerated display cases is low energy consumption. Moreover, we are increasingly using the natural refrigerant CO_2 for freezing (see also the Refrigeration section, page 61).

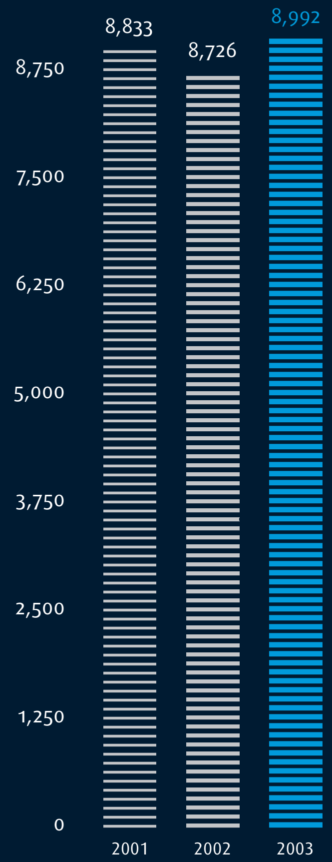
Does the Earth need a global energy concept? Above all, the world needs the energy of visionaries.

The future can be formed from natural gas. If you know how to handle it. The environmentally friendly energy source natural gas presents great challenges, such as those of transport and processing. After all, the largest deposits are often to be found in the most inaccessible places, in the far North of Scandinavia, for example, near Hammerfest. Here, Linde is building the largest natural gas treatment plant in Europe, which will make it possible to transport this important source of energy. And at a new plant on the west coast of Norway, in Kollsnes, we are processing natural gas so that it can be used to produce environmentally friendly fuels. Our contribution to the future.

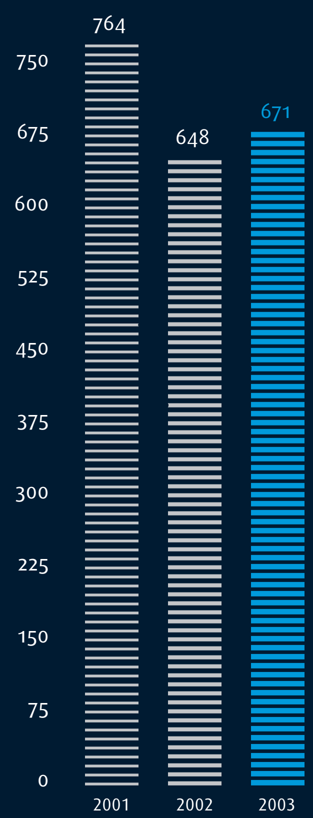
Group Management Report

Despite generally disappointing economic trends and unfavorable currency effects, we have improved sales and earnings at Group level in fiscal 2003. In comparison with the previous year, sales rose by 3.0 percent to €8.992 billion (2002: €8.726 billion), while operating profit (EBITA) before special items increased by 3.5 percent to €671 million (2002: €648 million).

Group sales (€ million)



Group EBITA (before special items, € million)



Macroeconomic trends: Recovery in the second half of the year

Following a disappointing year in 2002 for the global economy, there were no signs of a sustainable upturn in the first few months of 2003. Not until the second half of the year, once the war in Iraq was over, did international tensions diminish and the global economy show signs of recovery after an economic downturn lasting almost three years. Prices in the international financial markets rose once again, signaling the growing confidence of the capital markets in a definite economic recovery. This view was based on the fact that company profits were on the increase, due in part to extensive cost-cutting programs and progress with the consolidation of finances. A generally expansionary policy also gave fresh impetus to the economy. The total gross world product rose in real terms by 3.3 percent in comparison with the previous year.

However, there is still a wide gap in the rates of economic growth experienced by the main geographical regions in the world. The United States continues to be the key driving force in the global economy. The economic upturn there accelerated noticeably, stimulated by massive support from monetary and financial policy, leading to an increase in the gross domestic product (GDP) of 3.0 percent in real terms.

One of the other driving forces in the global economy, apart from the US, is proving to be Asia. Japan has been able to overcome its long years of economic stagnation and has embarked again on a course of sustainable growth, while the trends in the developing countries of Asia are also positive. This region has once again become a world economic center, mainly as a result of the dynamic growth in China.

Again in 2003, the lowest rate of growth in the major regions of the global economy was in Western Europe, especially in the eurozone. Here, GDP was only 0.5 percent higher than in the previous year. It was only towards the end of the year that the economies here succeeded in emerging from a period of sluggishness. Exports, in particular, began to rise again significantly, while domestic demand remained slack and the reluctance to invest continued unchanged. Despite the slowdown in economic activity in the EU Member States, production in the countries of Central and Eastern Europe rose considerably.

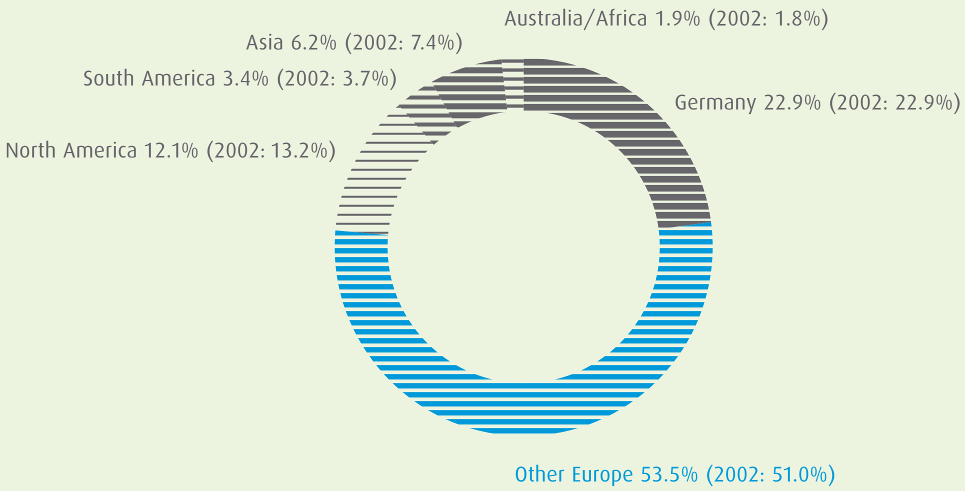
In Latin America, the economy bottomed out and started to show the first signs of recovery.

Germany: Disappointing economic performance

The year 2003 was also a disappointing one for the German economy. With a fall in GDP of 0.1 percent, the period of stagnation which has lasted since the middle of 2000 continued. Only the export economy ensured that there was growth, while domestic demand had not yet regained momentum after its persistent decline in the past few years. The slide in construction spending has not yet been halted, and expenditure on machinery and equipment has also not yet completely recovered, due to low demand and underutilized capacity. Moreover, private consumption remained low against the background of a worsening situation in the labor market.

However, since autumn 2003 there have been increased signs that, here in Germany too, the end of the economic downturn is in sight. Not only are economic performance indicators on the rise, but the first upward trends in demand and production are also starting to become visible. Exports, in particular, are recovering significantly as a result of the global economic upturn.

Sales: Analysis by region



Linde Group: Improvements in sales and operating results before special items

Despite the generally disappointing performance of the economy and the adverse effects of currency movements, we have improved our sales and earnings at Group level in fiscal 2003.

Sales rose in comparison with the previous year by 3.0 percent to €8.992 billion (2002: €8.726 billion), or by 7.9 percent if exchange rate effects are taken into account. Sales in Germany increased by 3.4 percent to €2.061 billion (2002: €1.994 billion), while sales outside Germany rose by 3.0 percent to €6.931 billion (2002: €6.732 billion).

Orders received amounted to €9.079 billion, which was not quite as high as the prior year figure of €9.322 billion due to adverse exchange rate movements. Adjusted for currency effects, there was a slight increase in orders received of 1.8 percent.

Results of operations

The Group operating profit (EBITA, see glossary) before special items improved by 3.5 percent to €671 million (2002: €648 million).

The special items relate mainly to provisions of €70 million to expand and ensure the success of our optimization programs, and reorganization costs of €20 million for our Australian activities in the Material Handling business segment. We have also made provisions of €50 million for transaction and disposal costs relating to the sale of the Refrigeration business segment and the divestment of the company from peripheral activities.

The increased profitability of the Linde Engineering division and of the Material Handling and Refrigeration business segments has contributed to the rise in operating profit. Earnings in the Linde Gas division were affected adversely by the depreciation of the US dollar. Currency translation in this division had a total adverse effect on earnings of €36 million. Against this background, Linde Gas did not achieve quite the same results as in the previous year, although it continues to be by far the biggest contributor to Group earnings.

As a result of the special items, there was a decrease in earnings before taxes on income (EBT) from €356 million to €287 million.

The EBITA margin on sales for the Group was 7.5 percent (2002: 7.4 percent).

Return on capital employed (ROCE) increased from 7.0 percent to 7.7 percent. The factors contributing to this improvement were a higher operating profit before special items and the planned reduction in assets invested.

Due to a tax rate which was higher than in fiscal 2002 and to the special items, the net income for the year of €108 million was €132 million lower than the prior year figure (€240 million). Earnings per share therefore fell from €2.01 to €0.91. Excluding the amortization of goodwill, the figure for earnings per share was €2.06 (2002: €3.05).

After deducting the figure for the cost of sales, the Linde Group made a gross profit of €2.777 billion, which is shown in the income statement prepared by using the cost of sales method. This is similar to the prior year figure (€2.770 billion).

Other operating income declined by €37 million to €239 million. Other operating expenses also fell, by €57 million to €154 million.

The net figure for special items was a charge to operating profit of €127 million. Special expenses totaling €140 million, principally the costs of restructuring programs and provisions for transaction and disposal costs, were offset against income from securities of €13 million. In fiscal 2002, the profit on the disposal of our indirect investment in Dresdner Bank AG of €165 million was fully offset by the costs of restructuring schemes of €137 million and losses on securities of €29 million.

The financial result improved by €48 million to a loss of only €119 million. This was mainly due to further reductions in financial liabilities and to favorable interest rates. Goodwill amortization increased by €14 million to €138 million. This includes impairment losses which have been recognized following a review of the recoverable amount of goodwill.

The income tax rate rose from 32 percent in 2002 to 62 percent in 2003. The reason for this increase was the tax-exempt profit of €165 million received in fiscal 2002 on the disposal of an investment. After adjusting for the amortization of goodwill, which is only partly tax-allowable, the income tax rate is 42 percent (2002: 24 percent).

Results of operations

	2003		2002	
	€ million	in %	€ million	in %
Sales	8,992	100.0	8,726	100.0
Cost of sales	6,215	69.1	5,956	68.3
Gross profit on sales	2,777	30.9	2,770	31.7
Marketing and selling expenses	1,297	14.4	1,317	15.1
Research and development costs	172	1.9	171	2.0
Administration expenses	722	8.0	699	8.0
Other operating income	239	2.6	276	3.2
Other operating expenses	154	1.7	211	2.4
EBITA before special items	671	7.5	648	7.4
Special income	13	0.1	165	1.9
Special expenses	140	1.6	166	1.9
EBITA	544	6.0	647	7.4
Financial result	–119	–1.3	–167	–1.9
Earnings before taxes on income and amortization of goodwill (EBTA)	425	4.7	480	5.5
Amortization of goodwill	138	1.5	124	1.4
Earnings before taxes on income (EBT)	287	3.2	356	4.1
Taxes on income	178	2.0	115	1.3
Earnings after taxes on income	109	1.2	241	2.8
Minority interests	–1	0.0	–1	–
Net income	**108**	**1.2**	**240**	**2.8**

Sales and EBITA (before special items) by business segment
in € million

	2003		2002	
	Sales	EBITA	Sales	EBITA
Gas and Engineering	5,031	659	4,839	659
Linde Gas	3,843	598	3,880	606
Linde Engineering	1,270	61	1,036	53
Material Handling	3,063	156	2,979	148
Refrigeration	866	14	879	10
Corporate	–50	–158	–48	–169
Group	**8,992**	**671**	**8,726**	**648**

Gas and Engineering: Further increase in sales

In the Gas and Engineering business segment, sales have risen by 4.0 percent to €5.031 billion (2002: €4.839 billion), while new orders fell from €5.322 billion to €5.037 billion. Operating profit (EBITA) before special items was the same in both 2002 and 2003 (€659 million). Exchange rates have had an unfavorable impact on business performance, affecting growth in the Linde Gas division in particular.

Gas and Engineering in € million	2003	2002
Sales	5,031	4,839
Incoming orders	5,037	5,322
Number of employees	21,622	21,560

Linde Gas: On-site business performs well

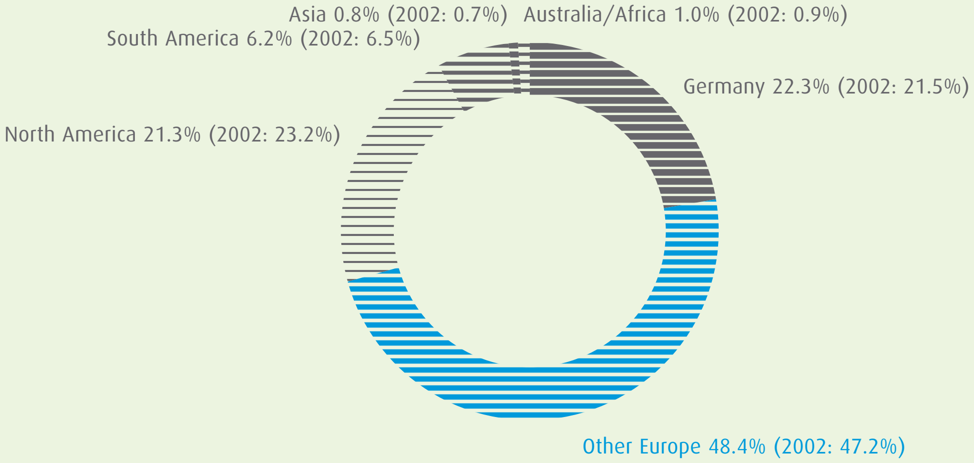
The Linde Gas division achieved sales of €3.843 billion in fiscal 2003, not quite reaching the prior year figure of €3.880 billion due to adverse exchange rate movements. After adjusting for currency effects, the increase was 6.2 percent.

As a result of the adverse effects of exchange rate movements, which amounted to a charge to income of €36 million, the operating profit before special items of €598 million was slightly lower than the prior year figure of €606 million.

In order to ensure the success of our optimization program, which should lead to cost reductions of €150 million by the end of 2004, we shall be taking additional measures, concentrating in particular on further tightening our administrative procedures. We have set up provisions of €10 million for these measures which will involve 200 job cuts. Under the program, we were able to make significant improvements during the fiscal year in the areas of distribution and purchasing, reduce administrative costs and, as a result, achieve cost savings of around €50 million.

Linde Gas in € million	2003	2002
Sales	3,843	3,880
EBITA before special items	598	606
EBITA	588	606
Capital expenditure (excluding financial assets)	397	401
Number of employees	17,420	17,500

Linde Gas: Sales by region



Different business trends were evident in each section. The on-site segment, where we supply industrial gases to the customer from a plant situated directly on the user's site, once again experienced dynamic growth. Here, we have increased sales by 6.5 percent to €772 million (2002: €725 million), or by an even higher figure of 12.2 percent, if adjustments are made for the effect of exchange rates. Here, we were also able to benefit from increases in the price of natural gas, which led to additional sales revenue of €33 million.

Sales of bulk business remained stable at €1.047 billion (2002: €1.052 billion), while sales in the cylinder business fell by 5.8 percent to €1.555 billion (2002: €1.651 billion). After adjusting for the effects of exchange rates, we were able to report increases in sales in both segments: a 5.0 percent increase in the case of bulk business and a 0.9 percent increase for cylinder business.

Linde Gas: Sales by product segment
in € million

	2003	2002	Change
Bulk	1,047	1,052	−0.5%
Cylinder	1,555	1,651	−5.8%
On-site	772	725	6.5%
Healthcare	575	570	0.9%
Total (consolidated)	**3,843**	**3,880**	**−1.0%**

In the Healthcare division (the medical and therapeutic gas business), growth was also slowed down only by unfavorable exchange rate movements. Sales of €575 million were 0.9 percent higher than in the previous year (€570 million), while after adjusting for the effects of currency movements the increase was 10.6 percent. The main reason for the rise in sales was the gas mixture INOmax™, which has been officially approved by the FDA, and which continues to achieve double-digit sales growth in the United States. Our INOmax™ business is also gradually increasing in Europe. In fiscal 2003, we achieved total sales of €104 million with this product.

Linde Gas: Healthcare segment
in € million

	2003	2002
Sales		
Institutional	351	356
Homecare	120	112
INO	104	102
Total	**575**	**570**
Capital expenditure (excluding financial assets)	71	46
Number of employees	1,959	1,749

The Linde Gas division had varying degrees of success in each of its geographical regions. In Europe, we achieved a 2.0 percent increase in sales to €2.716 billion (2002: 2.662 billion), with the highest rates of growth being achieved in the countries of eastern Europe. We have been awarded substantial contracts for the supply of oxygen, nitrogen, hydrogen and carbon monoxide to international chemical and energy companies in Romania, the Czech Republic, Hungary and Russia, thus further improving our strong market position in these fast-growing regions.

In North America, sales fell by 9.2 percent to €817 million, solely as a result of currency movements. Ignoring the effects of exchange rates and natural gas prices, sales increased significantly in 2003 by 6.2 percent. The on-site business was the most impressive performer.

In January 2003, we reorganized our gas activities in the United States in order to continue to strengthen our market position in North America, bringing together under one roof the three gases companies, AGA Gas in Cleveland, Ohio, Holox in Atlanta, Georgia, and Linde Gas Inc. in La Porte, Texas, to form a new company called Linde Gas LLC, which has its head office in Cleveland. At the same time, the medical and therapeutic gases business was brought together under common management. This bundling of competences will enable us to be even more efficient in supplying our customers in industry and in the healthcare field with industrial and medical gases.

In South America, the fall in sales from €254 million in 2002 to €239 million in 2003 was also due solely to movements in exchange rates. In comparison, our gases business in this region rose by 18.2 percent in local currency.

The business performance of Linde Gas has continued to be dynamic in Asia and Australia. The 9.5 percent increase in sales to €69 million was due mainly to growth which was higher than expected in the on-site and liquefied gas segments. Long-term supply contracts with major companies, such as the Chinese chemical group Xiang Lu Petrochemicals, will ensure that we retain a good market position in future.

Linde Engineering: Significant improvements in sales and earnings

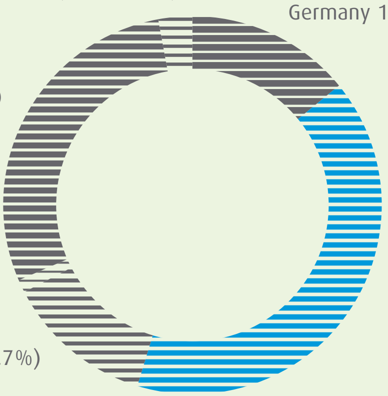
The Linde Engineering division continued to thrive in fiscal 2003, increasing sales substantially by 22.6 percent to €1.270 billion. A significant proportion of this figure was generated by the natural gas, olefin and air separation plant segments. We have made considerable progress with the construction of Europe's largest natural gas liquefaction plant near Hammerfest in Norway, and in the first half of 2004 we will be completing a smaller plant of this type in Kollsnes in Norway. The contract volume of the Hammerfest project alone is currently around €520 million, which merely serves to confirm the increasing importance of the natural gas liquefaction market.

In 2003, Linde Engineering's major contracts for air separation plants came from the growth markets of Asia, and in particular China. Total orders received of €1.474 billion almost reached the high level of the previous year (€1.493 billion). We achieved an increase in operating profit (EBITA) of 15.1 percent to €61 million.

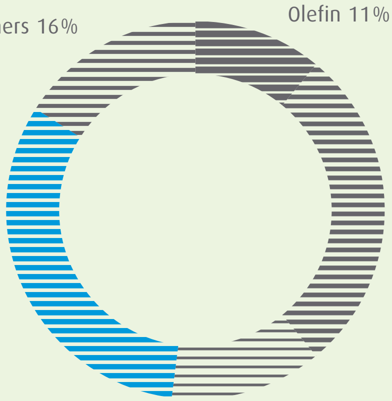
Linde Engineering in € million	2003	2002
Sales	1,270	1,036
Incoming orders	1,474	1,493
EBITA	61	53
Capital expenditure (excluding financial assets)	24	29
Number of employees	4,202	4,060

The successful business development of Linde Engineering is due to our balanced product range and clear focus on selected growth areas in international plant construction. Using our own processes and technologies, we specifically target the promising markets for hydrogen, oxygen, olefins and natural gas, and we are represented in all the major regions with our own engineering and manufacturing capacities. Our branch in China, for example, will enable us to participate in the dynamic growth which is being experienced in this market.

Linde Engineering: Sales by region



Linde Engineering: Incoming orders by plant type



Material Handling: Increased earning power

Business performance in the Material Handling business segment was once more affected by a difficult market environment, although there were different economic trends in the various geographical regions.

In fiscal 2003, the European market for industrial trucks again entered a sluggish phase, characterized by cautious investment behavior and mounting price wars. Our principal sales markets, France, Italy and Germany, grew at below-average rates, while at times demand even fell. The increased level of sales in the warehouse equipment segment could not make up for lower demand for counterbalanced trucks which have a higher profit margin.

The North and South American markets, however, experienced strong growth, although in this region the counterbalanced truck business performed better than the warehouse equipment segment.

The greatest increases in demand are currently to be seen in Asia. China is the fastest-growing market in the world with annual growth rates of around 30 percent. In 2003, we were able to exploit this potential to the full, increasing our market share in China to over 9 percent.

Against this industry-specific background, we achieved a slight increase in the sales figure in the Material Handling business segment for 2003 of €3.063 billion, compared with sales for 2002 of €2.979 billion. Orders received amounted to €3.116 billion, also in excess of the prior year figure (€3.053 billion). Operating profit (EBITA) before special items rose by 5.4 percent to €156 million (2002: €148 million).

This increase in earning power was due above all to our process optimization program TRIM.100, which succeeded in achieving cost savings of €30 million in fiscal 2003. Under the TRIM.100 program, we are gradually increasing the number of identical parts in new product developments across all the brands, improving our distribution structure, bundling together our purchasing activities, outsourcing certain pre-assembly work, such as welding or painting, to external service providers and, in future, we will no longer be manufacturing product parts ourselves which require no particular expertise, such as thick metal sheets. Instead, we will purchase these components at low cost from Poland, the Czech Republic or Hungary, or from Asian countries.

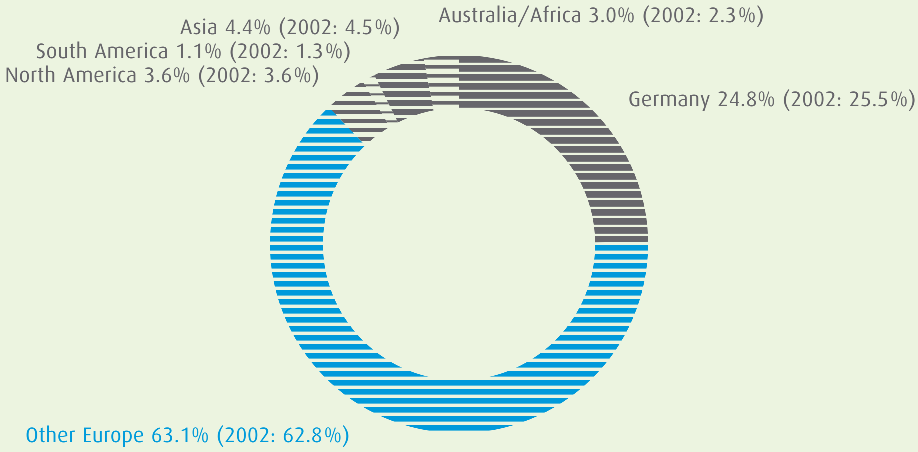
Material Handling in € million	2003	2002
Sales	3,063	2,979
Incoming orders	3,116	3,053
EBITA before special items	156	148
EBITA	96	148
Capital expenditure (excluding financial assets)	411	398
Number of employees	18,190	18,188

Under TRIM.100, we are also making extensive improvements to our logistics functions, from purchasing and production to the spare parts service, including vehicle distribution. A pilot project has been conducted in Elancourt, France, where we have amalgamated the spare parts stores for all three brands into one central warehouse for the whole French market, under the management of an independent logistics service provider, thus making significant reductions in production and delivery times and cutting processing costs. We intend to combine spare parts stores in other countries too, based on this model.

In this way, TRIM.100 will enable us to achieve cost cuts of around €100 million by the end of the year 2004, as announced. Of these, the improvements in the distribution organization alone will be a double-digit million amount. In the second phase of the program, we will be seeking to achieve additional cost savings of €50 million by the end of 2005. With this objective in mind, we will continue to modify our production capacities, phase out pre-assembly and combine general administrative functions. These measures, for which we have incurred costs of €40 million, will result in 250 job cuts worldwide.

In future, we intend to retain our multi-brand strategy and to operate in the market using various independent brands, tailored more precisely to the different requirements of customers and of the industry sector.

Material Handling: Sales by region



We continued to strengthen our leading market positions in fiscal 2003 by launching new products and significantly expanding our range of services. With the new Linde 393 series diesel and LP gas truck, for example, we were able to stabilize our market share for counterbalanced trucks in Germany, our most important sales market at around 60 percent, despite general falls in demand. The STILL brand has once again confirmed its technological leadership in the field of electric trucks and has launched an important innovation onto the European market with the RX 50.

With flexible contract hire, leasing and financing schemes, maintenance contracts and customized consultancy services, which may comprise total fleet management, we are well-positioned for service, rental and used forklift business, all of which are currently growing. Around 40 percent of our total sales now relates to this segment.

Material Handling: Analysis by brand

in € million	Linde 2003	Linde 2002	STILL 2003	STILL 2002	OM Pimespo 2003	OM Pimespo 2002
Sales[1]	1,911	1,806	1,029	1,050	231	230
Incoming orders[1]	1,946	1,850	1,042	1,047	238	265
Sales (in units)[1]	63,385	60,958	33,074	33,575	13,574	13,816
Number of employees	10,727	10,426	6,170	6,326	1,174	1,313

1) Consolidated within the brands.

Refrigeration: Improvement in earnings in a difficult environment

The Refrigeration business segment was also operating in an economic environment which continued to be difficult. This is illustrated by the fact that the food retail business was reluctant to invest and by intense pressure on prices.

There were many different business trends in Europe, the most important sales market. Whereas demand fell in Germany, the United Kingdom and Austria, it grew in Southern and Northern European countries and in France. The highest rates of increase were achieved in the emerging markets of Central and Eastern Europe.

In Asia, sales rose to €35 million (2002: €32 million).

In this global economic environment, the Refrigeration business segment achieved total sales of €866 million, just approaching the figure for the previous year of €879 million. Orders received at €891 million were also below the figure for 2002 (€902 million).

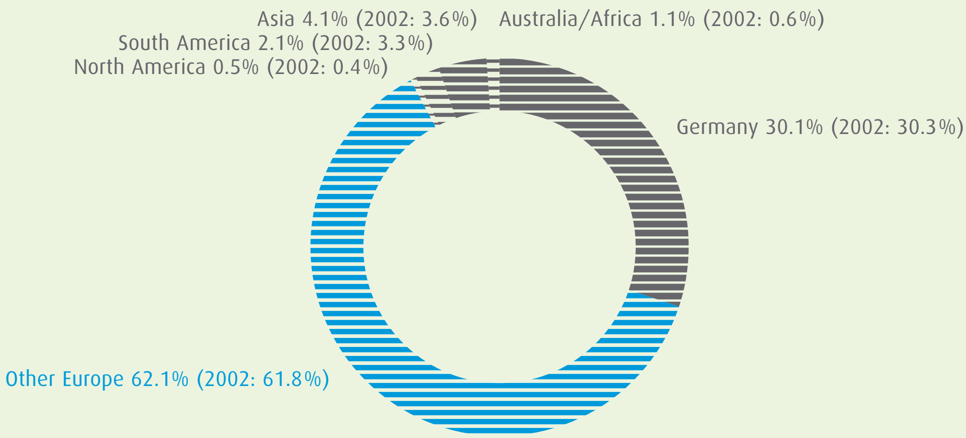
However, the Refrigeration business segment is reaping the benefits of the measures to cut costs and improve efficiency, a fact which is evident in the operating profit (EBITA). At €14 million in 2003, this was significantly above the prior year figure of €10 million.

Refrigeration in € million	2003	2002
Sales	866	879
Incoming orders	891	902
EBITA	14	10
Capital expenditure (excluding financial assets)	29	32
Number of employees	6,361	6,276

In fiscal 2003, the Refrigeration business segment has created the conditions which will make it possible for us to participate fully in the high levels of growth being seen in Eastern Europe and Asia. The business segment is currently building its second refrigerated display case factory in the Czech Republic on the Mýto site, which will start production in the second half of 2004. The new factory will ensure production is as inventory-efficient, transparent and cost-effective as possible, and will contribute towards further reductions in total production cost in the Refrigeration business segment. Like the production facility in Beroun, Mýto is situated directly on the east-west axis of the Czech Republic and is therefore well-placed to supply the surrounding regions.

With its new CKD production facility (see glossary) for refrigerated display cases in the Shanghai area, the Refrigeration business segment is pursuing key objectives in the growth market in China. The new factory is expected to achieve an annual production capacity of 3,500 units from 2005, which will cover around 10 percent of the Chinese market in the medium term.

Refrigeration: Sales by region



Net assets and financial position

The total assets of the Linde Group have been reduced by €291 million to €11.915 billion as a result of cutting back on capital expenditure and adopting measures to reduce net current assets, with currency movements also being a contributory factor.

Capital expenditure of €967 million was incurred, including that on financial assets. This expenditure is set against amortization and depreciation of €948 million and disposals of €136 million. Fixed assets decreased by €221 million due to currency fluctuations, and increased by €3 million due to changes in the companies included in the consolidation. Overall, fixed assets declined by €335 million to €7.702 billion.

As a result of the high level of incoming orders in the Linde Engineering division, inventories rose by €113 million to €1.107 billion, while trade receivables fell by €126 million to €1.570 billion. Securities and cash and cash equivalents increased by a total of €81 million to €561 million.

Equity decreased by €235 million to €3.851 billion, mainly as a result of currency fluctuations. Based on total assets, this represents an equity ratio of 32.3 percent (2002: 33.5 percent).

Provisions amounted to €2.227 billion in total, which is €81 million higher than in the previous year. Provisions for pensions and similar obligations fell from €1.078 billion to €983 million, because during the fiscal year we transferred fund assets of €138 million to a trustee for the external funding of pension obligations.

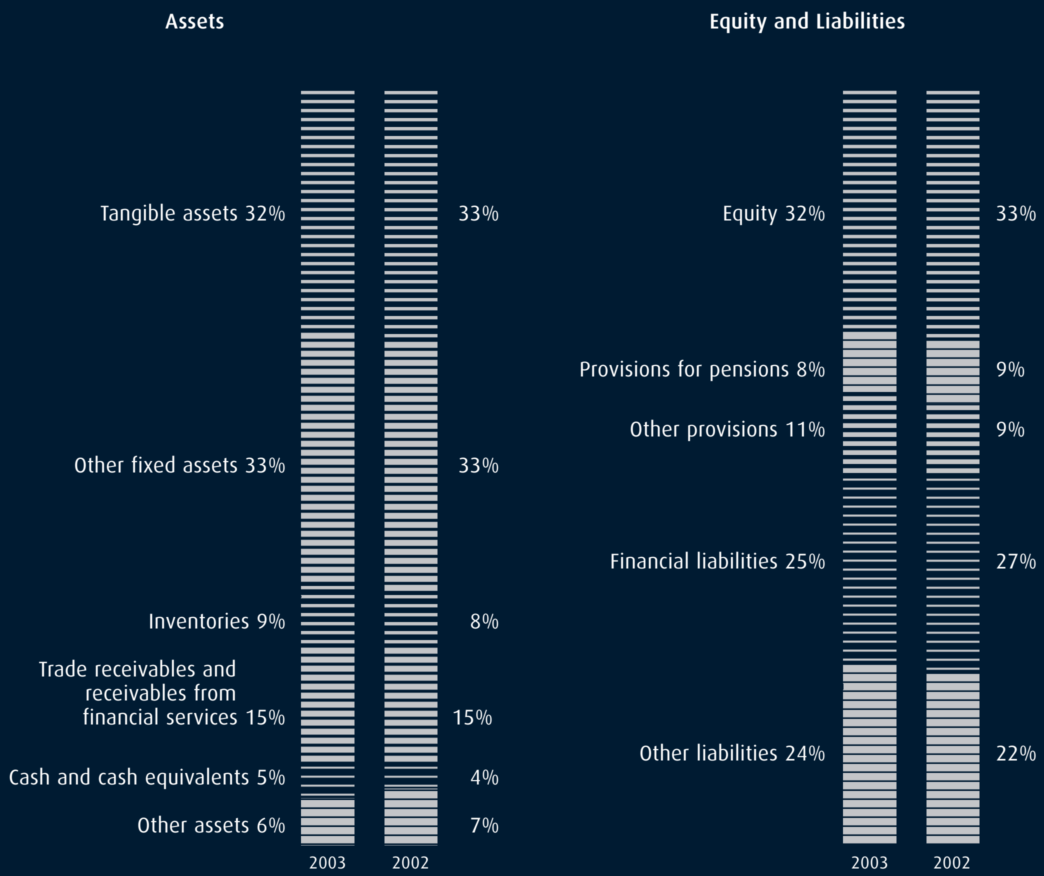
Other provisions rose by €176 million to €1.244 billion, mainly as a result of higher provisions for delivery transactions, provisions for personnel costs and provisions for current transaction and disposal costs.

In fiscal 2003, we continued to reduce the Group’s financial debt, which fell by €303 million to €2.991 billion.

Liabilities from financial services, which relate in particular to lease business in the Material Handling business segment, have risen from €499 million to €511 million.

Trade payables increased by €195 million to €1.164 billion.

Balance sheet items as a percentage of total assets of €11.915 billion (2002: €12.206 billion)



Cash flow statement

In 2003, we changed the definition of cash flow from operating activities. For the first time, we have included under this heading the cash flows from additions and disposals of leased assets. In previous years, these movements were included under cash flows from investing activities.

To ensure comparability of the 2003 figures with those of fiscal 2002, the prior year figures have been restated. The restatement of the 2002 figures has led to a decrease in the cash flow from operating activities of €129 million.

On the basis of the new definition, cash flow from operating activities rose in fiscal 2003 by €136 million to €1.281 billion (2002: €1.145 billion). Expressed as a percentage of sales, this gives a ratio of 14.2 percent. This improvement is due in particular to the continuing reduction in the level of capital tied up in net current assets.

The total net amount spent on investing activities (excluding leased assets) was €655 million. This represents an increase of €396 million over the previous year (€259 million). It should, however, be noted that in fiscal 2002 the figures included significant proceeds from the disposal of securities. Expenditure on intangible and tangible fixed assets was €601 million, while €110 million was spent on financial assets, in particular on the increase in our investment in Komatsu Forklift Co., Ltd. Set against these payments were proceeds on disposal of fixed assets of €65 million.

Taking into account dividend payments and changes to minority interests of €135 million, this left €491 million, of which €290 million was used to repay financial liabilities and €201 million to continue to build up cash and cash equivalents. Over a period of three years, we have reduced our net financial indebtedness by €1.367 billion. It should be noted that, in fiscal 2003, fund assets of €138 million were transferred to a trustee for the external funding of pension obligations.

Cash flow (summary) in € million	2003	2002
Cash flow from operating activities	1,281	1,145
Cash flow from investing activities	−655	−259
Dividend payments and changes to minority interests	−135	−148
Net cash inflow	−201	−198
Repayment of long-term loans and liabilities from financial services	−290	−540

Stable business model (data in € million)

Financing and measures to safeguard liquidity

The Linde Group is financed centrally by the Corporate Center and by our Dutch finance company, Linde Finance B.V. This makes it possible for Group companies to act as a single customer on the money and capital markets, strengthening our negotiating position with the banks and with other market participants.

To meet our capital requirements, we supplement the funds generated from cash flows by borrowing on the capital market or from banks. The individual business units are financed by cash surpluses relating to other Group companies from national cash pools and Group loans from Linde Finance B.V. Moreover, to a limited extent, they use credit lines from local banks in agreement with the Group treasury department. We control internal and external financing centrally by imposing mandatory specified limits.

For external funding, we concentrate on the capital market. We also use bank credit lines to cover short-term financial requirements, as cash reserves, as back-up for our Commercial Paper Program or in specific situations, such as development loans.

As a result of positive cash flows, a disciplined approach to investment and the issue of a subordinated bond, we have not needed to raise additional funds in fiscal 2003 from our Debt Issuance Program (DIP, see glossary). At the year-end, there were issues outstanding of around €2.3 billion in seven different currencies in the DIP. The table below shows a selection of outstanding public bonds:

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

Issuer	Nominal amount	Coupon rate	Maturity date	Reference No.
Linde Fin. B.V.	EUR 1,000 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.	EUR 50 million	5.250%	09–04–22	DE0008543976
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.

Credit ratings

One of the main requirements for lasting success in the capital market is a credit rating. Since 1999, the creditworthiness of the Linde Group has been rated by the leading international rating agencies, Standard & Poor’s and Moody’s, and given in each case an “investment grade”.

In February 2003, Standard & Poor's changed the accounting treatment of pension obligations in its valuation process. As a result of this new valuation method, Linde’s rating was reduced in May 2003 from A- to BBB+. Soon afterwards, the spread on the 6.375 percent bond with a maturity date in 2007 increased for a short period of time, only to fall rapidly back down to its previous level. A few months later, it was even lower. This course of events shows the confidence of investors in the creditworthiness and stability of our Group.

Current credit ratings:

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

Subordinated bond issued

In order to make our credit rating more stable in the long term, we issued in June 2003 a subordinated bond for €400 million. 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. This special structure means that, for part of the bond, the rating agencies allow Linde to make an adjustment to equity.

This issue has enabled us to strengthen our capital base, widen our investor base and extend the maturity profile of our loan capital. Our bond, the first transaction of a European industrial concern to be specially geared towards institutional investors, elicited a very positive response on the capital markets and in the trade press.

We are taking account of the growing requirements for Debt Investor Relations activities by boosting our communications with investors. We have open discussions with individual institutional investors and use banks as intermediaries and disseminators of information to investors. From 2003, it has also been possible for interested parties to obtain information about Linde’s borrowing activities from our homepage on the Web (*www.linde.com*, under the heading Investor Relations).

Reinforcing our liquidity provisioning

Measures to safeguard liquidity have always been extremely important to us, and the leading credit rating agencies regularly assess companies' solvency. By examining various scenarios, they seek to establish what the liquidity position (i.e. cash and cash equivalents plus confirmed lines of credit) would be if the company had no access to external sources of finance for a particular period of time. Based on analyses of this type, Moody's and Standard & Poor's both certified in the course of 2003 that Linde had a healthy liquidity position (a strong profile).

In order to ensure that we maintain this healthy position in future, we continued to reinforce our liquidity provisioning in the past fiscal year. In addition to cash surpluses invested in the money market and bilateral credit lines with banks, Linde has arranged a syndicated loan (see glossary) for €1.8 billion with a large number of national and international banks. The loan is split into a five-year tranche for €1.2 billion and a further tranche for €600 million with a maturity period of 364 days. The greatly over-subscribed line, which we have used to replace some other bilateral credit lines, is available to us for general use. The conditions of the loan agreement do not include a material adverse change clause (see glossary), which would give the banks the right to call for repayment of the loan if there was a material adverse change in future in the net assets and financial position of the Group.

The syndicated loan serves as a €1 billion protection against risks in our Euro Commercial Paper Program if there is a short-term deficiency in the commercial paper markets. In fiscal 2003, we used the program regularly and at the year-end there were no drawdowns outstanding.

The Commercial Paper Program of our subsidiary AGA AB (BT Program), which was restricted to the French money market, was closed down.

Increased capital expenditure

Given the objective of continuing to reduce financial liabilities, our capital expenditure policy follows clear principles. Our investment is concentrated solely in those areas where opportunities exist for rapid growth, where we can achieve sustainable increases in our earning power and where we can enhance the competitiveness of the entire Group.

Against this background, capital expenditure in fiscal 2003 came to €967 million (2002: €913 million). Relative to Group sales, this represents a rate of investment of 10.8 percent (2002: 10.5 percent). Of the total capital expenditure, €593 million was spent on tangible and intangible assets. Total spending on leased assets amounted to €263 million, of which a substantial amount (€249 million) related to the expansion of the lease business in the Material Handling business segment. €111 million was spent on financial assets.

As in the previous year, most capital expenditure (€421 million, excluding financial assets) was incurred in the Gas and Engineering business segment. The funds were used, in particular, to drive forward the continued expansion of our fast-growing on-site business.

The other main focus of our capital spending was in the Material Handling business segment. Here, we invested a total of €411 million, focusing not only on developing the lease business, but also on optimizing manufacturing structures at our most important sites. Further improvements were made to the production processes at the Aschaffenburg site, for example, tailored to the new models in the 39x forklift series.

In the Refrigeration business segment, total capital expenditure was €29 million, of which by far the greatest part was spent on modernizing our IT structures. With the introduction of SAP R/3 standard software at all sites, business processes will improve still further.

Capital expenditure by business segment (excluding financial assets)
in € million

	2003	2002
Gas and Engineering	421	430
Linde Gas	397	401
Linde Engineering	24	29
Material Handling	411	398
Refrigeration	29	32
Corporate	-5	7
Group	856	867

Capital expenditure by region (excluding financial assets)

	2003		2002	
	in € million	in %	in € million	in %
Germany	234	27.3	247	28.5
Other Europe	464	54.2	490	56.4
North America	54	6.3	63	7.3
South America	29	3.4	24	2.8
Asia	15	1.8	10	1.2
Australia/Africa	60	7.0	33	3.8
	856	**100.0**	**867**	**100.0**

Business performance of Linde AG

As in the previous year, the annual financial statements of the Linde AG have been prepared in accordance with the provisions of the German Commercial Code (HGB).

Sales rose in comparison with the previous year by 9.3 percent to €2.487 billion. All the business segments contributed to this increase.

Cost of sales rose at a lower rate than expected, which led to a welcome improvement in gross profit on sales.

The fall in Other operating income from €406 million in 2002 to €173 million in 2003 was due mainly to the fact that the prior year figure included income relating to the disposal of an indirect investment of one percent in Dresdner Bank AG.

The costs relating to the disposal of the Refrigeration business segment and from the relinquishing of peripheral activities totaling €50 million were offset against income from investments which was €162 million higher than in the prior year.

The net income for the year was €135 million after deducting taxes on income of €25 million. The increase in taxes on income was due to an increase in tax provisions.

The total assets of Linde AG increased by €307 million to €7.689 billion. The equity ratio fell slightly, from 48.0 percent to 46.1 percent.

At December 31, 2003, the company employed 12,071 people, which is 62 fewer than at the end of 2002.

Proposed appropriation of profit

The unappropriated profit of Linde AG for fiscal 2003 is €134,766,211. The Executive Board and the Supervisory Board will propose to the Shareholders' Meeting to be held on May 18, 2004 that this amount be distributed in the form of a dividend of €1.13 per share (2002: €1.13) to 119,262,134 shares with dividend entitlement.

Research and Development

During fiscal 2003, we spent a total of €172 million on research and development, thus slightly exceeding the previous year's figure (€171 million). The number of employees working in research and development remained virtually constant at 1,463 (2002: 1,471).

More than half the expenditure (€92 million) related to the Material Handling business segment. Our activities here were focused on making further improvements to the handling qualities of our forklift trucks and warehouse equipment and reducing the energy consumption and emissions of our products, thereby improving their overall cost-effectiveness. The launch of the Linde-brand 393 engine-powered forklift series and the STILL-brand RX 50 electric truck in fiscal 2003 are evidence of the success of our efforts.

In the Linde Gas division, we spent €46 million on research and development, of which some was used to make new processes for industrial applications ready for the market. Our activities also focused on researching new areas of application for medical and therapeutic gases and on the development of hydrogen technology.

Linde Engineering concentrated during the year on the optimization of essential technologies for air separation plants and natural gas plants, which are both growth segments. We were able, for example, to increase the efficiency of air separation plants and to develop the processes used to liquefy natural gas and to produce synthetic fuels. Total research and development expenditure in Linde Engineering was €16 million. This amount does not, however, include costs which are incurred directly in the project management and construction of each turnkey industrial plant.

The Refrigeration business segment is continually seeking to ensure that its refrigeration systems and refrigerated display cases are as reliable as possible and maintain constant temperatures, while at the same time improving the cost-effectiveness of its products. In the past year, it has succeeded in meeting the requirements of its customers by introducing innovative processes, such as a new temperature control system. Expenditure on research and development in the Refrigeration business segment was €18 million.

During fiscal 2003, Linde filed 201 new patent applications for inventions. Our technologies were protected by a total of 1,892 patents at December 31, 2003.

Further information about research and development is given in the section of the same name on pages 64–67 and in the reports on the individual business segments on pages 38–61.

Research and development	Expenditure (in € million)		Number of employees	
	2003	2002	2003	2002
Linde Gas	46	43	292	277
Linde Engineering	16	19	94	126
Material Handling	92	91	856	844
Refrigeration	18	18	221	224
Group	**172**	**171**	**1,463**	**1,471**

Employees

As at December 31, 2003, the Linde Group employed 46,662 people worldwide, 141 more than at the end of fiscal 2002. The situation within Germany differed from that outside Germany. Whereas the number of employees outside Germany increased by 488 to 28,855, mainly due to the increase in the number of companies included in the consolidation, the number of employees in Germany at the end of the year was 347 fewer than at the end of the previous year. The proportion of employees outside Germany was 62 percent (2002: 61 percent).

In the Linde Gas division, the number of employees fell by 80 in total as a result of our process improvement program in the areas of distribution, purchasing and administration. On the other hand, the Linde Engineering division employed 142 more people in 2003 than in 2002, due to the good order book position.

In the Material Handling business segment, the number of employees remained virtually constant at 18,190. The consolidation of foreign companies and the expansion of production in China made up for the decline in numbers in Germany, which was caused principally by our optimization program, TRIM.100.

In the Refrigeration business segment, the number of employees rose by 85 to 6,361. Increases in numbers at the new sites in the Czech Republic and China were partly canceled out by job cuts in Germany, which were necessitated by the continued application of restructuring measures to achieve sustainable increases in efficiency and earning power.

Employees: Analysis by business segment	2003	2002
Gas and Engineering	21,622	21,560
Linde Gas	17,420	17,500
Linde Engineering	4,202	4,060
Material Handling	18,190	18,188
Refrigeration	6,361	6,276

Employees: Analysis by region	2003	2002
Germany	17,807	18,154
Other Europe	19,921	19,637
North America	3,966	3,998
South America	2,326	2,342
Asia	2,139	1,885
Australia/Africa	503	505
	46,662	46,521

Increase in ratio of employees in training

The number of trainees in Germany rose by 15 to 789 at December 31, 2003. This represents a ratio of employees in training of 4.4 percent (2002: 4.3 percent). 558 of the total number were industrial trainees, while 231 were commercial and technical trainees.

Corporate suggestion scheme

Linde 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, for example, 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.

The suggestions are evaluated under the scheme by assessors and corporate appraisal committees, on which works council members are also entitled to vote.

During fiscal 2003, our employees in Germany submitted a total of 1,379 suggestions for improvement, 55 more than in 2002. The bonuses of around €422,000 paid were at about the same level as in the previous year.

Pensions

We offer our employees a comprehensive occupational pension scheme, the centerpiece of which is an occupational pension funded solely by Linde. This occupational pension 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.

Employees also have the opportunity to provide for their retirement by converting current or future portions of their salary into pension contributions. These pension-for-salary arrangements are based on gross salary prior to the deduction of tax and, if applicable, prior to the deduction of social security payments. As a result, they offer significant tax advantages. Employees use their contributions to acquire units in special funds, which are managed by a trustee. Under this scheme, the Linde retirement plan, we guarantee a minimum rate of return. Moreover, the members of this plan participate fully in the performance of the fund units acquired. At December 31, 2003, around 2,350 employees had taken advantage of this type of pension, an increase of more than 32 percent over the previous year. We anticipate that the number of participants in this plan will continue to increase in the next few years.

The range of retirement schemes offered by Linde is completed by direct insurance, which is financed either by part of the employee’s salary taxed at a flat rate or out of taxed income to take advantage of the Riester subsidy.

Linde spent a total of €146 million on pensions and staff welfare costs in fiscal 2003, €79 million of which related to costs incurred in Germany.

During the year, Linde started to divest a portion of its pension obligations for German employees in accordance with international standards, transferring business assets to a trustee, Linde Pensionsfonds e.V., under a contractual trust arrangement (CTA). A second trustee, Linde Custodian e.V., is in turn entrusted with the investment management of the Linde Pension Fund. The first tranche amounted to €138 million.

The CTA is based on the model of an Anglo-American pension fund, whilst allowing for the specific conditions imposed by German fiscal and employment law. Under this type of scheme, the employees' benefits arising from the pension commitments would be subject to tax when they are paid, as the entitlement to an occupational pension continues to be the direct responsibility of the employer, despite the transfer of assets to the legally independent Linde Pension Fund. Linde is reimbursed by the pension fund for pension payments made. Access to the assets by the employer or any other third party is precluded by law. If the company becomes insolvent, the employees have a direct entitlement from the pension fund, which then continues to pay out benefits.

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, 2003, BKK covered 25,650 members (2002: 25,009) and 12,847 dependants (2002: 12,619). A uniform 12.5 percent contribution rate has remained in force throughout Germany since the beginning of the year 2000.

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.

Risk management

Our corporate policy is constantly seeking to improve our productivity and earning power. For an international company such as Linde, this is inevitably associated with risks, which may have any number of different causes. The Executive Board and employees of Linde are responsible at all times for identifying risks at an early stage and managing them so as to limit their effects, while exploiting business opportunities to the full.

Our Gas and Engineering, Material Handling and Refrigeration business segments have different risk profiles. This requires differentiated risk management systems tailored precisely to the needs of the individual business segments. Risk management at Linde is inextricably linked to our business processes and is a major element in corporate decision making.

We have set up efficient management and control systems for the early recognition and evaluation of existing risks and the appropriate treatment of such risks, and have incorporated these into a unified risk management system which complies with legal regulations. This risk management system is an integral component of our overall planning, control and reporting process.

The principles on which our global risk management is based and the parameters used in the structured identification, evaluation and reporting of risks are laid down in corporate guidelines approved by the Executive Board.

The identification and evaluation of risks is a key factor in ensuring sustainable business success. To recognize potential risks as early as possible and ensure that we identify all risks, assess their potential effects and introduce appropriate precautionary and security measures, we are constantly improving our early warning systems. These measures involve allocating responsibility to the business unit managers to ensure the compliance of each business segment with these systems, which form part of the centralized risk management program.

In addition to filing immediate reports when there is a sudden change in the risk situation, these managers conduct quarterly reviews of existing risks and identify potential additional risks. They also assess the effectiveness of the risk management tools and keep the Executive Board informed about the current risk situation.

By using standardized reporting procedures throughout the Group, we ensure that we monitor and control economic risk arising from current and future business developments. The financial control department prepares monthly internal reports based on business data from the consolidated business units, providing the Executive Board with timely and comprehensive information about potential risks in the course of business. At the same time, we are improving risk transparency by using regular market and competition analyses.

Linde places considerable emphasis on its employees developing a keen understanding for the recognition and avoidance of risks. Management in all the business units is therefore required to ensure that all our employees develop a heightened awareness of risk.

This is also the objective of our Antitrust Compliance Program, which was set up during the fiscal year. Under this program, we publish a leaflet and give talks to pass on information to our employees about antitrust orders and prohibitions with which we need to comply and the risks associated with infringements of the rules for the company and its employees.

The effectiveness of operating procedures and processes within the risk management system, as well as the security of the systems used, are monitored regularly by Internal Audit. Moreover, our statutory auditors examine whether the risk early identification system incorporated in the risk management system is suitable for identifying at an early stage any developments which might affect the ability of the company to continue as a going concern. Thus we ensure that the Executive Board and the Supervisory Board are kept constantly informed about existing risks.

We have entered into appropriate insurance agreements for potential losses and liability risks, so as to limit or totally preclude the possible financial consequences of any risks occurring.

Risks which might adversely affect the business development, financial position and results of operations of the Linde Group are set out below. It is possible, moreover, that risks which have not yet been identified might arise, as a result of the continuing uncertainty in business trends and potential changes in political priorities, which could have an adverse effect on our company. For example, at present, it is difficult to gauge to what extent the current weakness of the dollar will continue or even worsen. In our budgets, we have made certain assumptions about exchange rate movements.

Business risk

Due to ever-increasing globalization and increased market transparency, the Linde Group is faced with greater competition in all its business segments, which in turn puts more pressure on prices. Furthermore, overcapacity is affecting the business environment as a result of sluggish markets, especially in the Material Handling and Refrigeration business segments. The continuing economic decline has had a negative impact on business development in fiscal 2003. We are countering the prevailing upward trend of costs and the pressures of competition by applying appropriate precautionary cost reduction and restructuring measures.

By conducting regular reviews of repurchase obligations and by preparing detailed valuation rules for new lease agreements for industrial trucks (forklift trucks and warehouse equipment), we are able to identify future risks at an early stage. Moreover, we made significant progress during the year 2003 in the Material Handling business segment with our optimization program TRIM.100, achieving substantial cost reductions of €30 million. By the end of 2005, the program, which involves restructuring the sales organization and bundling competences in the areas of purchasing, production and logistics, is expected to generate cost reductions of €150 million.

To improve the international competitiveness of the Material Handling business segment, the component factories are being reorganized as part of the TRIM.100 program. In future, the development and manufacturing of major components will be concentrated in newly-established Centers of Components (COC). By bringing together all our operational functions, from development to manufacturing, under one responsibility, we will be streamlining our processes, concentrating our expertise, increasing standardization and achieving economies of scale. At the same time, we will be able to increase our innovation capability and efficiency in the development and production of Group components.

In the Linde Gas division, the cylinder gas business continues to perform poorly. We will be able to counter this trend by rapidly expanding our bulk business and the on-site segment. In Healthcare, our pharmaceutical product business is subject to particularly stringent safety standards. We take these product risks into account by adopting appropriate measures to improve product safety and quality assurance.

Once again in 2003, a number of actions for compensation were brought against the international gas industry, 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 also been brought against companies in the Linde Group. Based on our current judgment, the risks of these actions affecting the Linde Group is low but cannot be completely discounted. Our defense against these actions for compensation is being coordinated by our central legal department.

In the Linde Gas division, our program to optimize processes and increase efficiency is on target. By the end of 2004, it will lead to cost reductions of €150 million, which will have their full effect on net income in 2005. The measures are designed particularly to improve production and distribution and to rationalize administration and sales still further.

The principal risk in the Linde Engineering division is in the pricing and cost-effective completion of major international projects in the context of global competition. This risk is controlled using a streamlined risk and cost management system. We are also continually improving our internal management tools.

In fiscal 2003, a US subsidiary of the Linde Group reported a risk of debt default on a project, due to a customer's insolvency. We used this report as an opportunity to review and optimize our project completion and control systems still further.

In the Refrigeration business segment, pressure on prices continued to intensify as a result of the concentration in the retail food trade among the major customers. Against this background, the rationalization and restructuring measures which were first introduced in the company in 2001 continued to be implemented.

Operating risk

As part of risk prevention, detailed mandatory guidelines on project and quality management have been prepared for all our business segments. These measures will ensure that we significantly reduce any technical problems at the production sites and any potential inefficiencies in the logistic processes. The Six Sigma process, which we launched in fiscal 2003 in the Material Handling business segment and which we plan to extend gradually across the Group in the next few years, will also serve this purpose.

Preventive maintenance and regular training of employees ensure that breakdowns of plant and machinery are minimized.

In 2003, a gas production plant in Brazil failed. The actual loss to the company was due mainly to higher product and supply costs and increased logistics expenditure. For a period of several weeks, we had to build up the supply of gases by using remote suppliers. We are focusing our efforts on reviewing the safety of all our gasworks and making further improvements to the preventive measures which are in place.

Information technology is becoming increasingly important in the company. We look particularly carefully for potential risks in this area and give the highest priority to data security.

We have adopted appropriate measures, such as test runs of sub-systems and simulation procedures, to minimize the risks relating to the introduction in some business segments of SAP R/3 as regards the meeting of deadlines and the completeness of the changeover in all process operations.

We have also set out comprehensive mandatory basic guidelines and procedural guidelines on product and work safety and on environmental protection.

Moreover, within the context of active working capital management, the Linde Group has defined specific targets for inventory reduction. Regular reporting and continuous benchmarking allow us to review the extent to which these targets have been adopted in the individual business units. The measures introduced have already led to significant reductions in inventory levels.

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 the financing of the Group and from changes in the value of balance sheet items.

We systematically control financial risks by establishing risk policy guidelines which are mandatory. The current risk strategies for interest, currency and liquidity management are determined by the Treasury Committee (see glossary), which meets at least once a month.

To safeguard our liquidity, we have arranged a syndicated confirmed credit line for €1.8 billion with several national and international banks. Moreover, we have funds available to us of €5 billion under a Debt Issuance Program and of €1 billion under a Commercial Paper Program (see also the section on Financing and measures to safeguard liquidity on page 101).

Business and financing activities which are not conducted in the national currency generate cash flows in foreign currencies. Group accounting guidelines state that the individual business units are obliged to monitor the associated risks themselves. The business units enter into their own hedging transactions with Group Treasury, provided no specific restrictions apply to that country and no other reasons exist for such transactions not to be concluded. Individual risks are combined by currency. The resulting net foreign currency position (see glossary) of the Group for each currency is then hedged in accordance with the risk strategies of the Treasury Committee. As hedging instruments, we use forward exchange transactions, currency swaps and simple currency options. We specifically do not hedge against the risks of foreign currency translation.

We counter foreign currency risks arising from project business in the Linde Engineering division by using natural hedges. We reduce the net foreign currency exposure from a contract by paying for supplies and services in the relevant contract currency. Any foreign currency amounts which exceed these payments are hedged against as they arise.

In addition to cash flows from operating activities, the principal source of finance for the Group is the capital market. Linde manages the interest risk arising from the varying periods of maturity applicable to the borrowings, by using simple interest derivatives such as interest rate and currency swaps as well as interest rate options.

The type of financial instruments that may be used, the limits for individual transactions and the counterparty banks are all set out in our risk policy guidelines. The entire process of entering into, controlling and settling commercial transactions is based on the strict principle of functional separation between the front, middle and back offices. We use a professional treasury management system to implement and value our transactions. The operations in the Treasury department are subject to regular reviews by our internal and external auditors. In fiscal 2003, KPMG conducted an in-depth examination of the Group treasury department.

Personnel risk

Our future economic success is dependent to a great extent on the commitment, motivation and skills of our employees. Therefore, our objective is to attract qualified employees and senior managers to our company, help them to integrate successfully and win their long-term commitment. To achieve this objective, we offer our employees extensive qualification programs and opportunities for professional development, as well as attractive remuneration packages and social benefits.

As an important tool of our value-based management, we have introduced a new system of profit-related and performance-related remuneration (ELV) for senior management in Germany. The aim is to increase employee motivation and loyalty to the company and to encourage a common focus on critical operational and strategic corporate and divisional goals.

Overall risk

No significant risks threatened the Linde Group in the fiscal year 2003. Seen from today's position, no risks have been identified for the future which could endanger the continued existence of the Group as a going concern.

Significant events after the balance sheet date

On January 1, 2004, we hived off the Refrigeration business segment as planned into a new company, Linde Kältetechnik GmbH & Co. KG. This move has given us more scope to determine the future strategic orientation of the business, and has created the conditions necessary for the sale of the business segment.

On March 15, 2004, we signed an agreement for the sale of the Refrigeration business segment to the US company United Technologies Corp. (UTC, Hartford, Connecticut).

Outlook

Macroeconomic trends: Economic recovery spreads

In the first few months of 2004, there are signs that the global economic upturn which began in the United States and Asia in the second half of 2003 is set to continue and even accelerate. Although uncertainty continues to affect the political situation in the Middle East, and the severe shortfall in the balance of payments in the US could lead to turmoil on the currency markets, the economic recovery appears to be spreading, and it is now clearer than before that it is reaching as far as Western Europe. Export business, in particular, should benefit from a rise in global demand, which will offset the inhibiting effect of any potential rise in the value of the euro.

Germany: Moderate upturn anticipated

In Germany, the economy will take time to pick up momentum. The domestic economy continues to be weak and the main impetus for growth is coming from outside Germany. However, it is expected that investment levels which are currently low will gradually rally, against a background of improving prospects for sales and profits. The leading economic research institutes are forecasting an increase in macro-economic activity of around 1.5 percent for the year 2004. However, it should be noted that 0.5 percent of this increase is attributable solely to the fact that 2004 has a significantly higher number of working days than 2003.

We do not anticipate dynamic economic growth in Germany in the medium term. Despite the first signs that the backlog of reforms is being tackled, there is no current evidence of any radical economic policy decisions which would provide long-term solutions to the existing structural problems in the German economy, such as those in the employment market, the social security system or the national budget.

Group: Aiming to improve sales and earnings

It is difficult to make accurate predictions about the sales and earnings performance of the Linde Group given the global economic environment described above and the continuing uncertainty about the sustainability of the economic upturn, especially in Europe, not to mention the risks arising from constant currency fluctuations. However, we are confident that we will be able to improve sales and earnings in comparison with the previous year, especially given the impact of the restructuring measures we have introduced which will start to be felt. This statement applies to a portfolio which remains unchanged from fiscal 2003.

Linde Gas: Currency translation risk makes forecasting difficult

It is currently not possible to make reliable predictions about the future sales and earnings performance of the Linde Gas division due to the continuing loss in value of the US dollar and the associated currency translation risk.

Irrespective of currency effects, however, the progressive expansion of the on-site segment and Healthcare, in particular, is expected to generate growth.

We are continuing to implement our current restructuring program as planned.

Linde Engineering: Continuing strong growth anticipated

In the Linde Engineering division, we are continuing to focus on growth markets for hydrogen, oxygen and olefin production plants and natural gas treatment plants. On the basis of the good current order book position, and given the positive performance of the division in fiscal 2003, we are looking forward once again to increases in both sales and earnings in 2004.

Material Handling: Increases in sales and earnings anticipated

The business performance of the Material Handling business segment is affected principally by the European market for industrial trucks. Until now, there have been no clear signs of a recovery, although the overall global market is performing well, boosted by above-average growth rates in America and Asia.

The high value of the euro means that among our international competitors American and Japanese suppliers are in a better position, which increases the risk of significant pressure on prices.

Nevertheless, we are expecting to achieve improved sales and earnings in fiscal 2004 as compared to the previous year. We have laid the foundations for this with our optimization program TRIM.100, which will reduce costs, streamline processes and further increase our competitiveness.

Refrigeration: Difficult market environment continues to have an adverse effect

The Refrigeration business segment is once again faced with the prospect of a difficult fiscal year. The market environment continues to be characterized by the cautious approach to investment of international food retailers and by a significant downward pressure on prices.

Against this background, no improvement in sales and earnings is apparent at present, especially as the introduction of SAP R/3 in the first half of 2004 and the start-up of production at the new factory in the Czech Republic will incur costs.

With the sale to the US company United Technologies Corp., Refrigeration will have the opportunity to achieve above-average growth in the medium term even in a difficult economic environment.

Capital expenditure: Proposed increase

Capital expenditure in the Group (excluding financial assets) will rise in fiscal 2004 to around €950 million (2003: €856 million). This increase is mainly a result of the good order book position for on-site projects in the Linde Gas division. Around €200 million of this amount will be spent on further expanding our lease business in the Material Handling business segment.

Dividend: Maintaining a high payout ratio

We intend to continue pursuing an earnings-oriented dividend policy and plan therefore to maintain a high payout ratio of around 40 percent, excluding the amortization of goodwill, in the coming year.

Research and development: Activities further intensified

Sustainable business success is based on innovation. We therefore intend to intensify our research and development activities still further and to increase our expenditure in this area to around €190 million in the current fiscal year (2003: €172 million). In line with the rise in R&D costs, the number of employees working in this area will exceed 1,500 in 2004 (2003: 1,463).

Most of the expenditure, around €95 million, is earmarked for the Material Handling business segment. Above all, we intend to improve existing products to suit the needs of the market and to develop new forklift trucks and warehouse equipment.

Around €75 million of the total research and development costs will relate to the Gas and Engineering business segment. Our activities will concentrate on consolidating our position in growth segments such as hydrogen or in the market for air separation plants and natural gas plants, by developing new processes and technologies. An additional focus will be on the continuing expansion of the promising Healthcare segment as a result of the development of new areas of application for medical and therapeutic gases.

In the Refrigeration business segment, it is also planned to spend around €20 million on research and development. These funds will be used, for example, to increase the reliability and energy efficiency of its refrigeration systems and refrigerated display cases, whilst ensuring that the products are as cost-effective as possible. It is also planned to drive forward the use of the natural refrigerant CO_2 to ensure that the products are as environmentally friendly as possible.

Never-ending material flows?
Logic says no, logistics says it may be possible.

The flow of goods is like a river which virtually no-one sees. However, for many of our customers, it is the most important river in the world. And increasing globalization is accelerating the exchange of goods, presenting logistics with new tasks which may at first appear impossible. Just the sort of tasks for which Linde designs and builds its innovative and efficient forklift trucks and warehouse equipment. Because we see the impossible tasks of today as forming the basis of the solutions of tomorrow. This flexible way of thinking helps us not only to develop new techniques, but also new business models. In the Material Handling business segment, we are currently achieving forty percent of our sales in the relevant markets with services we provide. Leasing and financing new and second-hand forklift fleets, for example. In short, we are always on the move.

Group Financial Statements

Linde AG has prepared its Group financial statements at December 31, 2003 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	2003	2002
Sales	[7]	8,992	8,726
Cost of sales	[8]	6,215	5,956*
Gross profit on sales		**2,777**	**2,770**
Marketing and selling expenses		1,297	1,317*
Research and development costs	[9]	172	171
Administration expenses		722	699
Other operating income	[10]	239	276
Other operating expenses	[10]	154	211
Amortization of goodwill		138	124
Special items	[11]		
Profit on disposal of an investment		–	165
Additional restructuring schemes		70	137
Transaction and disposal costs		50	–
Reorganization of Linde Material Handling Australia		20	–
Profits/losses on securities (contractual trust arrangement – Linde pension fund)		13	–29
Operating profit (EBIT)		**406**	**523**
Net interest		–130	–170
Income from associates		6	–
Other investment income		5	3
Financial result	[12]	**–119**	**–167**
Earnings before taxes on income		**287**	**356**
Taxes on income	[13]	178	115
Earnings after taxes on income		**109**	**241**
Minority interests	[14]	–1	–1
Net income		**108**	**240**
Earnings per share in €	[15]	**0.91**	**2.01**
Earnings per share in € – fully diluted –	[15]	**0.91**	**2.01**

*Prior year figures restated.

Group balance sheet
in € million

	Note	Dec. 31, 2003	Dec. 31, 2002
Assets			
Goodwill	[17]	2,892	3,021
Other intangible assets	[17]	252	225
Tangible assets	[18]	3,774	4,066
Investments in associates	[19]	144	62
Other financial assets	[19]	89	97
Leased assets	[20]	551	566
Fixed assets		**7,702**	**8,037**
Inventories	[21]	1,107	994
Receivables from financial services	[22]	190	178
Trade receivables	[22]	1,570	1,696
Other receivables and other assets	[22]	623	651
Securities	[23]	4	116
Cash and cash equivalents	[24]	557	364
Current assets		**4,051**	**3,999**
Deferred taxes	[13]	**132**	**144**
Prepaid expenses and deferred charges	[25]	**30**	**26**
Total assets		**11,915**	**12,206**
Equity and liabilities			
Capital subscribed		305	305
Capital reserve		2,595	2,595
Retained earnings		1,134	1,160
Cumulative changes in equity not recognized through the income statement		–183	26
Equity	[26]	**3,851**	**4,086**
Minority interests	[27]	**35**	**33**
Provisions for pensions and similar obligations	[28]	983	1,078
Other provisions	[29]	1,244	1,068
Provisions		**2,227**	**2,146**
Financial liabilities	[30]	2,991	3,294
Liabilities from financial services	[31]	511	499
Trade payables	[32]	1,164	969
Other liabilities	[32]	652	617
Liabilities		**5,318**	**5,379**
Deferred taxes	[13]	**266**	**279**
Deferred income	[33]	**218**	**283**
Total equity and liabilities		**11,915**	**12,206**

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

	Capital subscribed	Capital reserve	Retained earnings	Cumulative changes in equity not recognized through the income statement			Total
				Currency translation differences	Revaluation of securities at fair value	Derivative financial instruments	
As at Jan. 1, 2002	305	2,595	1,047	256	113	−3	4,313
Dividend payments			−135				−135
Change in currency translation differences				−233			−233
Financial instruments					−112	5	−107
Net income			240				240
Other changes			8				8
As at Dec. 31, 2002/Jan. 1, 2003	305	2,595	1,160	23	1	2	4,086
Dividend payments			−135				−135
Change in currency translation differences				−206			−206
Financial instruments					−1	−2	−3
Net income			108				108
Other changes			1				1
As at Dec. 31, 2003	305	2,595	1,134	−183	–	–	3,851

Group cash flow statement

in € million

	2003	2002
Net income	108	240
Minority interests	1	1
Earnings after taxes on income	109	241
Adjustments to net income to calculate cash flow from operating activities:		
Amortization of intangible assets/depreciation of tangible assets	726	753
Depreciation of leased assets	185	160
Amortization of financial assets	2	6
Profit/loss on disposal of fixed assets	−26	−8
Change in leased assets	−170	−129
Profit/loss on equity method valuation	−6	–
Special items:		
Profit on disposal of an investment	–	−165
Additional restructuring schemes	70	137
Transaction and disposal costs	50	–
Reorganization of Linde Material Handling Australia	20	–
Profits/losses on securities (contractual trust arrangement – Linde pension fund)	−13	29
Changes in assets and liabilities, adjusted for the effects of changes in Group structure:		
Change in inventories	−144	27
Change in trade receivables	46	141
Change in other assets	16	−139
Change in provisions	135	−80
Change in trade payables	232	196
Change in other liabilities	49	−24
Cash flow from operating activities	**1,281**	**1,145**
Additions of subsidiaries	−8	−20
Payments for tangible and intangible assets	−601	−572
Payments for financial assets	−110	−46
Disposal of subsidiaries	12	–
Proceeds on disposal of tangible and intangible assets	56	75
Proceeds on disposal of financial assets	9	45
Payments for securities held as current assets	−13	−161
Proceeds on disposal of securities held as current assets	–	420
Cash flow from investing activities	**−655**	**−259**

Group cash flow statement
in € million

	2003	2002
Dividend payments to shareholders and minority interests	−135	−136
Other changes in minority interests	–	−12
Cash outflows for the repayment of long-term loans	−299	−508
Change in liabilities from financial services	9	−32
Cash flow from financing activities	**−425**	**−688**
Net cash inflow/outflow	**201**	**198**
Opening balance of cash and cash equivalents	**364**	**178**
Effects of changes in Group structure	1	2
Effects of currency translation	−9	−14
Closing balance of cash and cash equivalents	**557**	**364**
Additional information		
Income taxes paid	142	189
Interest paid	168	194
Distributions/dividends received	3	4

Segment information by activity
in € million

	Gas and Engineering			
	Linde Gas		Linde Engineering	
	2003	2002	2003	2002
Fixed assets	6,071	6,369	158	177
of which investments in associates accounted for under the equity method	32	41	–	–
Inventories	159	177	300	159
Trade receivables	674	642	112	162
Other segment assets (excluding tax claims)	106	173	49	45
Securities, cash and cash equivalents	–	–	743	596
Segment assets	**7,010**	**7,361**	**1,362**	**1,139**
Provisions (excluding pension and tax provisions)	406	345	127	121
Trade payables	229	235	667	423
Other segment liabilities	84	130	106	87
Segment liabilities	**719**	**710**	**900**	**631**
Income tax liabilities offset against income tax claims	**–**	**–**	**–**	**–**
Capital employed including pension provisions	**5,946**	**6,256**	**472**	**502**
of which pension provisions	286	318	202	214
Sales to third parties	3,829	3,867	1,188	958
Sales to other segments	14	13	82	78
Segment sales	**3,843**	**3,880**	**1,270**	**1,036**
EBITDA before special items	1,014	1,034	81	76
Amortization of intangible assets (excluding goodwill amortization), depreciation of tangible assets and leased assets[2]	−416	−428	−20	−23
EBITA before special items	598	606	61	53
Special items (net)	−10	–	–	–
EBITA	588	606	61	53
Financial result	−118	−148	−3	−4
of which profit/loss from associates	3	–	–	–
EBTA	470	458	58	49
Amortization of goodwill	−101	−102	−4	−4
Earnings before taxes on income	**369**	**356**	**54**	**45**
Return on capital employed (ROCE) before special items in %[1]	10.1	9.6	14.8	13.3
EBITA-Return on sales before special items in %	15.6	15.6	4.8	5.1
Cash flow from operating activities[3]	737	756	234	184
Capital expenditure (excluding financial assets and leased assets)	397	401	24	29
Number of employees at December 31	17,420	17,500	4,202	4,060

1) In the business segments and divisions, calculated as EBITA after adding back interest costs for pension provisions at 5.25 % (2002: 5.75 %) in relation to average capital employed; for the Group, earnings before taxes on income after adding back both interest costs for pension provisions and interest expenses in relation to average capital employed.
2) Before special items.
3) In the Group and in the Material Handling business segment, the change in leased assets is included in cash flow from operating activities.
4) Includes special restructuring scheme costs for Gas and Engineering €54 million, Material Handling €62 million and Refrigeration €21 million.

Material Handling 2003	Material Handling 2002	Refrigeration 2003	Refrigeration 2002	Corporate 2003	Corporate 2002	Group 2003	Group 2002
1,302	1,285	156	168	15	38	7,702	8,037
105	12	–	2	7	7	144	62
513	531	118	107	17	20	1,107	994
610	653	242	253	−68	−14	1,570	1,696
112	126	15	36	382	475	664	855
–	–	–	–	−182	−116	561	480
2,537	**2,595**	**531**	**564**	**164**	**403**	**11,604**	**12,062**
244	203	79	79	296	219	1,152	967
266	273	72	69	−70	−31	1,164	969
269	291	30	29	207	238	696	775
779	**767**	**181**	**177**	**433**	**426**	**3,012**	**2,711**
–	**–**	**–**	**–**	**221**	**361**	**221**	**361**
1,728	**1,810**	**348**	**370**	**−123**	**52**	**8,371**	**8,990**
303	312	158	152	34	82	983	1,078
3,059	2,976	865	878	51	47	8,992	8,726
4	3	1	1	−101	−95	–	–
3,063	**2,979**	**866**	**879**	**−50**	**−48**	**8,992**	**8,726**
464	433	38	32	−153	−138	1,444	1,437
−308	−285	−24	−22	−5	−31	−773	−789
156	148	14	10	−158	−169	671	648
−60	–	–	–	−57	−1 [4]	−127	−1
96	148	14	10	−215	−170 [4]	544	647
−28	−39	−1	−7	31	31	−119	−167
1	−2	–	–	2	2	6	–
68	109	13	3	−184	−139	425	480
−23	−14	−10	−4	–	–	−138	−124
45	**95**	**3**	**−1**	**−184**	**−139**	**287**	**356**
9.7	8.7	6.1	5.1	–	–	7.7	7.0
5.1	5.0	1.6	1.1	–	–	7.5	7.4
321	335	36	36	−47	−166	1,281	1,145
162	153	29	32	−19	−7	593	608
18,190	18,188	6,361	6,276	489	497	46,662	46,521

Segment information by region
in € million

	2003	2002
Sales		
Germany	2,061	1,994
Other Europe	4,808	4,449
North America	1,087	1,152
South America	302	327
Asia	556	641
Australia/Africa	178	163
	8,992	**8,726**
Capital expenditure		
Germany	307	284
Other Europe	502	499
North America	54	63
South America	29	24
Asia	15	11
Australia/Africa	60	32
	967	**913**
Long-term segment assets		
Germany	1,426	1,302
Other Europe	5,264	5,518
North America	596	748
South America	180	199
Asia	116	167
Australia/Africa	120	103
	7,702	**8,037**

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, 2003	Currency adjustments	Changes in Group structure	Additions	Transfers	Disposals	Dec. 31, 2003
Goodwill	3,584	–27	–	21	2	2	3,578
Capitalized development costs	227	–2	–	45	–	9	261
Miscellaneous intangible assets	259	–5	–	57	–1	29	281
Other intangible assets	486	–7	–	102	–1	38	542
Land, freehold and leasehold, and buildings, including buildings on non-owned land	1,923	–69	5	31	14	34	1,870
Technical equipment and machinery	4,863	–212	3	129	75	46	4,812
Fixtures, furniture and equipment	2,650	–126	1	175	–2	83	2,615
Payments in advance and plant under construction	122	–6	7	135	–100	3	155
Tangible assets	9,558	–413	16	470	–13	166	9,452
Investments in associates	70	–4	–4	67	32	9	152
Investments in affiliated companies	29	–	–12	36	–4	–	49
Loans to associated companies	–	–	–	5	–	–	5
Investments in related companies	52	1	–	2	–28	2	25
Investment securities	5	–	–	–	–	–	5
Other loans	15	–2	–1	1	–	3	10
Other financial assets	101	–1	–13	44	–32	5	94
Leased assets	1,061	–21	2	263	12	246	1,071
Fixed assets	14,860	–473	1	967	–	466	14,889

*Includes special depreciation of €35 million.

Accumulated amortization/depreciation							Net book value	
Jan. 1, 2003	Currency adjustments	Changes in Group structure	Amortization/ depreciation for the year	Transfers	Disposals	Dec. 31, 2003	Dec. 31, 2003	Dec. 31, 2002
563	−15	–	138	2	2	686	2,892	3,021
121	−1	–	38	–	9	149	112	106
140	−2	–	33	−1	29	141	140	119
261	−3	–	71	−1	38	290	252	225
837	−23	−1	60	1	23	851	1,019	1,086
2,908	−111	–	304	–	41	3,060	1,752	1,955
1,747	−87	−1	188	−8	72	1,767	848	903
–	–	–	–	–	–	–	155	122
5,492	−221	−2	552*	−7	136	5,678	3,774	4,066
8	−1	–	1	–	–	8	144	62
2	−1	–	1	–	–	2	47	27
–	–	–	–	–	–	–	5	–
1	1	–	–	–	–	2	23	51
1	–	–	–	–	–	1	4	4
–	–	–	–	–	–	–	10	15
4	–	–	1	–	–	5	89	97
495	−12	–	185	6	154	520	551	566
6,823	−252	−2	948	–	330	7,187	7,702	8,037

Notes to the Group financial statements: General principles

[1] Basis of preparation

The consolidated financial statements of Linde AG at December 31, 2003 have been drawn up in accordance with International Financial Reporting Standards (IFRS).

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 shown 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 the book value of the investment in the subsidiary is offset against the proportion of the fair value of the net assets of the subsidiary at the date of acquisition that is held by the parent company. Differences arising which relate to hidden reserves or hidden charges are allocated to the appropriate asset heading. 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 22.99 et seq.

Consolidation based on the equity method follows the same principles.

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. Intra-Group profits and losses of associated companies are not significant and have therefore not been eliminated.

[3] 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 majority of the voting rights.

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 2003 contributed 0.3 percent of Group sales (2002: 0.5 percent) and comprised around 0.1 percent of Group equity (2002: 0.2 percent).

The equity method is applied to joint ventures and companies in which Linde AG holds, either directly or indirectly, 20 percent to 50 percent of the voting rights and where it is able to exert significant influence on financial and business policy.

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, 2002	Additions	Disposals	As at Dec. 31, 2003
Consolidated subsidiaries	**298**	**19**	**29**	**288**
of which within Germany	32	–	5	27
of which outside Germany	266	19	24	261
Subsidiaries reported at acquisition cost	**57**	**15**	**18**	**54**
of which within Germany	15	2	1	16
of which outside Germany	42	13	17	38
Companies accounted for using the equity method	**26**	**4**	**6**	**24**
of which within Germany	5	–	1	4
of which outside Germany	21	4	5	20

The following major acquisitions were made during the year:

Acquisitions by business segment	Group holding in %	Acquisition cost in k€	Date first consolidated
Gas and Engineering			
Hadjikyriakos Gas (Cyprus) Ltd	100	3,900	01/2003
Material Handling			
Linde Material Handling Ceská republika s r.o.	100	4,601	07/2003

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

A significant disposal was the 100 percent holding in Scientific Design Company, Inc., which was sold during the fiscal year and has been excluded from the consolidation since January 1, 2003.

The change in Group structure has not had a significant effect on the net assets, financial position and results of operations of the Linde Group.

The effect of the change on fixed assets was €14 million, on current assets €9 million and on liabilities €11 million.

As a result of their inclusion in the Linde consolidated financial statements, the following fully-consolidated subsidiaries are exempt under the provisions of § 264 b HGB (German Commercial Code) from the duty to disclose annual financial statements: AGA Linde Healthcare GmbH & Co. KG, Unterschleißheim, Linde Gas Produktionsgesellschaft mbH & Co. KG, Höllriegelskreuth, TV Kohlensäure Technik und Vertrieb GmbH + Co., Höllriegelskreuth, Unterbichler GmbH & Co.KG, Munich, Tega-Technische Gase und Gasetechnik GmbH & Co. KG, Hamburg, Hans-Joachim Schrader Industriefahrzeuge GmbH & Co., Essen, STILL WAGNER GmbH & Co. KG, Reutlingen, and Eisengießerei Dinklage GmbH & Co. KG, Dinklage.

A list of the complete shareholdings of the Linde Group is held in the Commercial Register of the Local Courts (Amtsgerichte) of Wiesbaden, Munich, Essen, Reutlingen, Vechta and Hamburg. Significant Group companies are listed in Note [46].

[4] 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*. All Linde Group companies are independent from a financial and economic point of view, so that the functional currency of each company corresponds to the national currency in which its financial statements are reported.

Assets and liabilities, contingent liabilities and other financial commitments are translated at the mid-rate on the balance sheet date (closing rate); 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.

[5] Currencies

The following exchange rates have been used:

Exchange rate €1 =	ISO-Code	Mid-rate on balance sheet date		Annual average rate	
		Dec. 31, 2003	Dec. 31, 2002	2003	2002
Argentina	ARS	3.700400	3.526000	3.366075	3.114050
Australia	AUD	1.678800	1.850900	1.737596	1.736982
Brazil	BRL	3.643900	3.711200	3.478117	2.870900
China	CNY	10.267600	8.546000	9.213358	7.660198
Czech Republic	CZK	32.550000	31.520000	31.824667	30.787882
Denmark	DKK	7.444700	7.424800	7.430695	7.430517
Great Britain	GBP	0.707000	0.650500	0.691939	0.628817
Hungary	HUF	262.115000	236.065000	253.652922	243.016255
Malaysia	MYR	4.774100	3.975400	4.330633	3.610775
Mexico	MXN	14.150000	10.960000	12.216275	9.164549
Norway	NOK	8.415000	7.287000	8.003918	7.509662
Poland	PLZ	4.725500	4.032900	4.409267	3.866372
Sweden	SEK	9.071000	9.182000	9.122656	9.161498
Switzerland	CHF	1.559000	1.452700	1.521100	1.466996
USA	USD	1.261000	1.047700	1.131140	0.945518

[6] 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 Financial Statements and Accounting for Investments in Subsidiaries.* The financial statements of associates which use differing accounting policies have been retained without adjustment because of their minor significance.

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* or 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 of between 10 and 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 of 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 administration 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 and machinery	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, or at fair value if this is available. Associates are accounted for under the equity method.

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. Administration 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. 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.

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, e.g. 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 balance sheet effects 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 similar obligations

The actuarial valuation of the 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 liabilities and liabilities

Financial liabilities are reported at amortized cost. Differences between historical cost and the repayment amount are accounted for using the effective interest rate method. Financial liabilities which comprise the hedged underlying transaction in a fair value hedge are 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 finance lease.

When Linde is the lessee under a finance lease agreement, the assets are disclosed under Leased assets at the inception of the lease 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 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 as lessee 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

[7] 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	2003	2002
Revenue from the sale of products and services	8,118	7,931
Revenue from long-term construction contracts	874	795
Sales	**8,992**	**8,726**

Revenue from long-term construction contracts for specific customers recognized under the percentage of completion method in 2003 amounted to €874 million (2002: €795 million).

[8] 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.

During the financial year, a subsidiary adjusted the allocation of its costs so as to comply with Group guidelines. To ensure comparability, the prior year figure has been restated.

[9] 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 (2002: €38 million).

[10] Other operating income and expenses

Other operating income in € million	2003	2002
Profit on disposal of fixed and current assets	38	34
Ancillary revenues	21	22
Income from receivables written down	1	14
Exchange rate differences	73	55
Income from release of provisions	39	43
Miscellaneous operating income	67	108
Other operating income	239	276

Other operating expenses in € million	2003	2002
Expenses related to pre-retirement part-time work schemes	12	14
Loss on disposal of fixed and current assets	7	13
Exchange rate differences	81	80
Allowances for doubtful debts, payment shortfalls, write-downs on other current assets	16	44
Miscellaneous operating expenses	38	60
Other operating expenses	154	211

[11] Special items

Profit for the 2003 fiscal year was affected by the following special items:

Costs of additional restructuring schemes

During the financial year, additional restructuring costs of €35 million were incurred to extend further our optimization program and ensure its success. These costs primarily concern reductions in personnel as a result of improvements in production processes and the amalgamation of administrative functions. €10 million relate to the Linde Gas division, €5 million to the Material Handling business segment and €20 million to Corporate.

Under the TRIM.100 program in the Material Handling business segment, we intend to focus on reducing parts manufacture, by contracting out the production of components where it does not require any special expertise. The reorganization of the component factories will mean that all the operational functions, from development to manufacture will be integrated. As a result, our production processes will be streamlined and it will be possible to increase standardization. Optimizing our production processes will create some overcapacity at a number of production sites. Special depreciation of €35 million was charged in respect of the capacity adjustment.

Transaction and disposal costs

A provision of €50 million has been established for transaction and disposal costs relating to the sale of the Refrigeration business segment and for divestment from peripheral activities. The provision takes sufficient account of the relevant contractual arrangements and of the adjustment mechanisms used to establish the price.

Reorganization of Linde Material Handling Australia

We have made a provision of €20 million for the cost of reorganizing our forklift truck activities in Australia. It became necessary to record this provision principally as a result of a reassessment of the contract portfolio and the reorganization of the overall sales and distribution structure.

Profits/losses on securities (contractual trust arrangement – Linde pension fund)

In 2003, Linde transferred fund assets to a trustee to set up the external funding of part of our pension obligations in Group companies in Germany, in accordance with the rules set out in IAS 19 *Employee Benefits*.

The period prior to the transfer of assets saw positive trends in the securities markets, with the result that it was possible in 2003 to reverse a proportion (€13 million) of the impairment loss of €29 million recognized in 2002.

[12] Financial result

in € million	2003	2002
Interest and similar income	74	65
of which from affiliated companies €0 million (2002: €1 million)		
Interest and similar charges	−204	−235
Net interest	**−130**	**−170**
Income from associates	**6**	**–**
Income from investments	3	3
of which from affiliated companies €0 million (2002: €1 million)		
Income from profit transfer agreements	3	2
Expense from loss sharing agreements	−1	−1
Amortization of financial assets and securities held as current assets	–	−1
Other investment income	**5**	**3**
Financial result	**−119**	**−167**

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.

[13] Taxes on income

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

in € million	2003	2002
Current taxes	172	170
Deferred taxes	6	–55
Taxes on income	**178**	**115**

The income tax expense disclosed for the fiscal year 2003 of €178 million is €64 million higher than the expected income tax expense of €114 million, a theoretical figure arrived at by applying the German tax rate of approximately 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	2003	2002
Earnings before taxes on income	287	356
Income tax rate of Linde AG (including trade tax)	40%	39%
Expected income tax expense	**114**	**137**
Foreign tax rate differential	–33	–33
Non-tax deductible amortization of goodwill	40	32
Reduction in tax due to tax-free income	–11	–65
Increase in tax due to non-tax deductible expenses	29	21
Tax income and expense relating to a different period	19	–
Effects of changes in tax rate	1	4
Change in other permanent differences	19	18
Other	–	1
Income tax expense disclosed	**178**	**115**
Effective tax rate	62%	32%

In fiscal 2003, the corporation tax rate was 26.5 percent as a result of the German Flood Victim Solidarity Law. Taking into account an average rate for trade earnings tax and the solidarity surcharge rate, this gives a tax rate of around 40 percent for German companies. From fiscal 2004, the corporation tax rate will return to 25 percent, giving a combined total tax rate of around 39 percent for German companies. This gives rise to a tax expense of €1 million from the remeasurement of deferred taxation balances affected by the change in tax rate.

Under the law adopted in December 2003 to implement the protocol declaration of the German Federal Government on the mediation recommendation in respect of the Tax Relief Reduction Law (the Korb II Law), fundamental changes have been made to the exemption from taxation of profits on disposal from the sale of shares in companies, so that only 95 percent of the capital gains will be tax exempt, and to the system regarding the treatment of loss carryforwards under German tax law. In future, the utilization of tax losses in companies will be limited to the amount of 60 percent of the taxable income. The minimum level (known as the basic amount) up to which all losses may be utilized will be €1 million. The rules on minimum taxation will come into force on January 1, 2004 and will apply also to trade tax loss carryforwards. However, the loss carryforwards can still be used without any time limitation.

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 €1.334 billion (2002: €1.139 billion), as the profits are indefinitely reinvested in these operations or are not subject to taxation.

Deferred tax assets and liabilities:

in € million	2003		2002	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets and tangible assets	75	568	80	637
Financial assets	5	14	3	14
Current assets	101	169	124	163
Provisions	208	37	188	49
Liabilities	286	88	317	59
Tax loss carryforwards and tax credits	140	–	148	–
Valuation allowance	–73	–	–73	–
Amounts offset	–610	–610	–643	–643
	132	**266**	**144**	**279**

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 €73 million (2002: €73 million) has therefore been recognized against the deferred tax assets to reduce the potential tax savings of €209 million (2002: €203 million), as it is not probable that the underlying tax loss carryforwards and tax credits of €199 million (2002: €182 million) and deductible temporary differences of €10 million (2002: €21 million) will be used. Of the total tax loss carryforwards and tax credits of €199 million (2002: €182 million), €78 million (2002: €84 million) may be carried forward for up to ten years and €121 million (2002: €98 million) may be carried forward for longer than ten years.

Tax loss carryforwards in € million	2003	2002
May be carried forward for up to 10 years	101	97
May be carried forward for longer than 10 years	106	158
May be carried forward for an unlimited period	153	148
	360	**403**

[14] Minority interests

Included in the Earnings after taxes on income of the Linde Group is the profit attributable to minority shareholders of €1 million (2002: €1 million).

[15] Earnings per share

	2003	2002
Net income in € million	108	240
Weighted average number of shares outstanding	119,262,134	119,262,134
Effect of diluted subscription rights	48,139	–
Weighted average number of shares outstanding – fully diluted –	119,310,273	119,262,134
Earnings per share in €	**0.91**	**2.01**
Earnings per share in € – fully diluted –	**0.91**	**2.01**

[16] Other information on the Group income statement

in € million	2003	2002
Cost of raw materials, supplies and merchandise	3,587	3,543
Cost of external services	367	250
Cost of materials	**3,954**	**3,793**
Wages and salaries	1,735	1,725
Social security contributions	392	381
Pension costs and personnel welfare costs	146	126
of which pension costs €142 million (2002: €123 million)		
Personnel costs	**2,273**	**2,232**
Scheduled amortization/depreciation of		
Goodwill	114	118
Other intangible assets	71	66
Tangible assets	517	550
Leased assets	185	160
	887	894
Impairment/write-downs of		
Goodwill	24	6
Tangible assets	35	13
Financial assets	2	6
	61	25
Amortization, depreciation, impairment losses and write-downs	**948**	**919**

In 2003, there were impairment losses relating to goodwill of €15 million (2002: €6 million) in the Material Handling business segment, of €6 million (2002: €0 million) in the Refrigeration business segment and of €3 million (2002: €0 million) in the Linde Gas division. There were impairment losses relating to tangible assets in 2003 of €35 million in the Material Handling business segment and in 2002 of €13 million in the Linde Engineering division.

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 €2.566 billion (2002: €2.637 billion).

Included in Other intangible assets of €252 million (2002: €225 million) are capitalized development costs in the Material Handling business segment of €112 million (2002: €106 million) and concessions, industrial property rights, licenses and other intangible assets of €140 million (2002: €119 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 2003, borrowing costs for construction periods over one year of €5 million (2002: €2 million) were capitalized, based on an interest rate of 4.75 percent (2002: 5.00 percent).

The acquisition/manufacturing cost of tangible assets was reduced in the fiscal year by grants of €1 million (2002: €5 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 [46].

[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	
	2003	2002	2003	2002	2003	2002	2003	2002
Land and buildings	–	–	–	–	19	22	19	22
Industrial trucks	339	292	153	213	8	4	500	509
Technical equipment	3	8	–	–	8	11	11	19
Fixtures, furniture and equipment	–	–	–	–	21	16	21	16
	342	**300**	**153**	**213**	**56**	**53**	**551**	**566**

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 of €146 million (2002: €136 million), financed principally using Linde's own resources. On the other hand, they include assets leased to customers of €196 million (2002: €164 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 €225 million (2002: €181 million) in aggregate. These are analyzed by due date as follows:

in € million	Dec. 31, 2003	Dec. 31, 2002
Future minimum lease payments to be received		
Due within one year	80	58
Due in one to five years	143	120
Due after more than five years	2	3
	225	**181**

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 €56 million in 2003 (2002: €53 million); the corresponding depreciation charge was €10 million (2002: €9 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 2003 fiscal year.

An analysis of movements in leased assets is given in the Group summary of fixed assets.

[21] Inventories

in € million	Dec. 31, 2003	Dec. 31, 2002
Raw materials and supplies	189	197
Work in progress, goods and services	225	182
Finished goods	383	397
Merchandise	134	153
Payments in advance to suppliers	176	65
	1,107	**994**

Included in the total are inventories of €195 million (2002: €145 million) reported at their net realizable value. The write-down on the gross value was €39 million (2002: €33 million).

[22] Receivables and other assets

in € million	Dec. 31, 2003	Dec. 31, 2002
Receivables from financial services	190	178
Trade receivables		
From percentage of completion contracts	38	38
Receivables from affiliated companies	2	5
Receivables from related companies	36	57
Other trade receivables	1,494	1,596
Total trade receivables	1,570	1,696
Other receivables and other assets	623	651

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, 2003	Dec. 31, 2002
Gross investment	217	206
Due within one year	72	64
Due in one to five years	142	140
Due in more than five years	3	2
Present value of minimum lease payments	190	178
Due within one year	63	55
Due in one to five years	125	122
Due in more than five years	2	1
Unearned finance income	27	28

Included in the gross investment are unguaranteed residual values accruing to the benefit of the lessor of €28 million (2002: €27 million).

The receivables include minimum lease payments relating to non-cancelable subleases of €189 million (2002: €179 million).

Contingent rents, mainly contingent on machine hours used, were recognized in income and were insignificant in the 2003 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 €1.551 billion (2002: €958 million), offset against advances received of €1.996 billion (2002: €1.228 billion). These calculations give rise to receivables of €38 million (2002: €38 million) and liabilities of €483 million (2002: €308 million).

Customer retentions were immaterial.

Other receivables and other assets

Other receivables and other assets comprise the fair values of derivative financial instruments amounting to €158 million (2002: €173 million), interest accruals from swaps of €58 million (2002: €61 million), tax refund claims of €179 million (2002: €158 million) and other receivables from affiliated companies and related companies of €41 million (2002: €64 million).

Maturity table in € million	Dec. 31, 2003	Dec. 31, 2002
Receivables from financial services	190	178
(of which due in more than one year)	(127)	(123)
Trade receivables		
From percentage of completion contracts	38	38
(of which due in more than one year)	(–)	(–)
Receivables from affiliated companies	2	5
(of which due in more than one year)	(–)	(–)
Receivables from related companies	36	57
(of which due in more than one year)	(–)	(–)
Other trade receivables	1,494	1,596
(of which due in more than one year)	(9)	(18)
Total trade receivables	1,570	1,696
(of which due in more than one year)	(9)	(18)
Other receivables and other assets	623	651
(of which due in more than one year)	(50)	(153)

[23] Securities

Only available-for-sale securities are included under this heading for both 2003 and 2002.

The decrease of €112 million to €4 million is due to the transfer of securities effected in 2003 to Linde Pensionsfonds e.V. The assets transferred to the pension fund are recognized as plan assets as defined by IAS 19 *Employee Benefits* and will be used for the external funding of a portion of our German pension obligations.

[24] Cash and cash equivalents

Cash and cash equivalents of €557 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 remains unchanged over the previous year at €305,311,063.04. At the balance sheet date, 119,262,134 shares have been issued at a par value of €2.56 per share. The shares are bearer shares.

Authorized capital at the balance sheet date remains unchanged at €120 million.

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 €40 million against cash contributions. Shareholders' subscription rights may be excluded to an amount up to €3.5 million 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 of 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 is €105.36 million.

Conditionally authorized capital of €40 million (1999 conditionally authorized capital) and conditionally authorized capital of €50 million (2000 conditionally authorized capital) is available to give the holders/ 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 can be issued to a total nominal amount of €750 million and €1 billion, expiring on May 17, 2004 and May 16, 2005 respectively, with a maturity period up to a maximum of 20 years. The Executive Board has not yet exercised its option to issue these 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, 2004.

The German Securities Trade Act (WpHG) requires investors who have exceeded certain 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 AG 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 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 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.

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 through the income statement.

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

in € million	2003			2002		
	Before tax	Tax effect	Net	Before tax	Tax effect	Net
Movement in currency translation differences	**–206**	**–**	**–206**	**–233**	**–**	**–233**
Movement in unrealized profits/losses from revaluation of securities at fair value						
Movement in accumulated unrealized profits/losses	–	–	–	2	–1	1
Realized profits/losses	–2	1	–1	–113	–	–113
Unrealized profits/losses on available-for-sale securities	**–2**	**1**	**–1**	**–111**	**–1**	**–112**
Movement in unrealized profits/losses on derivative financial instruments						
Movement in accumulated unrealized profits/losses	–	–	–	5	–	5
Realized profits/losses	–2	–	–2	–	–	–
Unrealized profits/losses on derivative financial instruments	**–2**	**–**	**–2**	**5**	**–**	**5**

[27] Minority interests

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

in € million	Dec. 31, 2003	Dec. 31, 2002
Abelló Linde S.A., Barcelona	20	16
Linde Process Plant Company Ltd, Dalian	4	3
Linde Carbonic (Shanghai) Company Ltd, Shanghai	3	2
Bretagne Manutention S.A., Pacé	3	3
Various other companies	5	9
	35	**33**

[28] Provisions for pensions and similar obligations

in € million	Dec. 31, 2003	Dec. 31, 2002
Provisions for pensions	928	1,023
Provisions for similar obligations	55	55
	983	**1,078**

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 was €12 million in the fiscal year 2003 (2002: €6 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. It is proposed that further transfers be made to the pension fund in the future. 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 Great Britain, the Netherlands, the USA, Switzerland, Norway, Spain and Finland.

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		Other Europe		USA		Other countries	
	2003	2002	2003	2002	2003	2002	2003	2002
Discount rate	5.25%	5.75%	5.05%	5.20%	6.29%	6.70%	8.78%	8.70%
Expected return on assets	5.60%	–	6.00%	6.40%	7.12%	8.30%	10.00%	11.00%
Growth in future benefits	2.50%	2.75%	3.01%	2.70%	3.08%	4.00%	4.88%	5.90%
Growth in pensions	1.50%	1.75%	1.92%	1.90%	2.54%	3.00%	3.60%	3.50%

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 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 2003.

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 benefits plans, adopting the “corridor” approach.

Funding status of defined benefit pension obligations:

in € million	Germany 2003	Germany 2002	Other Europe 2003	Other Europe 2002	USA 2003	USA 2002	Other countries 2003	Other countries 2002	Total 2003	Total 2002
Actuarial present value of pension obligations (defined benefit obligation)	1,003	941	791	789	58	73	5	6	1,857	1,809
Of which unfunded pension obligations	865	941	71	69	–	–	4	5	940	1,015
Of which funded pension obligations	138	–	720	720	58	73	1	1	917	794
Fair value of plan assets	138	–	605	603	52	49	1	1	796	653
Net obligation	865	941	186	186	6	24	4	5	1,061	1,156
Unrecognized actuarial gains (+)/losses (–)	–25	–4	–114	–113	–9	–24	–	–	–148	–141
Not recognized as an asset in accordance with IAS 19.58	–	–	–	8	–	–	–	–	–	8
Balance sheet amount at Dec. 31	**840**	**937**	**72**	**81**	**–3**	**–**	**4**	**5**	**913**	**1,023**
Of which provisions for pensions	840	937	84	81	–	–	4	5	928	1,023
Of which plan assets (–)	–	–	–12	–	–3	–	–	–	–15	–

Portfolio structure of plan assets	Dec. 31, 2003	Dec. 31, 2003
Shares	45%	39%
Fixed-interest securities	39%	51%
Other	16%	10%
	100%	**100%**

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

Movement in plan assets in € million	2003	2002
Fair value of plan assets at the beginning of the fiscal year	653	674
Actual return from plan assets	37	–47
Employers' contributions, transfer to German pension fund (CTA)	171	51
Employees' contributions	12	3
Payments to beneficiaries	–29	–32
Other movements including effects of currency translation	–48	4
Fair value of plan assets at the end of the fiscal year	796	653

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

in € million	Germany		Other Europe		USA		Other countries		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Balance sheet amount at Jan. 1	937	901	81	100	–	4	5	5	1,023	1,010
Pension expense	77	77	27	19	6	4	1	–	111	100
Pension payments	−43	−41	−4	−3	–	–	−1	−1	−48	−45
Contributions to external pension funds	−131	–	−32	−43	−8	−8	–	–	−171	−51
Not recognized as income in accordance with IAS 19.58	–	–	–	8	–	–	–	–	–	8
Effect of changes in exchange rates	–	–	–	–	−1	–	−1	1	−2	1
Balance sheet amount at Dec. 31	**840**	**937**	**72**	**81**	**−3**	**–**	**4**	**5**	**913**	**1,023**

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

in € million	Germany		Other Europe		USA		Other countries		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Current service cost	24	24	16	18	4	5	–	–	44	47
Interest cost	53	53	41	41	4	5	1	–	99	99
Expected return on plan assets	–	–	−36	−40	−4	−6	–	–	−40	−46
Amortization of gains (−) / losses (+)	–	–	6	–	2	–	–	–	8	–
	77	**77**	**27**	**19**	**6**	**4**	**1**	**–**	**111**	**100**

Actual income on plan assets in external pension funds was €37 million in fiscal 2003 (2002: actual losses of €47 million). This meant that there was only a slight difference between actual income and the expected income on plan assets in 2003 of €40 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	Jan. 1, 2003	Changes in Group structure*	Utilization	Release	Addition	Dec. 31, 2003
Provisions for taxes	**101**	**–3**	**52**	**14**	**60**	**92**
Obligations from delivery transactions	193	1	108	3	189	272
Warranty obligations and risks from transactions in course of completion	248	–16	47	23	145	307
Obligations relating to personnel	320	–1	169	12	229	367
Other obligations	96	4	95	19	123	109
Miscellaneous provisions	**857**	**–12**	**419**	**57**	**686**	**1,055**
Restructuring schemes	**110**	**–**	**44**	**4**	**35**	**97**
Other provisions	**1,068**	**–15**	**515**	**75**	**781**	**1,244**

*Including currency adjustments.

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

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 downsizing of production sites.

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

in € million	Due within 1 year		Due in more than 1 year		Total	
	2003	2002	2003	2002	2003	2002
Provisions for taxes	92	95	–	6	92	101
Miscellaneous provisions	1,026	800	29	57	1,055	857
Restructuring schemes	69	55	28	55	97	110
	1,187	**950**	**57**	**118**	**1,244**	**1,068**

[30] Financial liabilities

Financial liabilities comprise interest-bearing obligations of the Linde Group, analyzed as follows:

in € million	Due within 1 year		Due in 1 to 5 years		Due in more than 5 years		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Bonds	403	502	1,772	1,925	542	459	2,717	2,886
Commercial papers	–	55	–	–	–	–	–	55
Bank loans and overdrafts	227	228	34	112	13	13	274	353
	630	**785**	**1,806**	**2,037**	**555**	**472**	**2,991**	**3,294**

Of the bank loans and overdrafts, €8 million (2002: €12 million) are secured by mortgages. The weighted average interest rate for bank loans and overdrafts was 4.0 percent in 2003 (2002: 4.4 percent).

The bonds are analyzed as follows:

Issuer	Nominal volume in relevant currency (ISO-Code)	EUR[2]	Average weighted residual term (in years)	Average weighted effective interest rate[1] (in percent)
Linde Finance B.V., Amsterdam	1,250 million CZK	40	3.15	4.7
Linde Finance B.V., Amsterdam	2,446 million EUR	2,298	4.29	5.5
Linde Finance B.V., Amsterdam	7,000 million HUF	26	0.54	9.1
Linde Finance B.V., Amsterdam	19,560 million JPY	145	2.38	0.6
Linde Finance B.V., Amsterdam	325 million PLN	70	1.66	14.0
Linde Finance B.V., Amsterdam	2,500 million SKK	64	3.01	8.1
Linde Finance B.V., Amsterdam	80 million USD	63	2.12	2.1
AGA AB, Lidingö	11 million EUR	11	0.50	2.7
		2,717		

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

The bonds include the 6.375 percent bond with a nominal value of €1 billion issued in 2000 under the €5-billion-Debt-Issuance-Program of Linde Finance B.V.

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.

[31] Liabilities from financial services

Liabilities from financial services comprise mainly obligations under finance leases of €386 million (2002: €345 million) from sale and leaseback transactions to refinance lease agreements with customers.

They also include guaranteed residuals of €59 million (2002: €95 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 €66 million (2002: €59 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, 2003	Dec. 31, 2002
Total minimum lease payments (gross)	581	558
Due within one year	175	175
Due in one to five years	374	352
Due in more than five years	32	31
Present value of minimum lease payments	511	499
Due within one year	162	157
Due in one to five years	322	315
Due in more than five years	27	27
Finance charge included in the minimum lease payments	70	59

[32] Trade payables, Other liabilities

in € million	Due within 1 year		Due in 1 to 5 years		Due in more than 5 years		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Trade payables								
Percentage of completion (PoC)	483	308	–	–	–	–	483	308
Other	676	658	5	3	–	–	681	661
	1,159	966	5	3	–	–	1,164	969
Advance payments received from customers	60	72	34	3	–	–	94	75
Liabilities from bills accepted and bills issued	3	4	–	–	–	–	3	4
Liabilities to affiliated companies	6	7	–	–	–	–	6	7
Liabilities to related companies	2	2	–	–	–	–	2	2
Sundry liabilities	519	417	16	90	12	22	547	529
Other liabilities	590	502	50	93	12	22	652	617
	1,749	1,468	55	96	12	22	1,816	1,586

Percentage of completion trade payables of €483 million (2002: €308 million) relate to advance payments received on construction contracts, where these exceed the stage of completion of the contract.

Sundry liabilities

Sundry liabilities comprise the following items:

in € million	Due within 1 year		Due in 1 to 5 years		Due in more than 5 years		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Taxes	172	119	2	6	–	–	174	125
Social security	48	33	–	–	–	–	48	33
Fair value of derivative financial instruments	97	54	8	63	3	6	108	123
Miscellaneous other liabilities	202	211	6	21	9	16	217	248
	519	417	16	90	12	22	547	529

Of the sundry liabilities, none (2002: €5 million) are secured by mortgages.

[33] Deferred income

Deferred income comprises:

in € million	Due within 1 year		Due in more than 1 year		Total	
	2003	2002	2003	2002	2003	2002
Deferred income from leases	96	120	82	108	178	228
Other deferred income	30	37	10	18	40	55
	126	**157**	**92**	**126**	**218**	**283**

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	Due within 1 year		Due in more than 1 year		Total	
	2003	2002	2003	2002	2003	2002
Deferred income on sales with guaranteed residual values	58	85	64	91	122	176
Deferred income on sale and leaseback transactions	37	33	15	16	52	49
Miscellaneous	1	2	3	1	4	3
	96	**120**	**82**	**108**	**178**	**228**

[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 360 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 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.

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. In February 2004, the International Accounting Standards Board published IFRS 2 on accounting for share-based payment. According to this, in future, 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 as described above had been applied, 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 2003
	Executive Board	Other management	
1st tranche (2002)	240,000	760,000	€ 4.9 million
2nd tranche (2003)	240,000	777,600	€ 2.0 million

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 and €7.16 for the second tranche. This was based on the following measurement parameters:

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

[35] Derivative financial instruments

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. 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 2003, the positive fair values of derivatives recognized in equity amounted to €2 million (2002: €5 million) and the negative fair values to €0 million (2002: €1 million).

The Group 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 net 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 2003, the negative fair values of derivatives reported in this way amounted to €4 million (2002: €5 million).

Interest derivatives, which hedge the exposure to future changes in the fair value of liabilities as a result of interest and currency volatility, are accounted for under the rules for fair value hedges. In the 2003 fiscal year, the figure for positive fair values was €94 million (2002: €108 million), while negative fair values amounted to €34 million (2002: €43 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 2003, the total positive fair value of these derivatives was €2 million (2002: €3 million).

At December 31, 2003, 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 30 months (2002: 42 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:

	EUR	USD	GBP	JPY	PLN	CZK	SKK
Interest for six months	2.2%	1.2%	4.2%	0.0%	5.4%	2.2%	5.7%
Interest for one year	2.3%	1.5%	4.4%	0.1%	5.6%	2.3%	5.6%
Interest for five years	3.7%	3.6%	5.0%	0.7%	6.6%	3.8%	5.2%
Interest for ten years	4.4%	4.7%	5.1%	1.4%	6.5%	4.6%	5.2%

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:

in € million	Assets		Liabilities	
	2003	2002	2003	2002
Fair value of derivative financial instruments				
Forward exchange transactions	30	37	25	22
Foreign currency options	–	1	–	–
Swap transactions	122	130	82	99
Interest rate options	4	2	1	2
Electricity derivatives	2	3	–	–
	158	**173**	**108**	**123**
Nominal amounts				
Forward exchange transactions	600	727	919	408
Foreign currency options	–	40	–	20
Swap transactions	1,767	1,723	1,497	1,449
Interest rate options	350	75	150	25
Electricity derivatives	18	10	–	–
	2,735	**2,575**	**2,566**	**1,902**

[36] Group cash flow statement

The cash flow statement shows the source and application of funds in the fiscal years 2003 and 2002. 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, cash at banks and commercial papers, 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 been disclosed under operating activities for the first time and the prior year figures have been restated to ensure comparability.

The investing activities comprise additions to tangible assets, financial assets and intangible assets. Also disclosed here are additions to capitalized development costs. For the first time in fiscal 2003, additions and disposals have been translated at average rates.

[37] Segment information

Segment information by activity

The different products supplied by the Gas and Engineering business segment, comprising the Linde Gas and Linde Engineering divisions, as well as those supplied by the Material Handling business segment and the Refrigeration business segment are reflected in the segment information by activity.

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 also develops and manufactures plant components and offers specialized services.

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 Refrigeration business segment develops, manufactures and sells refrigerated and freezer display cases as well as non-refrigerated shop equipment for all trade sectors, and provides relevant services such as conception and design and after-sales services.

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 business 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 and tangible assets.

In the Group and in the Material Handling business segment, the change in leased assets as a result of additions and disposals has been disclosed in Cash flow from operating activities for the first time and the prior year figures have been restated.

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, 2003	Dec. 31, 2002
Fixed assets	7,702	8,037
Inventories	1,107	994
Trade receivables	1,570	1,696
Other segment assets (excluding tax claims)	664	855
Securities, cash and cash equivalents	561	480
Segment assets	**11,604**	**12,062**
Deferred taxes and tax claims	311	144
Total balance sheet assets	**11,915**	**12,206**
Provisions (excluding pension and tax provisions)	1,152	967
Trade payables	1,164	969
Other segment liabilities	696	775
Segment liabilities	**3,012**	**2,711**
Provisions for pensions	983	1,078
Financial liabilities	3,502	3,793
Minority interests	35	33
Equity	3,851	4,086
Capital employed	**8,371**	**8,990**
Deferred taxes	266	279
Provisions for taxes	92	101
Tax liabilities	174	125
Total balance sheet equity and liabilities	**11,915**	**12,206**

[38] Employees

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

	2003	2002
Production	22,998	22,941
Sales and distribution	15,441	15,314
Research and development	1,482	1,434
Administration	5,423	5,567
	45,344	45,256
Trainees	934	941
	46,278	**46,197**

[39] Proposed appropriation of profit

The unappropriated profit of Linde AG at December 31, 2003 was €134,766,211. The Executive Board and the Supervisory Board will propose to the Shareholders' Meeting to be held on May 18, 2004 that this unappropriated profit be distributed in the form of a dividend of €1.13 per share (2002: €1.13) on the 119,262,134 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 usual 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 list of shareholdings has been deposited in the Commercial Register of the Local Courts (Amtsgerichte) of Wiesbaden, Munich, Essen, Reutlingen, Vechta and Hamburg.

The volume of transactions of the Linde Group with these related parties in fiscal 2003 was as follows:

Services provided by the Group to related parties:

in € million	2003	2002
Engineering services	2	–
Sale of Material Handling equipment	107	188
Sale of industrial gases	7	3
Other services	3	8
	119	**199**

Services provided by related parties to the Group:

in € million	2003	2002
Rental and lease agreements Material Handling	36	32
Services Material Handling	13	8
Power units Material Handling	23	18
Other services	31	6
	103	**64**

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.

[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 the 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 shareholders.

Accordingly, if a dividend of €1.13 is declared, the variable remuneration of each member of the Supervisory Board is €61,800. 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. It was resolved at the shareholders' meeting held on May 27, 2003 that the Chairman of the Audit Committee would receive an additional €30,000 and every other member of the Audit Committee would receive an additional €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 2003, the total emoluments of the Supervisory Board were €1,543,491 (2002: €1,528,051)*. Of this amount, €87,085 (2002: €69,776) relates to fixed emoluments and €1,435,527 (2002: €1,437,394) to variable emoluments. In the past two fiscal years, there have been no loans to members of the Supervisory Board.

Executive Board

Emoluments of the Executive Board in €	2003	2002
Fixed emoluments	2,839,632	2,952,079
Variable emoluments	4,090,214	4,389,891
Total cash emoluments	**6,929,846**	**7,341,970**

* Incl. VAT.

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 €7.16 per option (2002: €9.84) were granted in fiscal 2003 to the members of the Executive Board. The total fair value of these options was €1,718,400 (2002: €2,361,600).

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 €3,402,688 (2002: €2,834,610).

A provision of €29,244,809 (2002: €21,239,818) 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 €23,890,455 (2002: €17,919,765) 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 § 15a of the German Securities Trade Act (WpHG) the purchase or sale of shares in Linde AG or of rights to subscribe to these shares if the minimum threshold is exceeded and the shares or options have not been acquired as part of their remuneration. During the fiscal year, one member of the Executive Board purchased 1,000 shares in Linde AG at a price of €34.87 per share and 1,000 shares at a price of €33.75 per share.

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

On June 23, 2003, the Executive Board and 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, 2003	Dec. 31, 2002
Bills endorsed and discounted	16	20
Guarantees	97	71
Warranties	24	5
Sureties for third-party liabilities	–	12
	137	**108**

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, 2003	Dec. 31, 2002
Capital expenditure commitment	55	31
Obligations under non-cancelable operating leases	410	387
Other	78	84
	543	**502**

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

in € million	Dec. 31, 2003	Dec. 31, 2002
Nominal future minimum lease payments		
Due within one year	124	114
Due in one to five years	259	213
Due in more than five years	27	60
	410	**387**

Some of the 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-leaseback-sublease).

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

in € million	Procurement leases		Sale-leaseback-sublease	
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
Nominal future minimum lease payments (disbursements)				
Due within one year	78	78	46	36
Due in one to five years	177	161	82	52
Due in more than five years	27	60	–	–
	282	**299**	**128**	**88**
Nominal future minimum lease payments (receipts)				
Due within one year	–	–	44	38
Due in one to five years	–	–	77	57
Due in more than five years	–	–	–	–
	–	**–**	**121**	**95**

[44] Events after the balance sheet date

On January 1, 2004, we hived off the Refrigeration business segment as planned into a new company, Linde Kältetechnik GmbH & Co. KG. This divestment increased our room for manoeuvre regarding the future strategic orientation of the business model and created the conditions necessary for the sale of the business segment.

On March 15, 2004, Linde signed an agreement containing details of the sale of the Refrigeration business segment to the US company United Technologies Corp. (UTC, Hartford, Connecticut). The sale price is €325 million. After deducting liabilities, the net proceeds are expected to be around €200 million.

The Refrigeration business segment offers the full range of goods and services, not only supplying refrigerated and frozen food display cases with appropriate refrigeration systems, but also delivering project planning solutions ready for immediate use, which comprise shopfitting planning, assembly, customer service and the remote monitoring of refrigerated units.

We set out below the principal figures relating to the Refrigeration business segment which Linde intends to relinquish:

Refrigeration business segment in € million	2003	2002
Assets	652	637
Liabilities	454	448
Sales	866	879
Other income	9	22
Expenses	872	902
Earnings before taxes on income	3	–1
Income tax expense	3	4
Earnings after taxes on income	0	–5
Cash flow from operating activities	36	36
Cash flow from investing activities	–26	–28
Cash flow from financing activities	–9	–8

In addition to the tax claims, tax liabilities and tax provisions disclosed, current and deferred taxes are accounted for at Group level and in Linde AG which are not allocated to the Refrigeration business segment.

[45] 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.

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 the holdings in AGA, PanGas and Hoek Loos were 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 and including 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 provided to the customer (completed contract method).

Derivative financial instruments

Under IAS 39 *Financial Instruments: Recognition and Measurement,* derivatives 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.

[46] Significant Group companies

Affiliated companies

Business segment **Gas and Engineering** **Linde Gas**	Country (registered office)	Group holding in %	Equity in € million	Sales in € million	Earnings after tax in € million	Employees
Linde Gas Austria	A	100.0	127	114	19	342
Linde Gas Pty. Ltd	AUS	100.0	46	39	10	128
Linde Gas Brazil	BR	100.0	59	107	5	719
PanGas	CH	100.0	150	103	16	366
Linde Gas Columbia	CO	100.0	29	36	7	250
Linde Technoplyn	CZ	100.0	175	125	28	764
AGA Linde Healthcare GmbH & Co. KG	D	100.0	2	56	12	133
Tega-Technische Gase und Gasetechnik GmbH	D	100.0	1	46	6	123
Linde Gas Denmark	DK	100.0	8	41	3	141
Abelló Linde Spain	E	74.8	77	100	19	371
Linde Gas France	F	99.9	124	207	19	784
Linde Gas Finland	FIN	100.0	112	121	20	354
Linde Gas Great Britain	GB	100.0	30	51	4	236
Linde Gas Ungarn AG	H	100.0	123	87	22	524
Linde Gas Italy	I	100.0	134	109	3	252
Linde Gas Mexico	MEX	100.0	37	48	6	413
Linde Gas Norway	N	100.0	46	104	19	283
nv Hoek Loos	NL	100.0	198	247	25	984
Linde Gas Poland	PL	99.9	55	73	6	777
Linde Gas Puerto Rico	PR	100.0	11	31	–	219
AGA S.A.	RA	100.0	18	20	3	242
Linde Gas Chile	RCH	100.0	38	26	5	194
Linde Gas Romania	RO	100.0	19	33	6	216
AGA AB	S	100.0	614	282	100	1,018
Linde Gas USA	USA	100.0	121	739	31	2,596
AGA Gas C.A.	YV	100.0	21	18	5	152

Affiliated companies

Business segment Gas and Engineering **Linde Engineering**	Country (registered office)	Group holding in %	Equity in € million	Sales in € million	Earnings after tax in € million	Employees
Linde Kryotechnik AG	CH	100.0	8	33	3	72
Linde-KCA-Dresden GmbH	D	100.0	47	125	3	530
Selas-Linde GmbH	D	100.0	4	53	6	77
Société d'Application des Techniques Linde S.A.R.L.	F	100.0	5	6	–	10
Linde Impianti Italia S.p.A.	I	100.0	2	64	1	25
Linde Engineering USA	USA	100.0	22	167	–14	481
Material Handling						
Linde Fördertechnik GmbH	A	100.0	9	45	1	120
Linde Materials Handling Pty. Ltd	AUS	100.0	–10	49	–18	203
Linde Lansing Fördertechnik AG	CH	100.0	9	31	–	128
Linde-Xiamen Gabelstaplergesellschaft mbH	CN	100.0	28	86	2	1,115
Linde Material Handling Czech Republic	CZ	100.0	17	52	3	280
Linde Material Handling Ibérica, S.A.	E	100.0	24	112	5	245
Fenwick-Linde France	F	100.0	94	530	18	2,094
Linde Material Handling Great Britain	GB	100.0	91	486	20	1,670
Linde Güldner Italiana S.p.A.	I	100.0	21	84	1	100
Linde Milenz Truck A/B	S	100.0	11	48	3	134
Linde Lift Truck Corporation	USA	100.0	22	92	2	178
STILL N.V.	B	100.0	4	36	–1	115
STILL GmbH	D	100.0	87	616	11	3,223
STILL WAGNER GmbH & Co KG	D	100.0	26	108	2	576
STILL, S.A.	E	100.0	11	44	–	109
STILL S.A.R.L.	F	100.0	45	231	–	1,077
STILL Materials Handling Ltd.	GB	100.0	–3	38	1	74
STILL ITALIA S.p.A.	I	100.0	13	49	2	83
STILL Intern Transport B.V.	NL	100.0	7	46	1	201
OM Carrelli Elevatori S.p.A.	I	100.0	58	195	–16	943

Affiliated companies

Business segment	Country (registered office)	Group holding in %	Equity in € million	Sales in € million	Earnings after tax in € million	Employees
Refrigeration						
Linde Kältetechnik Ges.m.b.H.	A	100.0	10	53	1	265
Seral do Brasil S.A. – Indústria Metalúrgica	BR	100.0	–	19	–4	303
LKS KälteSchweiz AG	CH	100.0	15	57	2	287
Linde Refrigeration Czech Republic	CZ	100.0	28	95	4	763
Linde Refrigeration France	F	100.0	21	89	6	315
Linde Refrigeration and Retail Systems Ltd	GB	100.0	–	122	1	476
Linde Refrigeration Italy	I	100.0	27	89	2	365
Other affiliated companies						
MATRA-WERKE GmbH	D	100.0	4	51	2	90
Linde Finance BV	NL	100.0	16	–	4	3

Associates

Business segment	Country (registered office)	Group holding in %
Gas and Engineering		
Linde Gas		
CO2 Colombiano Ltda.	CO	50.0
Oy Innogas Ab	FIN	50.0
TLF Tjeldbergoddens Luftgassfabrik DA	N	37.8
Material Handling		
JULI Motorenwerk, k.s.	CZ	50.0
Linde Leasing GmbH	D	45.0
Linde Castle Ltd	GB	49.0
Linde Creighton Ltd	GB	49.0
Linde Sterling Ltd	GB	49.0
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 12 to 15 of this annual report.

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

Hero Brahms
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, 2003 to December 31, 2003. 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 management report of the Group and the Company prepared by the Executive Board for the business year from January 1, 2003 to December 31, 2003, has not led to any reservations. In our opinion, on the whole, the management report of the Group and the Company 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, 2003 to December 31, 2003 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.”

Wiesbaden, March 15, 2004

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Rolf Nonnenmacher	Michael Gewehr
Wirtschaftsprüfer	Wirtschaftsprüfer

Income statement of Linde AG
in € thousand

	2003	2002
Sales	**2,487,367**	**2,275,912**
Cost of sales	1,882,007	1,803,152
Gross profit on sales	**605,360**	**472,760**
Marketing and selling expenses	250,582	240,479
Research and development costs	86,720	80,883
Administration expenses	293,086	256,503
Other operating income	173,421	405,548
Other operating expenses	150,366	193,877
Investment income of which €365,993k (2002: €206,593k) from affiliated companies	380,771	218,596
Income from other securities and loans in financial assets	56	55
Other interest and similar income of which €9,428k (2002: €19,27k) from affiliated companies	32,997	28,818
Amortization of financial assets and securities held as current assets	126,271	87,787
Interest and similar expenses of which €90,602k (2002: €113,820k) to affiliated companies	125,598	131,270
Earnings from ordinary activities	**159,982**	**134,978**
Taxes on income	25,216	212
Net income/Unappropriated profit	**134,766**	**134,766**

The income statement of Linde AG for the year ending December 31, 2003 has been presented in accordance with the format set out in § 275(3) of the German Commercial Code (HGB).

Balance sheet of Linde AG
in € thousand

	Dec. 31, 2003	Dec. 31, 2002
Assets		
Intangible assets	70,256	57,578
Tangible assets	335,358	349,002
Financial assets	6,110,943	5,922,366
Fixed assets	6,516,557	6,328,946
Inventories	1,217,899	585,567
Less: Advance payments received from customers	–1,217,899	–585,567
	–	–
Receivables and other assets	853,955	824,060
Securities	204,700	118,300
Cash and cash equivalents	113,877	110,648
Current assets	1,172,532	1,053,008
Total assets	**7,689,089**	**7,381,954**
Equity and liabilities		
Capital subscribed	305,311	305,311
Capital reserve	2,595,863	2,595,863
Retained earnings	509,503	509,503
Unappropriated profit	134,766	134,766
Equity	3,545,443	3,545,443
Special tax-allowable reserves	11,433	9,563
Provisions for pensions and similar obligations	591,000	580,000
Other provisions	503,603	374,168
Provisions	1,094,603	954,168
Financial liablilities	47	8,708
Other liabilities	3,037,563	2,864,072
Liabilities	3,037,610	2,872,780
Total equity and liabilities	**7,689,089**	**7,381,954**

The financial statements of Linde AG, on which the auditors KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main, have issued an unqualified audit opinion, and from which the balance sheet and income statement in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Law (AktG) given here have been reproduced, 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.

Are we moving in the direction of mobility without limits? It depends on the mode of transport we use.

If we wish to ensure that people stay mobile in the future, our thinking needs to be quick and flexible. We need to consider, for example, power which can be produced from water – hydrogen. We are continuing to press forward with the industrial development of hydrogen technology. After all, we have the appropriate expertise. Our engineers control every aspect of the hydrogen value added chain: production, liquefaction and purification, storage, distribution and refuelling.

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 (from May 27, 2003)

- 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 (from May 27, 2003), Chairman of the Works Council, Linde Engineering Division, Linde AG, Höllriegelskreuth Works

Michael Diekmann
(from May 27, 2003)
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 Dresdner Asset Management GmbH (Chairman)
  Allianz Lebensversicherungs-AG (Chairman)
  Allianz Versicherungs-AG (Chairman)
  Dresdner Bank AG (Chairman)

◦ Group offices:
  Allianz of America, Inc. (Chairman)
  Assurances Générales de France (Vice President of the Management Board)
  Riunione Adratica 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

Dr. Karl-Hermann Baumann
Chairman of the Supervisory Board of Siemens AG

- External offices:
  Deutsche Bank AG
  E.ON AG
  Schering AG
  Siemens AG (Chairman)
  ThyssenKrupp AG
  Wilhelm von Finck AG

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

- External offices:
  IWKA Industriewerke Karlsruhe Augsburg AG
  MVS Miete Vertrieb Service AG

Supervisory Board

Rüdiger Bouillon
Department Head of Main Executive Committee of IG Bergbau, Chemie, Energie; responsible for humanization of collective bargaining policy

Hans-Gerhard Bude
(from May 27, 2003)
Deputy Chairman of the Works Council, Linde Kältetechnik GmbH & Co. KG, Cologne-Sürth Works

Gerhard Full
(from May 27, 2003)
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
(from May 27, 2003)
Trade Union Secretary on the Executive Board of IG Metall Frankfurt

Klaus-Peter Müller
(from May 27, 2003)
Spokesman for the Executive Board of Commerzbank AG

- External offices:
  Ford Deutschland Holding GmbH, Cologne
  Ford-Werke AG, Cologne
  Steigenberger Hotels AG, Frankfurt am Main

◦ External offices:
  Assicurazioni Generali S.p.A.
  Parker Hannifin Corporation

◦ Group offices:
  Commerzbank International S.A. (CISAL), Luxembourg
  Commerzbank (Switzerland) AG

Kay Pietsch
(from May 27, 2003)
Chairman of the Works Council, STILL GmbH, Hamburg Works

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

Frank Zukauski
Production Director, STILL GmbH

No longer members of the Supervisory Board, with effect from the Shareholders' Meeting on May 27, 2003:
(This information applies as at the date of retirement from the Board.)

Dr. Hans Meinhardt
Chairman of the Supervisory Board of Linde AG,
former Chairman of the Executive Board of Linde AG

- External offices:
  Beiersdorf AG (Chairman)
  KarstadtQuelle AG (Chairman)
  Karstadt Warenhaus AG (Chairman)

Jakob Staub
Deputy Chairman of the Supervisory Board of Linde AG,
Chairman of the Works Council, Linde Refrigeration Division, Linde AG, Cologne-Sürth Works

Dr. Henning Schulte-Noelle
Second Deputy Chairman of the Supervisory Board of Linde AG,
Chairman of the Supervisory Board of Allianz AG

- External offices:
  Allianz AG (Chairman)
  E.ON AG
  Siemens AG
  ThyssenKrupp AG

Otto Forchel
Trade Union Secretary on the Executive Board of IG Metall Frankfurt

- External offices:
  Alcatel SEL AG
  Alcatel Deutschland GmbH

Dr. Martin Kohlhaussen
Chairman of the Supervisory Board of Commerzbank AG

- External offices:
  Bayer AG
  Commerzbank AG (Chairman)
  Heraeus Holding GmbH
  Hochtief AG
  Infineon Technologies AG (Deputy Chairman)
  KarstadtQuelle AG
  Schering AG
  ThyssenKrupp AG

Rainer Schmidt
Adviser to the Works Council, STILL GmbH, Hamburg Works

• 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

- Group offices:
  STILL GmbH (Chairman)
  (from January 1, 2004)

Dr. Aldo Belloni
Member of the Executive Board

◦ Group offices:
  nv Hoek Loos, Netherlands
  (Deputy Chairman of the Supervisory Board)

Hero Brahms
Member of the Executive Board

- External offices:
  Deutsche Post AG
  Georgsmarienhütte Holding GmbH
  KarstadtQuelle AG

Hubertus Krossa
Member of the Executive Board

- External offices:
  Bauknecht Hausgeräte GmbH

- Group offices:
  STILL GmbH

Dr. Hans-Peter Schmohl
(until December 31, 2003)
Member of the Executive Board

- External offices:
  Airbus Deutschland GmbH

- Group offices:
  STILL GmbH (Chairman)
  (until December 31, 2003)

• Membership of other German supervisory boards.
◦ Membership of comparable German and foreign boards.

Management organization

Executive Board	Responsible for Business Segment	Group Management Duties
Dr. Wolfgang Reitzle, President and Chief Executive Officer	Material Handling	Corporate Center
Dr. Aldo Belloni	Gas and Engineering	Patents
Hero Brahms		Accounts, Taxes, Administration, Revision, Financial Control, Personnel
Hubertus Krossa	Material Handling (Sales and Marketing), Refrigeration	

Gas and Engineering	Material Handling	Refrigeration
Linde Gas	Dr. Stefan Rinck	**Linde Refrigeration**
Dr. Aldo Belloni	Ralf Speth	Bert-Jan Knoef
Lennart Selander	**Linde Material Handling**	Dr. Dietmar Meister
Dr. Rainer Goedl	Dr. Stefan Rinck	Heinz Baumgarten
Wout van der Kooij	Erwin Bruckmoser	
	Klaus Heinrich Hofmann	
Linde Engineering	Bruno Kulick	
Franz Habicht		
Dr. Markus Raab	**STILL GmbH**	
Werner Schwarzmeier	Dr. Rolf Karg	
Dr. Bruno Ziegler	Norbert Pfeiffer	
	Jens Reinecke	
	Dr. Lorenz Zwingmann	
	OM Carrelli Elevatori S.p.A.	
	Dr. Daniele Signorini	

Corporate Center	
Administration, Financial Control	Karl-Heinz Birkner
Accounts, Taxation	Ursula Bauer
Treasury	Erhard Wehlen
Communications, Investor Relations	Dr. Harry Roegner
Organization, IT	Dr. Peter Wroblowski
Personnel	Christian H. Molsen
Legal	Lothar Dressel
Central Technical Functions	Ralf Speth

As at March 15, 2004

Imprint

Published by:
Linde AG
Abraham-Lincoln-Straße 21
65189 Wiesbaden
Germany

Design
KW43, Düsseldorf

Photography
Stephan Schacher, Zurich
Rüdiger Nehmzow, Düsseldorf

Production
CPI, Düsseldorf

Typesetting and lithography
Lettern Partners, Düsseldorf

Printed by
Druckpartner, Essen

Five-year Summary

		HGB 1999	HGB 2000	HGB 2001	IFRS 2001	IFRS 2002	IFRS 2003
Sales	€ million	6,194	8,450	9,076	8,833	8,726	8,992
Domestic	%	30.9	23.8	25.0	24.9	22.9	22.9
Foreign	%	69.1	76.2	75.0	75.1	77.1	77.1
Earnings							
Earnings before interest, taxes on income and amortization of goodwill (EBITA)	€ million	438	775	795	764	647	544
Earnings before taxes on income (EBT)	€ million	417	481	505	447	356	287
Net income[1]	€ million	243	273	285	241	240	108
Earnings per share[2]	€	2.04	2.29	2.39	2.02	2.01	0.91
Dividend	€ million	135	135+26[3]	135	135	135	135
Dividend per share[2]	€	1.13	1.13+0.22[3]	1.13	1.13	1.13	1.13
No. of shares	in 000s	119,262	119,262	119,262	119,262	119,262	119,262
Asset Structure							
Fixed assets	€ million	6,282	7,936	7,856	8,544	8,037	7,702
Inventories[4]	€ million	566	814	852	1,047	994	1,107
Trade receivables[5]	€ million	1,314	1,734	1,840	2,034	1,874	1,760
Cash and cash equivalents	€ million	398	521	424	531	480	561
Other assets	€ million	443	670	494	712	821	785
Total assets	€ million	9,003	11,675	11,466	12,868	12,206	11,915
Capital structure							
Equity[1]	€ million	3,917	4,096	4,249	4,313	4,086	3,851
Provisions	€ million	1,415	2,219	2,217	2,097	2,146	2,227
Financial liabilities	€ million	2,740	4,180	3,798	3,795	3,294	2,991
Other liabilities	€ million	931	1,180	1,202	2,663	2,680	2,846
Total equity and liabilities	€ million	9,003	11,675	11,466	12,868	12,206	11,915
Cash flow statement							
Capital expenditure (incl. financial assets)	€ million	885	979	717	965	913	967
Amortization and depreciation	€ million	315	677	689	870	919	948
Cash flow from operating activities	€ million	412	705	1,039	891	1,145	1,281
Employees		35,597	47,126	46,400	46,400	46,521	46,662
Within Germany	%	49.3	39.2	39.6	39.6	39.0	38.2
Outside Germany	%	50.7	60.8	60.4	60.4	61.0	61.8
Key ratios							
Equity ratio[1]	%	43.5	35.1	37.1	33.5	33.5	32.3
Return on capital employed (ROCE)[6]	%	10.2	9.8	9.0	7.9	7.0	7.7
EBITA-Return on sales[6]	%	7.1	9.2	8.8	8.6	7.4	7.5
Cash flow from operating activities as percentage of sales	%	6.7	8.3	11.4	10.1	13.1	14.2

1) Under HGB, excludes 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

APEC countries
APEC (Asia-Pacific Economic Cooperation), founded in 1989 in Singapore, is an economic organization which has the objective of creating a free trade zone in the Asia-Pacific region. APEC has 21 member economies which, according to APEC's own statistics, represent in total around 40 percent of the world population and 60 percent of the world's gross national product: Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, South Korea, Taiwan, Thailand, USA and Vietnam.

Balanced Scorecard
Strategy-based management information system which offers an integrated approach for a balanced presentation of all significant financial and management data.

Block store
A special type of store without shelves or other devices, in which stackable cases, boxes or pallets are stacked on top of and next to each other in blocks.

Center-site program
Product group of half-height refrigerated multideck cabinets for supermarkets which, unlike conventional multideck cabinets, do not stand against the wall but are positioned right at the center of the site, allowing goods to be displayed as attractively as possible.

CKD production
Completely knocked down: Partly-manufactured subassemblies which are finished in the country of destination and fitted together to form a total product (here, refrigerated display cases).

Cracking furnace
The most important component of a steam reformer, in which steam and heat are used to crack liquid or gaseous hydrocarbons into olefins such as ethylene and propylene.

Debt Issuance Program
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
Capital market program for short-term notes on the euro market.

Inertization
A process by which a combustible or reactive state is transformed into a safe, non-combustible or non-reactive state by mixing in a non-combustible gas, such as nitrogen.

Loan, syndicated
A loan which is granted at a fixed interest rate.

Material adverse change clause
A clause in a credit agreement which grants the banks the right to call in the loan in the event of a future material adverse change in the net assets and financial position of the borrower.

Net foreign currency position
The balance of liabilities in foreign currencies and receivables in foreign currencies from operating and financial transactions.

Order picker
Here, warehouse equipment used to select goods and transport them within the warehouse. Depending on the height of the shelves where the goods are stored, horizontal or vertical order pickers may be used.

Packs
Here, core components of air separation plants which have a positive effect on their efficiency.

Pallet stacker
An industrial truck with a platform, suitable for transporting and stacking loads and also for conveying people.

Products, viscous
Dough-like products in the food industry. Linde has developed new solutions for the refrigeration of these products.

REXP
The REX Performance index (REXP) of Deutsche Börse AG, the German stock exchange, is the performance index which applies to the bond portfolio of the German annuity index (Rentenindex or REX). It measures the performance of the REX portfolio in which the coupon payments are reinvested while retaining the portfolio structure.

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 the interest expense and the interest costs for pension provisions, 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.

Steam reformer
Plant used to reform light hydrocarbons (e.g. natural gas) using steam in a cracking furnace. This produces a gas mixture containing hydrogen, which is used for chemical syntheses and to obtain hydrogen.

Submersion paint technique, cataphoric
Paint process for the permanent protection of metals from corrosion.

Subsidiarity principle
Decentralized problem-solving is the priority. The next decision-making level in the hierarchy intervenes in a regulatory capacity only if this is more effective or more likely to achieve the objectives for overriding reasons.

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.

Turnkey competence
Here, the ability of the company to handle complex turnkey projects. Includes all aspects of the projects from initial planning to delivery of the plant.

Financial Calendar

Press Briefing on Annual Results
March 24, 2004
Städelmuseum, Frankfurt am Main

Analysts' Briefing
March 24, 2004
Städelmuseum, Frankfurt am Main

Interim Report January – March 2004
May 13, 2004

Shareholders' Meeting 2004
May 18, 2004, 10.00 am
International Congress Center, Munich

Dividend Payment
May 19, 2004

Interim Report for 1st half of 2004
August 12, 2004

Fall Press Conference
November 11, 2004
Corporate Center, Wiesbaden

Interim Report January – September 2004
November 11, 2004

Shareholders' Meeting 2005
June 8, 2005, 10:00 am
International Congress Center, Munich

Shareholders' Meeting 2006
May 4, 2006, 10:00 am
International Congress Center, Munich

Contact

Linde AG
Abraham-Lincoln-Straße 21
65189 Wiesbaden
Germany
Telephone +49-611-770-0
Fax +49-611-770-269
www.linde.com

Communications
Telephone +49-0611-770-146
Fax +49-0611-770-447
E-Mail info@linde.com

Investor Relations
Telephone +49-611-770-128
Fax +49-611-770-690
E-Mail investorrelations@linde.com

This report and the annual financial statements are available in both German and English and can also 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.

Linde AG
Abraham-Lincoln-Straße 21
65189 Wiesbaden
Germany
Telephone: +49-611-770-0
Fax: +49-611-770-269
www.linde.com