Management Report

Contents

Key figures for the Group

The year 2004 marked a return to steadier growth in the Group's key businesses, particularly with rapid development of hydrogen and emerging Asia, and renewed momentum in the markets in the United States, and Healthcare in Europe. This growth was reinforced by the successful acquisition and integration of Messer activities.

In this context, the Group has delivered a further increase in profits for 2004, whilst maintaining margins, thanks to its renewed productivity initiatives.

Furthermore, strong cash flow and a selective approach to investment ensure continued financial strength, with debt levels lower than anticipated and very good return on capital employed.

Overall, 2004 was a milestone year for Air Liquide. In light of this good performance and a favorable outlook, the Management Board is proposing a significant dividend increase.

In millions of euros

	2003	2004	2004/03	2004/03 (excl. forex)	2004/03 (excl. forex and excl. Messer)
Total sales	8,394	9,376	+11.7%	+14.5%	* +7.1%
of which Gas and Services sales	7,389	8,275	+12.0%	+15.0%	* +6.6%
Operating income before depreciation/amortization	2,005	2,191	+9.3%	+12.0%	+6.4%
Operating income	1,196	1,277	+6.8%	+9.2%	+7.1%
Group consolidated net earnings	726	778	+7.1%	+9.6%	+9.4%
Funds from operations (cash flow)	1,542	1,695	+9.9%	+12.6%	
Net earnings per share*** (in euros)	** 6.68	7.20	+7.8%	+10.3%	
Dividend per share (in euros)	** 2.90	3.50	+20.7%		
Return on capital employed after tax (ROCE)	11.6%	11.3%			

* And excluding natural gas price variation, and impact of consolidation of Asian activities.

** Adjusted to take into account the bonus share issue in June, 2004.

*** Number of shares outstanding as of December 31, 2004, for net EPS calculation: 107,937,967.

Sales

Consolidated sales for 2004 reached 9,376 million euros, an increase of +11.7% over 2003, including the acquired Messer activities (471 million euros over eight months) for +5.6%.

Excluding foreign exchange, natural gas and the consolidation impact of Messer and subsidiaries in Singapore and Hong Kong, the increase was +7.1%.

Group results

Operating income before depreciation and amortization was 2,191 million euros, an increase of +9.3% and of +12.0% excluding foreign exchange. This result was delivered with margins maintained. Productivity initiatives undertaken with the launch of the OPAL program and pricing action enabled the Group to fully offset increased costs stemming principally from energy and the implementation of new IT systems.

After depreciation and the amortization of the goodwill attributable to the Messer acquisition, operating income amounted to 1,277 million euros, an increase of +9.2%, excluding foreign exchange.

Margins (ratio of operating income to sales) were therefore maintained at 14.1% (excluding natural gas and Messer) compared with 14.2% in 2003.

Following the acquisition of Messer activities, financed entirely by debt, **net financial expenses** stood at 143 million euros versus 106 million euros in 2003. Excluding this acquisition, financial expenses fell significantly (-17%) reflecting lower cost of debt.

The contribution from **companies accounted for by the equity method** was 37 million euros, a decrease of 13 million euros, following the consolidation by the proportional method of SOAEO's subsidiaries in Singapore and Hong Kong in 2004.

Other expenses amounted to -68 million euros, compared with -50 million euros in 2003. In particular, these include provisions for restructuring.

Proceeds from divested Messer activities contributed 32 million euros to earnings, including net capital gains from divestments.

The **effective tax rate** decreased to 27.5% from 29.6% in 2003, partly due to ongoing tax optimization efforts, particularly in Europe.

Minority interests increased by +14% owing to very good results from Japan Air Gases, which saw the benefits of synergy plans initiated in 2003 achieved a year ahead of schedule.

Overall, **Group consolidated net earnings** was 778 million euros, an increase of +7.1% (+9.6% excluding foreign exchange). As announced, the contribution of Messer activities consolidated since May had a neutral impact on results for the year.

In 2004, the Group bought back 339,743 shares (adjusted for the 2,500 shares issued in June, 2004) amounting to a total of 44.4 million euros, i.e. an average price of 130.60 euros.

Statement of changes in financial position and balance sheet

Funds from operations (cash fow) were 1,695 million euros, an increase of +12.6% excluding foreign exchange. This is in line with operating income growth before depreciation and amortization. In total, funds from operations (cash flow) represent 18% of sales.

Capital expenditures amounted to 998 million euros over the year (excluding the Messer acquisition), up compared with 2003 owing to investment decisions for growth made during the past two years. In 2004, the ratio of capital expenditures to sales was 10.6%.

In 2004, the Group's **investment decisions** totaled 1,200 million euros, reflecting numerous commercial successes across all geographic zones and in markets with strong potential.

After increased working capital, share buybacks and conversion impact, **net indebtedness** was 3,790 million euros, representing a decrease of almost 1 billion euros since June, 2004, ahead of the Group's expectations.

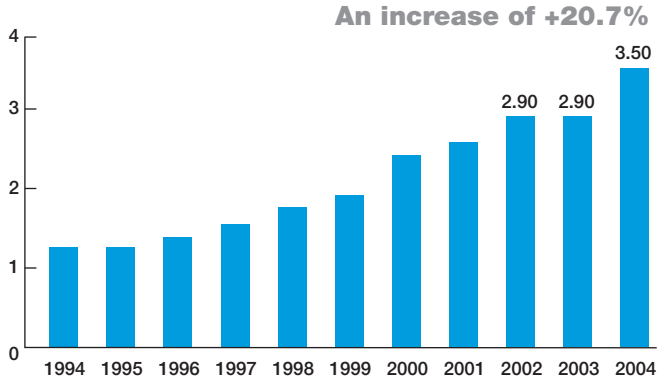
The **ratio of net indebtedness to shareholders' equity** was therefore 66% as of December 31, 2004, a better level than anticipated. Following the Messer acquisition, the Group's financial structure continues to be very strong.

As of December 31, 2004, **return on capital employed after tax (ROCE)** was 11.3% versus 11.6% in 2003. Excluding the acquisition of Messer activities, return on capital employed was 12.2%.

Dividends

At the General Shareholders' Meeting on May 11, 2005, a **dividend** of 3.50 euros will be proposed to shareholders for fiscal year 2004, amounting to a distribution rate of 50.3% of consolidated net earnings.

Dividend per share: €3.50*



(*) 2004 dividend proposed at the General Shareholders' Meeting. Dividends for previous years are adjusted to take into account bonus share issues.

Average annual growth over ten years
Dividend per share: +11%
Total shareholder return: +11%

At year-end 2004
Distribution rate: 50%
Share yield: 2.6%

Total shareholder return of an investment in Air Liquide shares

Total shareholder return (TSR) is an annualized rate of return for shareholders who purchased a share at the beginning of the period and sold it at the end of the period.

TSR calculation factors in the change in share price and dividends paid (including tax credit), assuming they are reinvested in shares right away.

This return is a percentage equal to the share yield (dividend/share price) added to the capital gains rate (capital gains over the period/initial share price).

For L'Air Liquide S.A., net earnings before exceptional items reached 384 million euros, compared with 328 million euros in 2003.

Acquisition of Messer activities in Germany, the United Kingdom and the United States

Announced on January 20, 2004, the acquisition of Messer activities in Germany, the United Kingdom and the United States was finalized on December 3, within a short time frame of 11 months, including approvals from the competition authorities and the realized divestments.

This acquisition is consistent with the Group's strategy to strengthen its position in industrial gas activities through both organic and external growth, and through targeted and profitable opportunities.

Current customers of acquired Messer activities in the countries concerned will benefit from Air Liquide's global network and expertise in technological innovation through an enlarged offer of products and services.

This acquisition also allows Air Liquide to strengthen its position in several key markets:

- In **Germany:** the acquired Messer activities give Air Liquide a broader and more solid base. These activities (sales of approximately 455 million euros) benefit from a strong and well-established presence in Germany's industrial basins, particularly in the Ruhr and Rhine areas. Its business is very complementary to Air Liquide's existing activities, which are strong in the eastern and northern parts of Germany. Air Liquide thus gains access to a solid, balanced portfolio of customers in a broad range of sectors.
- In the **United Kingdom:** Messer's focused activities (sales of approximately 70 million euros) make it an important player in the British bulk carbon dioxide market. They complement the Group's existing expertise in the food and beverage industry, one of the key growth sectors for Air Liquide.
- In the **United States:** a major distributor of liquid gas, Messer (sales of approximately 255 million euros) was established mainly in the North and East, an industrial region that accounts for more than 50% of industrial production in the United States. This geographic presence complements Air Liquide's existing activities – located mainly in the western and southern regions of the United States – enabling the new entity to strengthen its position as a national player and broaden its ability to benefit its customers.

Integration and teams

Beyond the quality of the teams and the acquired assets, Messer's overall expertise is very complementary to the Group's.

The Management teams of the new entity were designated on the basis of their respective skills.

Klaus Schmieder, former Chairman of the Management Board of Messer, has joined the Air Liquide Group as Executive Vice-President and member of the Management Board. He is responsible for overseeing and coordinating Gas and Services operations in Europe, excluding Large Industries and Healthcare.

The operational integration of acquired activities has made significant progress thanks to the work of teams put in place as early as March, 2004.

Key figures

In millions of euros

	Acquired sales*	Sales after required divestments*
Germany	660	455
United States	310	255
United Kingdom	70	70
Total	**1,040**	**780**
Initial acquisition amount including acquisition costs		2,736
Final amount after divestments		2,037
Synergies		100

* On the basis of estimated sales figures for 2003, calculated using 2003 exchange rates, over 12 months.

Calendar of the acquisition of Messer activities

■ **January 20: proposed acquisition of Messer activities announced**

■ **March 15: the European Commission approves the proposed acquisition subject to divestments**

■ **April 29: the Federal Trade Commission (FTC), the U.S. competition authority, approves the proposed acquisition of Messer, subject to the divestment of some acquired liquid gas units**

■ **May 6: closing of the acquisition**
The Group concludes its acquisition following the finalization of financing by the Messer family for the retained businesses.

■ **June 29: sale of Messer activities to be divested in the United States**
The Group signs an agreement with Matheson Tri-Gas, Inc. (a subsidiary of Nippon Sanso) for the sale of liquid gas activities to be divested in the United States in compliance with the Consent Order signed on April 29, 2004, between Air Liquide and the FTC, to meet antitrust requirements. The activities divested represent around 60 million dollars in sales for a sale price of 155 million dollars. Included in the results for 2004, divestments were realized on the basis of a sales multiple approximately equal to the acquisition price multiple.

■ **September 21: Air Liquide signs an agreement with Tyczka for the sale of carbon dioxide activities to be divested in Germany**
Air Liquide signs an agreement with the German company Tyczka, a leading player in the European liquefied petroleum gas (LPG) market. This divestment represents sales of 10 million euros in 2003. The transaction is based on a sales multiple slightly higher than the acquisition price multiple.

■ **October 7: Air Liquide signs an agreement with Praxair for the sale of Large Industries, bulk and cylinder activities to be divested in Germany**
The agreement, pending approval of German competition authorities, amounts to sales of about 180 million euros in 2003.
In total, the combined proceeds in Germany amount to 530 million euros (including the sale of carbon dioxide activities to Tyczka). This was achieved on the basis of a sales multiple higher than the total acquisition price multiple.

■ **November 2: completion of the divestment of activities to Matheson Tri-Gas, Inc. in the United States with the final approval of the Federal Trade Commission**

■ **November 4: completion of the sale of carbon dioxide activities to be divested in Germany with the final approval of the European Commission**

■ **November 24: Air Liquide signs an agreement to sell its interest in MNS to Taiyo Nippon Sanso**
Air Liquide signs an agreement to sell its 51% interest in MNS Nippon Sanso to a newly established subsidiary of Nippon Sanso Corporation.

■ **December 3: completion of the acquisition of Messer activities**
Air Liquide finalizes the acquisition of Messer activities with the final approval from European and German competition authorities for the sale to Praxair of certain activities in Large Industries, bulk and cylinder gas to be divested in Germany.

After the required divestments, the total net investment is 2 billion euros for acquired sales of around 780 million euros, in line with the Group's original estimates.

In addition, on October 29, 2004, Air Liquide announced the sale of its 90% interest in GT&S, an entity specialized in cylinder gases and a Messer subsidiary in the United States. This transaction was undertaken for strategic reasons and is in addition to the divestments required by U.S. competition authorities. The interest in GT&S has been purchased by an entity controlled by the previous minority owner of GT&S, for an amount close to 2003 annual sales, or approximately 80 million dollars.

Financing of the acquisition

This acquisition, which represented an initial investment of 2.7 billion euros, was financed by external debt. Initially (in May, 2004), the acquisition was financed by issuing commercial paper in euros and by short-term bank debt in US dollars. This debt was entirely secured with confirmed back-up lines of credit negotiated specifically for this transaction. Thus, Air Liquide benefited from low-cost financing without any liquidity risk. This initial financing gave the Group a wide degree of flexibility as it awaited proceeds from the divestment of assets previously agreed to. As a second step, Air Liquide refinanced part of this short-term debt by long-term sources in the bond market and bank financing for a total of 1,420 million euros. At the end of June, 2004, L'Air Liquide S.A. carried out two bond issues under its EMTN program (500 million euros maturing in 2010 and 500 million euros maturing in 2014). L'Air Liquide S.A. also issued a private placement of 130 million euros maturing in 2012, and its subsidiary American Air Liquide issued private placements in the United States for 400 million US dollars (three tranches maturing in 2009, 2011 and 2012).

The divestments in the second half of 2004 reduced the short-term commercial paper outstanding and the bank debt in the United States, by around 700 million euros. In parallel, the long-term lines of credit were reduced at the end of the year in proportion to lower short-term financing following the long-term refinancing and proceeds from divestments. The overall impact of this acquisition on the Group's net indebtedness, after taking into account divestments, acquisition costs and financial charges, is around 2 billion euros, of which 72% are financed by long-term debt, and 28% by commercial paper secured with long-term lines of credit.

Following this acquisition, Air Liquide retains a quality credit rating. In May, 2004, Standard and Poor's, the credit rating agency, gave Air Liquide a long-term rating of "A+/negative outlook" and a short-term rating of "A1". Moody's attributed a short-term rating of "P1".

Cost of the acquisition debt and hedging of the interest rate risk

A favorable financing environment with low interest rates, as well as its rating, helped Air Liquide to finance the acquisition at a competitive rate of around 3.3% over 2004. In order to maintain this financing rate over the long term, Air Liquide kept a part of the euro long-term financing at fixed rate, and took advantage of the historically low short-term rates (2% in 2004) on the short-term portion of the debt. Anticipating the rise in short-term US dollar rates towards the end of 2004, and which continues in 2005, Air Liquide protected itself by taking medium and long-term hedges on its debt denominated in US dollars.

Impact on the financial statements

In the 2004 financial statements, Messer activities were consolidated for eight months from May 7, 2004, onwards.

Contribution to consolidated sales from retained activities amounts to 471 million euros.

The impact on the balance sheet includes indebtedness due to the acquisition, re-evaluated net assets and the resulting goodwill.

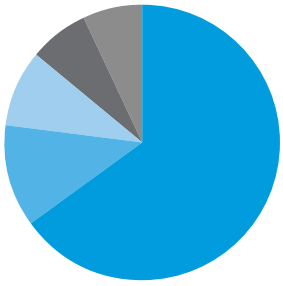
The operation is accretive, before amortization of goodwill from the first year of consolidation.

In millions of euros

	Messer's contribution in 2004
Sales	471
Operating income before depreciation/amortization	112
Amortization/depreciation	(86)
including amortization of goodwill	(25)
Operating income	26

Synergies

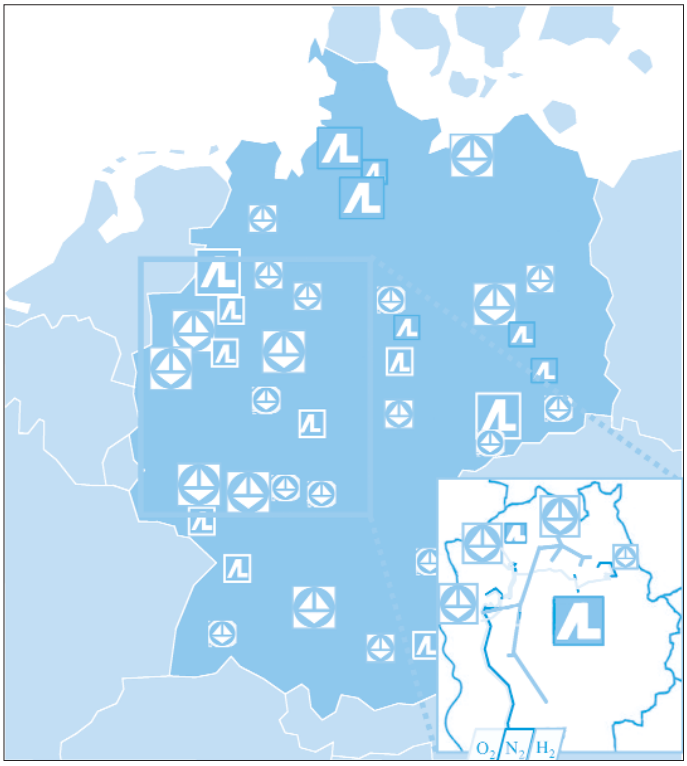
The distribution of €100 M of synergies



- General & Administration 65%
- Industrial efficiency 12%
- Logistics 9%
- Purchasing 7%
- Volumes 7%

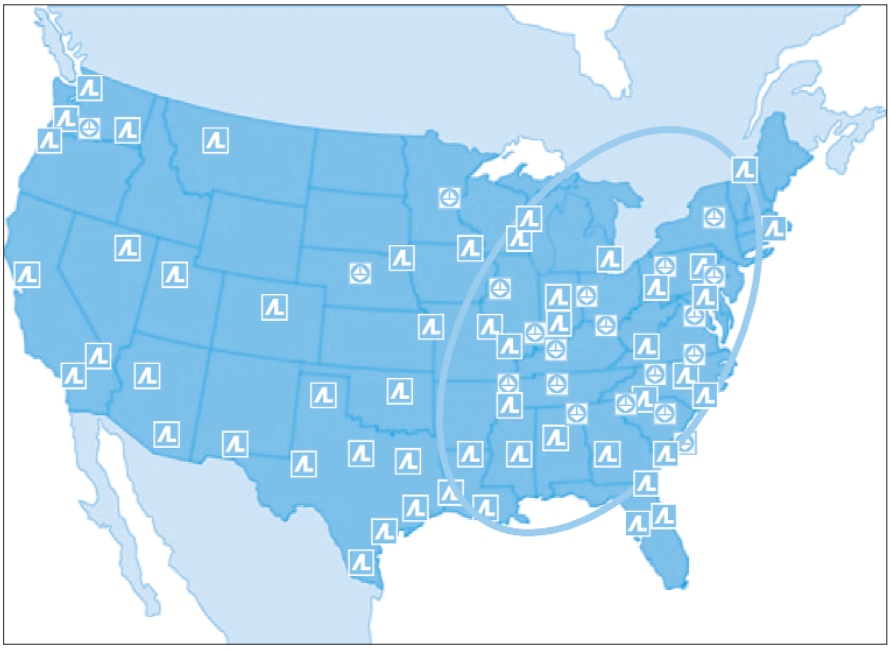
Synergies following the integration of Messer activities will amount to 100 million euros over three years. The Group figures that 50% of synergies will be achieved in 2005.

Germany: nº 2 in the first European economy
Sales in 2004 pro forma for a full year: €900 M



United Kingdom: a targeted presence
Sales in 2004 pro forma for a full year: €70 M

United States: nº 3 close to the nº 2
Sales in 2004 pro forma for a full year: €1,600 M



Air Liquide activities

Retained Messer activities

Activities and investments

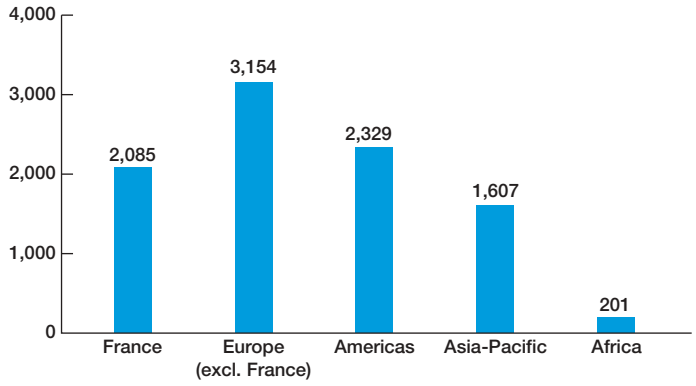
The year 2004 was very significant for Air Liquide, due to the acquisition and successful integration of Messer activities which enhances the Group's core business in Europe and the United States, and the delivery of accelerated growth which confirms the Group's strategy.

As a result, the Group has recorded strong consolidated sales growth for the year. Hydrogen activities have developed strongly and both homecare and service businesses have confirmed their ability to deliver sustainable growth. In 2004, Air Liquide grew in all markets in Europe, the United States, and Asia, and particularly in China, demonstrating the Group's new momentum.

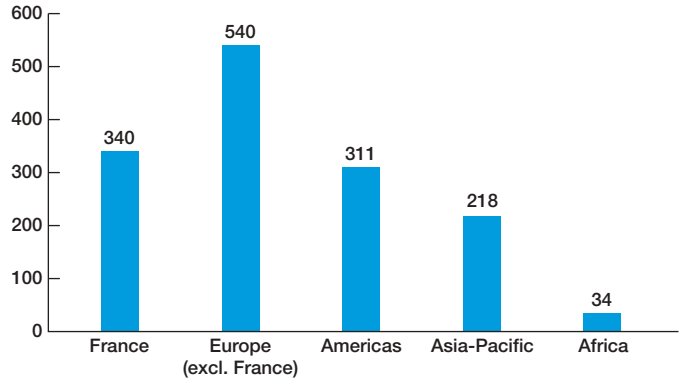
In 2005, these positive trends should continue with the further development of the growth drivers and the Group's geographic expansion.

Analysis by geographic zone

Sales by geographic zone
(in millions of euros)



Operating income by geographic zone [1]
(in millions of euros)



(1) Excluding research centers and corporate overheads (-166 million euros).

Europe

Air Liquide's activities in Europe achieved significant growth, despite a weaker economic environment. This is the result of the Group's strategy of developing new markets: hydrogen, healthcare and services. The integration of Messer in Germany is progressing favorably, with a new organizational structure fully in place since January 1, 2005.

In Large Industries, hydrogen capacity was tripled, with the start-up of units in France, Spain and Belgium. Products and services in Healthcare are recording sustained growth. Industrial Customers are benefiting from the integration of enlarged offer and services.

The continued ramp-up of large contracts and the Group's developments in its Healthcare businesses ensure good prospects for 2005.

In a moderate economic environment, operating income in Europe (including France) increased. This growth was linked in particular to good results in Northern Europe, in Large Industries and Healthcare.

Americas

The Americas performed well with high utilization rates of the Group's capacity and new developments sustaining its future performance.

In North America, Industrial Customers registered a significant increase in liquid volumes, benefiting from higher demand due to the favorable economic environment in most markets. Activity in Large Industries was sustained throughout the year and a very large 100,000 m^3/hour hydrogen unit was started up in the fourth quarter in California, a new basin for Air Liquide. Important contracts won in 2004 in hydrogen and Electronics and the integration of Messer will enable the Group to sustain its momentum in the American continent over the next two years.

Growth in operating income was very sustained, with a significant increase in margins, driven in particular by volumes in the United States and productivity initiatives.

Asia-Pacific

2004 was a strong year for the Asia-Pacific zone and all businesses are growing. The ramp-up of large contracts, notably in South Korea, and the dynamic semi-conductor market (particularly for flat screens) underpinned this performance. In Japan, activity was stronger at the end of the year thanks notably to Electronics and a better fourth quarter in Industrial Customers. Best performances were seen in other Asian countries, with very significant growth in China and South Korea.

The outlook for the Group's activities in the zone remains very favorable, with the start-up of large contracts and recent investments in Electronics and Large Industries which increased significantly, in line with the Group's strategy.

In Asia-Pacific, operating income recorded very strong growth linked to rising volumes in emerging Asia and the completion of synergies from Japan Air Gases

Africa

In 2004, Air Liquide recorded a satisfactory growth in sales and higher margins. South Africa and Egypt, recently included within the Group's perimeter, performed best in terms of activities and return.

Capital intensity

Capital intensity is the amount of capital needed to generate one euro in sales. This capital is either invested into industrial assets (production unit, storage, truck, etc.), or used as working capital to finance the development of the activities.

Capital intensity in the Group's business lines varies:

- air gases production in Large Industries is very capital intensive with a capital intensity between 2 and 3;
- hydrogen or cogeneration services currently have a capital intensity close to 1, given the high price of natural gas in particular;
- Electronics, Healthcare, and value-added services, all major development drivers, also have a capital intensity around or below 1 depending on product mix.

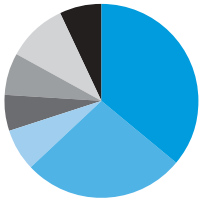
Whatever the capital intensity, Air Liquide's objective is to achieve, over the long term, return on capital employed after tax of at least 12% (ROCE).

Gas and Services (excluding Messer)

Industrial Customers

In millions of euros

2004 Sales	3,834
Capital intensity	1.5 to 2



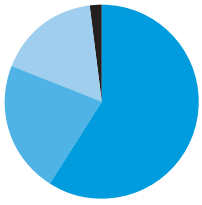
Liquid gasses	36%
Cylinder gases	27%
On-site	7%
Services	6%
Pure and mixed gases	7%
Equipment and installations	10%
Other	7%

Large Industries

In millions of euros

2004 Sales	2,261
Capital intensity*	1.5 to 2.5

(*) At 2004 average natural gas price.

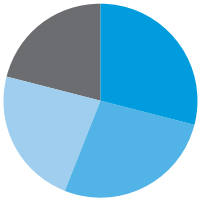


Air gases	59%
H_2/CO	22%
Cogeneration	17%
Other	2%

Electronics

In millions of euros

2004 Sales	884
Capital intensity	1 to 1.2

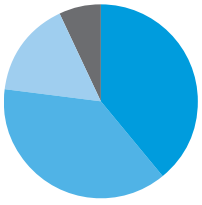


Carrier gases	29%
Specialty gases	27%
Services and liquid chemicals	23%
Equipment and installations	21%

Healthcare

In millions of euros

2004 Sales	1,296
Capital intensity	0.8 to 1.2



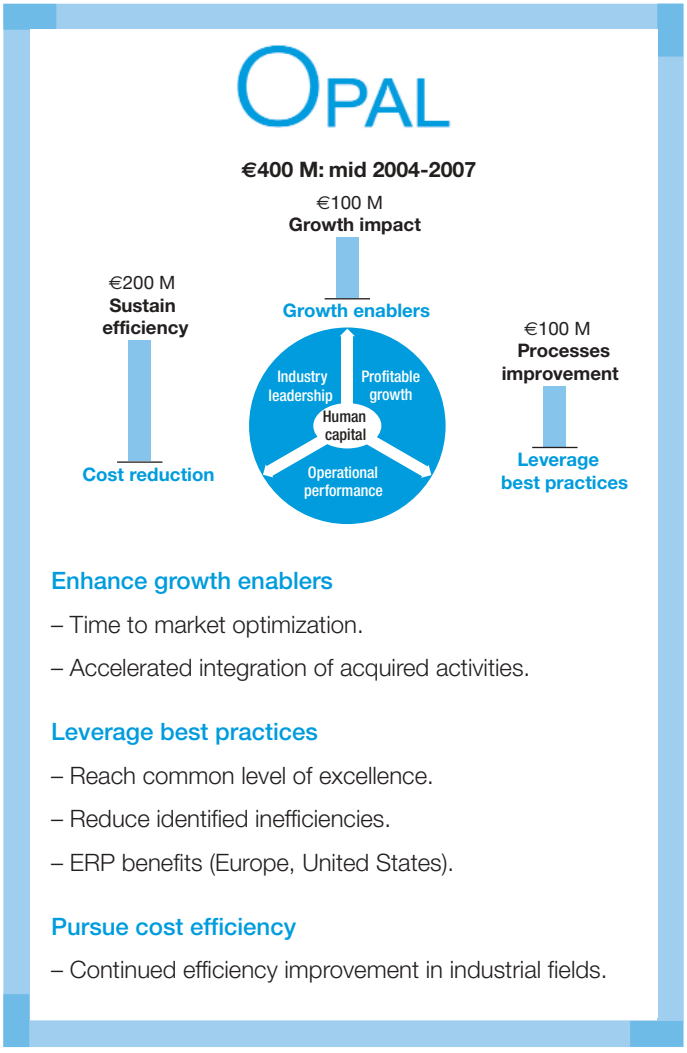
Homecare	39%
Hospital	38%
Hygiene	16%
Equipment	7%

New productivity program

In 2004, Air Liquide launched a three-year action plan to strengthen sales growth and improve operating income.

The program is based on three key goals: accelerating time to market for the Group's products and services, leveraging best practices, and constantly improving efficiency.

This program should generate approximately 400 million euros in improved performance throughout all Group activities by 2007.



Competition

Air Liquide's main competitors in industrial and medical gases are the American groups Praxair and Air Products, the British group BOC, the German group Linde and two smaller groups: Taiyo Nissan (Japan) and Airgas (United States).

In December, 2004, Air Liquide completed the acquisition of the Messer activities in Germany, the United Kingdom, and the United States with the approval of competition authorities in Europe and the United States.

Before and after this acquisition, Air Liquide is the world leader in industrial and medical gases.

Delivering growth strategy

The Group's **strategy** is firmly focused on **growth**:

■ Air Liquide's strategy in the industrial gas sector is **unique** as it combines **balance of activities, geographic presence,** and **resource mix.** This strategy leads to targeted investments equal to 11% to 13% of sales;

■ Earnings each year result from the combination of **growth in sales** and **continuous gains in productivity** within the Group;

■ **Financial discipline** is driven by **ambitious goals**: the return on capital employed after tax (ROCE) should in permanence attain or exceed 12%; the ratio of net indebtedness to shareholders' equity remains between 35% to 50%;

■ Delivering **sustained, long-term shareholder returns** is a **priority**. The total shareholder return (TSR) rate in the last ten years has been over 11%.

2005 Outlook

Following 2004, which marked an important stage in Air Liquide's development, the Group's financial strength is maintained and 2005 has begun in a positive trend, due to:

■ Focus on **profitable growth in emerging economies;**

■ **Development** of the Group's key **growth drivers**: hydrogen, Asia, Electronics, homecare and hygiene in Europe;

■ Integration of Messer activities within a **new European framework**;

■ Achievement of **50% of anticipated Messer synergies** in 2005.

Air Liquide's business successes over the past three years and dynamic growth drivers position the Group to target, once again, a growth rate in net earnings in 2005 at least comparable to that published in 2004.

Investments decisions and capital expenditures

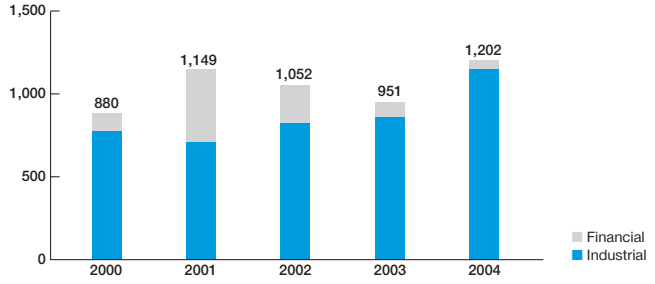
Investment decisions have always been a key element of the Group's strategy as they:

- develop the business through both internal and external growth,
- improve efficiency and quality, and
- ensure safety and reliability.

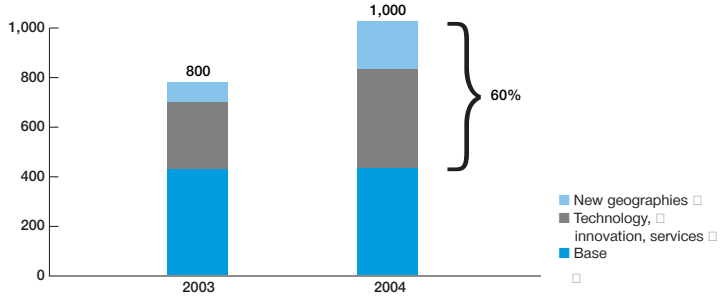
The economic objective of these investments is to facilitate sustainable growth by improving the returns on capital employed. The required level of the internal profitability may vary with the overall assessment of the risks associated with the investment. Investments in long-term contracts, for instance, generate weaker levels of profitability in the first few years, because the customer's needs increase gradually, while the contract bears the depreciation (linear over the life of the contract) and financial expenses over the same period. Profitability levels increase rapidly thereafter.

The Group's decision to enlarge its offer resulted in a number of commercial successes between 1995 and 1997, which in turn led to accelarated investment decisions. During this period, the Group committed approximately 3.5 billion euros to industrial investments, two-thirds of which were linked to long-term contracts. This was three times the investments made between 1992 and 1994. These decisions resulted in 68 large units between 1997 and 2000 and generated significant capital expenditures until 1999. Following this development period, Air Liquide has continued, over the past fours years, to invest at a rate of approximately 1 billion euros a year. Today, the Group has over 250 units on the five continents.

Investment decisions (in millions of euros) (excluding Messer)



Gas & Services investment decisions (excluding Messer) (in millions of euros)



In 2004, **investment decisions** amounted to 1,202 million euros (excluding the acquisition of Messer's activities in Germany, the United Kingdom and the United States), a +15% increase over the average of the last three years. This increase resulted from new contracts secured during the year. Emerging geographies accounted for 200 million euros of the Group's total investment decisions, while growth markets, such as hydrogen, energy, Electronics and Healthcare accounted for 400 million euros. These strategic development drivers accounted for 60% of the Group's industrial investments.

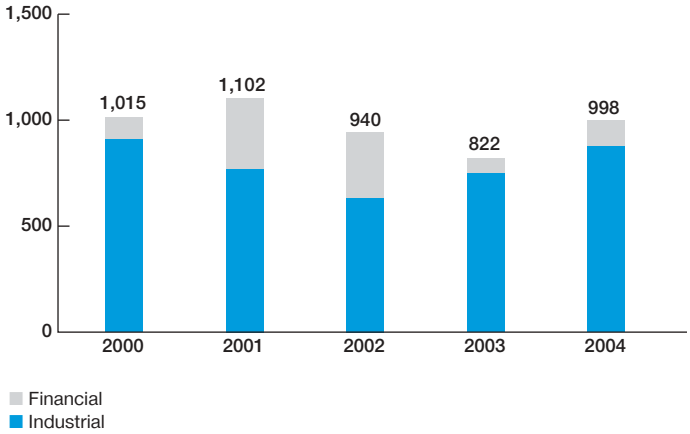
Three significant successes were achieved in China where the Group will supply air gases on a long-term basis to two major steel makers in the Shandong area, as well as to a flat screen producer based in Beijing. In hydrogen, Air Liquide secured a major contract in Bayport, Texas, and therefore strengthened its position at the heart of Houston's refinery basin.

These investment decisions are subject to a careful evaluation process, undertaken at Group level by the Investment and Operations Committee chaired by a member of the Management Board together with directors of relevant zones and activities.

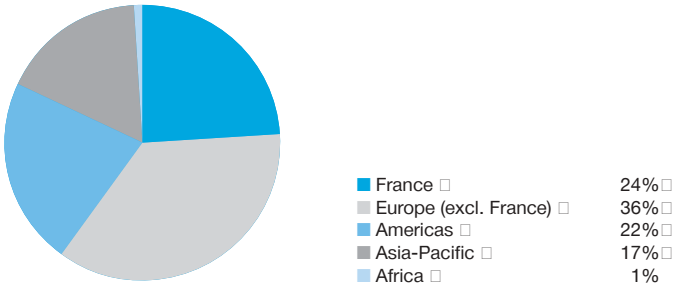
Decisions are based on rigorous individual assessments of projects, using five main criteria:

- The **location of the contract:** : the analysis will differ whether the project is based in an industrial basin with high potential (Corpus Christi in the United States, Antwerp in Belgium, Caojing in China), or connected to an existing pipeline network, or else found in an isolated location;
- The **nature of the product provided:** the analysis of risks and expected profitability will vary in the case of air gases, relying on the Group's traditional technologies, or new products such as hydrogen and synthetic gas, which occasionally rely on more innovative technologies;
- **Customer risk:** this is measured according to whether the customer is local or global, and takes into account the customer's market and stability;
- **Competitiveness of the site or gas-dependent activity:** this is assessed based on size, the cost of raw materials and access to markets;
- Finally, **country risk** is studied carefully.

Capital expenditures (in millions of euros) (excluding Messer)



Capital expenditures by geographic zone (excluding Messer)



In 2004, **industrial capital expenditures** reached 875 million euros compared with 747 million euros in 2003. This increase reflects the ramp-up in investment decisions between 2002 and 2004 in Air Liquide's growth markets (notably hydrogen and emerging Asia). By geographic zones, Europe excluding France accounted for 39% of these investments, France 22%, the Americas 21%, Asia 17% and Africa 1%.

Financial capital expenditures totaled 2,859 million euros including the acquisition of the Messer activities in three countries during the year. Excluding this acquisition, expenditures amounted to 123 million euros compared with 75 million euros in 2003. For the most part, these expenditures were linked to the buyback of minority interests in the United States and in Asia, as well as the acquisition of Livingston, a major player in the field of metrology, which has strengthened the services pole in Europe.

In total, the ratio of capital expenditures (excluding the financial investment tied to the Messer acquisition) to Group total sales was 10.6% in 2004 compared with 9.8% in 2003.

In 1999, with the gradual increase in sales generated through large projects and the Group's policy of selective investments, the Group's return on capital employed (ROCE) has increased notably. In 2004, return on capital employed after tax was 12.2% (excluding Messer) compared with 11.6% in 2003. Including the acquisition of Messer, return on capital employed was 11.3%, a good performance given the size of this strategic transaction.

The lifespan of a long-term contract

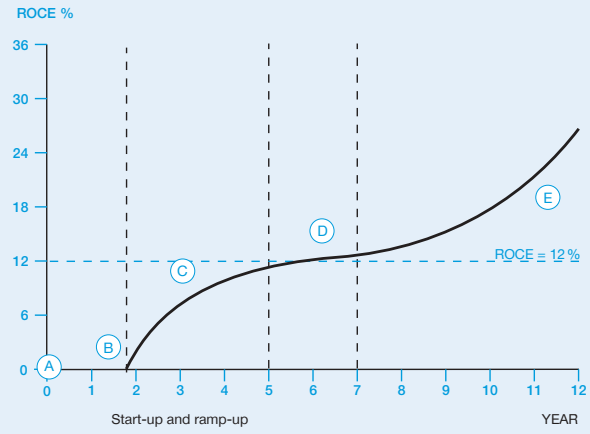
Stage A: an investment decision follows the signing of a long-term contract.

Stage B: capital expenditures begin as Air Liquide builds the unit for the customer(s) over 18-24 months.

Stage C: the unit starts up and gas production increases progressively. Sales begin and will continue over the course of the contract term.

Stage D: between years five and seven, the contract reaches an average return on capital employed (ROCE) of 12%, in line with Group objectives.

Stage E: after 15 years, aside from maintenance expenses and renewed investment, the unit is mostly depreciated. At this point, the return on capital employed grows significantly.



Financial policy

Financial risk management

Risk management is a priority for the Group. As for financial risk management, Air Liquide has set up a Finance Committee that includes members of the Management Board, the Finance Director, and representatives from the Finance Department. The Committee's role is to establish financial, treasury and financing risk policies and monitor their implementation. The Finance Committee reports to the Audit and Accounts Committee of the Supervisory Board.

The Finance Department manages the main financial risks centrally, based on the decisions of the Finance Committee, to which it reports quarterly. The Finance Department also performs the analysis of country and customer risks and provides input on these risks at Investment and Operations Committee meetings.

Foreign exchange risk

In the industrial gas industry, most products are not exported but are produced in the country where they are invoiced. There is thus little risk of currency fluctuations affecting the Group's competitiveness. Foreign currency variations only affect operating income when financial statements are translated into euros. The effect of the two main foreign currencies – US dollars (USD) and yen (JPY) – is as follows:

Impact of variation of +/–1% in foreign exchange rate:

In millions of euros

	Sales	% Group	Operating income	% Group
USD	19.7	0.21	2.3	0.18
JPY	9.7	0.10	1.0	0.08

The geographic distribution of operating income by currency is as follows:

	2003	2004
Euro zone	54%	51%
US and Canadian dollar zones	23%	24%
Yen zone	8%	8%
Other	15%	17%

Transactions involving patent royalties, technical support and dividends require the exchange of foreign currency between Group companies. The related exchange risk is handled as part of the Finance Department's hedging policy.

In Engineering and Construction, the Group hedges transactions on a case-by-case basis. The instruments used are mainly currency forwards or options with first-grade counterparties. The breakdown of the hedging portfolio by currency and instrument is shown on page 96.

The Group raises debt in the currency of the cash flows. This provides a natural hedge and reduces the Group's exposure to exchange rate variations. In countries outside the euro, US dollar and yen zones, financing is raised in either local or foreign currency (EUR or USD) when contracts are indexed in euros or US dollars – which is often the case for Large Industries projects.

As part of intra-group multi-currency financing, the Central Treasury Department converts the debt raised in financial markets into various currencies to refinance subsidiaries in their functional currencies. The breakdown of this hedging portfolio is shown on page 96.

The following table shows the impact of foreign exchange swaps on Group net indebtedness as of December 31, 2004:

In millions of euros

	Gross debt before hedging	Short-term loans, marketable securities and cash	Hedging (foreign exchange swap contracts)	Net indebtedness adjusted after hedging	Fixed assets
EUR	3,671	(544)	(409)	**2,718**	5,657
USD	522	(64)	300	**758**	2,098
JPY	177	(12)	58	**223**	548
CAD (1)	8	(9)	96	**95**	380
Other currencies	197	(156)	(45)	(4)	1,552
Total	**4,575**	**(785)**	**0**	**3,790**	**10,235**

(1) Canadian dollar.

A portion of the euro debt raised on the markets (409 million euros) was converted to other currencies to refinance foreign subsidiaries. For instance, of the Group's US dollar gross debt of 822 million (758 million of net indebtedness plus 64 million of excess cash), 522 million euros were raised directly in US dollars and 300 million euros were raised in euros and converted to US dollars using foreign exchange swap contracts.

Interest rate risk

Principles

Air Liquide interest rate risk management on its main currencies - euro, US dollar, Canadian dollar and yen - is centralized. These currencies represent approximately 97% of total gross debt. For other currencies, the Finance Department advises the subsidiaries on hedging their foreign currency exposure in accordance with the local financial market regulations. The Finance Committee determines the fixed rate/floating rate ratio for each currency and approves the hedging instruments used.

The Group's objective is to reduce the impact of interest rate fluctuations on its financial expenses and earnings and, by adopting a principle of prudence, to provide backing for long-term fixed assets with shareholders' equity and fixed-rate long-term debt. Since most of Air Liquide's activities are based on long-term contracts (10 to 15 years), a policy promoting interest rate hedging (fixed rates and options) provides good visibility on the financing cost when deciding long-term investments.

Sensitivity to interest rate fluctuations

The Group's net indebtedness exposed to interest rate fluctuations amounted to 1,650 million euros as of December 31, 2004 (39% of the gross debt adjusted for short-term securities), compared with 870 million euros at year-end 2003 (41% of the debt).

The increase in the amount of net indebtedness exposed to interest rate fluctuations is due to the acquisition of Messer activities in Germany, the United Kingdom and the United States. Given the Group's policy to hedge interest rate risks, the proportion of the debt exposed to rate interest fluctuations is stable at around 40%.

An increase or decrease in interest rates of 100 bp (+ or -1%) on all yield curves would have an impact of about + or -16.5 million euros on the Group's annual financial charges before tax, assuming outstanding debt remains constant.

Also, the Group contracted optional interest rate hedges (caps), triggered if interest rates increase significantly (above 3.90% for EUR and 3.80% for USD). If those hedges are triggered, assuming constant outstanding debt, consolidated net indebtedness exposed to interest rate fluctuations would drop by about 1,000 million euros to 650 million euros. Sensitivity of financial charges would then be reduced to 6.5 million euros.

The Group does not hold derivatives for trading purposes. All hedging instruments used to manage interest rate or foreign exchange risk relate to identified risks.

Counterparty risk

Potential counterparty risks for Air Liquide include:

- Customers;
- Bank counterparties.

The Group has more than one million customers in a broad range of industries, dispersed over an extensive geographic area, thus precluding any concentration of customer credit risk. As an illustration, the sales to Air Liquide's top ten customers represent less than 15% of total sales.

To better assess its exposure, the Group has adopted procedures to regularly monitor the financial position of its major customers and analyze outstanding balances.

Moreover, customer risk assessment is an important component in the investment decision process, and the Audit and Accounts Committee is regularly updated on this subject.

Bank counterparty risk relates to the outstanding amounts of derivatives and to outstanding lines of credit contracted with each bank. Based on its financial policy, the Group requires a long-term Standard & Poor's "A" rating or a Moody's "A2" rating from its counterparties. The Group's lines of credit are also spread among several banks to avoid risk of concentration. The Finance Committee regularly checks and approves the list of financial instruments and banks.

Funding

Funding policy

All funding decisions are subject to the Group's financial policy, which is implemented and supervised by the Finance Department.

The Finance Committee determines the annual and multi-year goals of the funding policy for all subsidiaries and monitors its application.

To better identify its funding activities, Air Liquide has established a French subsidiary, Air Liquide Finance, that manages most of the Group's interest rate and foreign exchange risks, and funding transactions.

Air Liquide has access to various financing sources in many markets and can therefore optmize financial expenses by choosing the financing best suited to its needs while focusing on liquidity. Air Liquide relies on short-term commercial paper, in France through a French Commercial Paper program to a maximum of 3 billion euros, and in the United States through a US Commercial Paper program (USCP) to a maximum of 1.5 billion US dollars. In line with the Group's internal policy, outstanding commercial paper issuances are backed up with confirmed lines of credit.

In addition, Air Liquide can issue bonds through its long-term Euro Medium Term Note (EMTN) program to a maximum of 3 billion euros. Outstanding notes under the EMTN program amount to 1.8 billion euros, of which 1 billion euros were issued in 2004 to finance the Messer acquisition. In addition, the Group raises bank debt (loans and bilateral lines of credit) and private placements. The average maturity of debt is five years.

Breakdown of debt

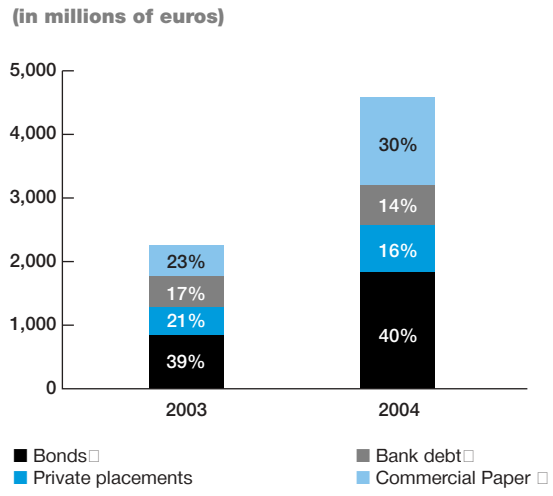
As per the Group's policy of diversifying sources of financing, the debt is spread over several types of instruments (capital and bank debt markets). The first source of financing is long-term bonds under the EMTN format, which represents 40% of the debt.

In 2004, the main long-term financing transactions involved the acquisition of Messer activities:

- 1 billion euros in EMTN on the Eurobond market (in two tranches of 500 million euros maturing in 2010 and 2014);
- 400 million US dollars in private placements issued by American Air Liquide, a fully-owned subsidiary of the Group (three tranches maturing in 2009, 2011 and 2012);
- 130 million euros in private placement maturing in 2012.

In addition, the Japanese subsidiary JAG contracted a five-year credit line of 20 billion JPY (about 140 million euros).

Gross debt distribution by instrument type



In millions of euros

Net indebtedness	Currency of issue	12/31/03	12/31/04
Total bonds		**838**	**1,839**
Bonds 2005-2009	EUR	38	39
EMTN at 5% - 2007	EUR	200	200
EMTN at 4.125% - 2010	EUR	0	500
EMTN at 5.25% - 2011	EUR	300	300
EMTN at 4.125% - 2013	EUR	300	300
EMTN at 4.75% - 2014	EUR	0	500
Total private placements		**453**	**746**
Private placements - 2008	EUR	50	50
Private placements - 2009	EUR	120	120
Private placements - 2012	EUR	0	130
Private placements - 2004	USD	103	0
Private placements - 2007	USD	135	135
Private placements - 2009	USD	0	147
Private placements - 2011	USD	0	73
Private placements - 2012	USD	0	73
Other private placements	USD	45	18
Commercial paper programs		**488**	**1,379**
Bank debt		**389**	**611**
Total gross debt		**2,168**	**4,575**
Short-term loans, marketable securities and cash		(438)	(785)
Total net indebtedness		**1,730**	**3,790**

As indicated in Note (D) to the consolidated financial statements, total debt accounted pro rata of the equity interest held by Air Liquide in companies consolidated by the equity method as of December 31, 2004, and related to the normal course of the business is 17 million euros - including 8 million euros of non-recourse project financing debt. Furthermore, the non-recourse factoring of receivables represents 74 million euros. These elements do not constitute risk or financial liabilities for the Group.

Following the acquisition of Messer activities, Air Liquide retains a strong credit rating. In May, 2004, Standard and Poor's, the credit rating agency, gave a long-term rating of "A+/negative outlook" and a short-term rating of "A1". Moody's attributed a short-term rating of "P1".

Net indebtedness by currency

Air Liquide's debt is mainly in EUR and USD (approximately 92%). In 2004, the portion of EUR debt increased, from 56% to 72%, due mainly to the financing of the acquisition Messer activities. The outstanding USD and JPY debt increased in absolute value, but to a lesser extent. The increase in USD debt is due to the financing of Messer activities in the United States and to debt not previously consolidated. The increase in JPY debt is due to the financing of an exceptional dividend from the JAG subsidiary.

In millions of euros

	2003		2004	
	Stock	%	Stock	%
EUR	980	56%	2,718	72%
USD	531	31%	758	20%
JPY	133	8%	223	6%
CAD	84	5%	95	2%
Other	2	0%	(4)	0%
Total	**1,730**	**100%**	**3,790**	**100%**

Variation of net indebtedness

As of December 31, 2004, net indebtedness was 3,790 million euros (1,730 million euros in 2003), an increase of 2,060 million euros due mainly to exceptional items: the impact of the Messer activities (1,988 million euros), the end of the securitization program in the United States and in Canada partially offset by the increase of other programs (net amount of 91 million euros), and the change in the consolidation perimeter (63 million euros). The impact of changes in currency on net indebtedness, slightly positive at 57 million euros, is due to a nearly 8% drop in the value of the US dollar.

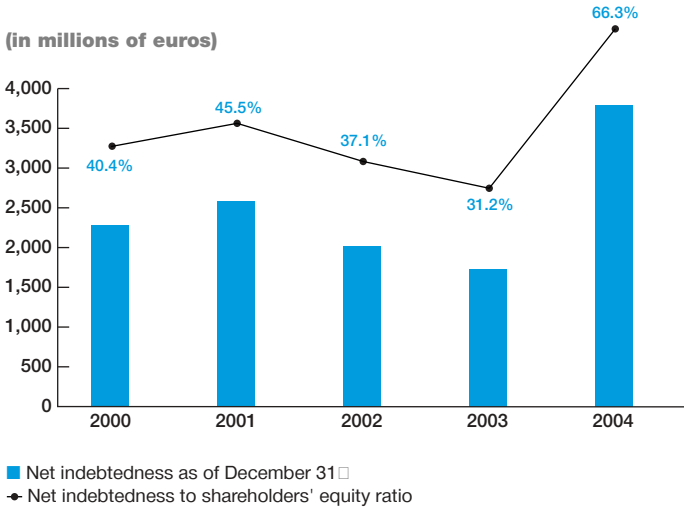
In millions of euros

Net indebtedness as of 12/31/2003	**1,730**
Funds from operations after investments, change in working capital and others	(533)
Distribution of dividends	489
Foreign exchange impact	(57)
Purchase of treasury shares (net of capital increase)	31
Impact of Messer	1,988
Change in the consolidation perimeter and securitization program	166
Net indebtedness as of 12/31/2004	**3,790**

For details on the Statement of changes in financial position, see page 120.

Debt ratio

The net indebtedness to shareholders' equity ratio was 66.3% in 2004 (excluding the acquisition of Messer activities, this ratio would have been 31.4%), compared with 31.2% in 2003. The equivalent debt ratio calculated using the U.S. method: net indebtedness/(net indebtedness + shareholders' equity) reached 39.9% in 2004, compared with 23.8% in 2003.



The financial expenses coverage ratio (operating income before amortization of goodwill + share in the results of companies accounted for by the equity method)/net financial expenses reached 9.6 in 2004, compared with 12.1 in 2003. This change results from the increase in interest expenses due to the acquisition of Messer activities.

Proportion of fixed-rate debt

As of December 31, 2004, fixed-rate debt represented 61% of total Group debt adjusted for outstanding short-term investments. Including all optional hedges, the portion of hedged debt (fixed rate + optional hedges) was 84%, as follows:

		12/31/2003	12/31/2004
EUR debt	Portion of fixed-rate debt	49%	55%
	Additional optional hedges	31%	33%
USD debt	Portion of fixed-rate debt	65%	88%
	Additional optional hedges	7%	4%
JPY debt	Portion of fixed-rate debt	85%	60%
	Additional optional hedges	0%	0%
Total debt	Portion of fixed-rate debt	59%	61%
	Additional optional hedges	18%	23%

In 2004, given the Group's hedging policy on interest rate risks, outstanding fixed-rate debt was kept at around 60%. The fixed-rate portion of the USD debt increased, in the context of rising USD interest rates. Conversely, the fixed-rate portion of JPY debt decreased, to benefit from lower rates on this currency.

Long-term debt

As of December 31, 2004, medium and long-term debt accounted for 94% of the Group's gross debt. The maturity schedule for the Group's medium and long-term debt is shown in Note (l) to the consolidated financial statements.

Gross debt maturities by financial instrument

In millions of euros

	Total	Bonds	Private placements	Bank Debt (1)
2005	274	23	18	233
2006	103	3	0	100
2007	759	204	135	420
2008	126	5	50	71
2009	1,415	4	267	1,144
2010	511	500	0	11
2011	380	300	73	7
2012	205	0	203	2
2013	301	300	0	1
2014	501	500	0	1
Later maturity	0	0	0	0
Total gross debt	**4,575**	**1,839**	**746**	**1,990**

(1)) Including commercial paper outstanding backed with confirmed lines of credit. The maturing date for commercial paper outstanding coincides with that of confirmed lines of credit.

The Group's policy is to spread over time the maturity of long-term debt (bonds and private placements) in order to avoid concentration of annual refinancing needs. Given the regularity of funds from operations generated each year (1,695 million euros in 2004) and the variety of financial instruments used, refinancing of debt does not represent a liquidity risk for the Group.

The 2009 due date for bank debt is mainly attributable to maturing confirmed lines of credit designed to preserve short-term liquidity for financing purposes. The Group's policy is to renew confirmed long-term lines of credit at least one year before maturity.

Debt liquidity

As of December 31, 2004, the Group had 2,255 million euros in committed lines of credit agreements (compared with 1,663 million euros in 2003). These back-up lines are confirmed by banks and do not contain default clauses linked to financial ratios or rating levels, nor "Material Adverse Change" clauses. The outstanding amount of French CP and USCP was 1,379 million euros as of December 31, 2004 (488 million euros in 2003). According to Group policy, the outstanding amounts of commercial paper programs must be backed-up with committed lines of credit. In 2004, this policy was followed throughout the year, and committed lines of credit have consistently been higher than commercial paper outstandings.

Cost of debt

In millions of euros

	2003			2004		
	Average outstanding debt	Gross interest (1)	Cost of debt	Average outstanding debt	Gross interest (1)	Cost of debt
EUR	1,243	59	4.7%	2,697	102	3.8%
USD	672	37	5.5%	887	38	4.3%
JPY	249	3	1.2%	226	3	1.4%
Other currencies	257	14	5.4%	242	13	5.4%
Other charges (2)		3			4	
Total	**2,421**	**116**	**4.8%**	**4,052**	**161**	**4.0%**

(1) Interest on gross debt before financial income.

(2) Other charges excluded from cost of debt by currency.

Cost of debt is calculated by dividing interest charges for the fiscal year (excluding bank charges not directly related to debt) by the year's average total outstanding debt. The latter is calculated on the basis of a monthly average.

Cost of debt in 2004 was 4% (4.8% in 2003). This decrease is due mainly to the impact of the average rate of Messer's additional debt (about 3.3%, see page 84) on the average rate of the consolidated debt, as well as to the drop in euro short-term variable rates.

2005 Outlook

The year 2004 was marked by the acquisition of Messer activities which constitutes a major strategic step forward for the Group. The overall impact of this transaction on the Group's net indebtedness is about 2 billion euros, after divestments, acquisition costs and financial charges. At year-end 2004, with a net indebtedness of 3,790 million euros, Air Liquide's net indebtedness to shareholders' equity ratio was 66.3%, lower than the Group's objective (70%) when the acquisition was announced. Air Liquide is demonstrating again its capacity to generate strong cash flow, based on long-term contracts in particular, and to pay off its debt. Air Liquide will retain its policy of selecting and managing capital expenditures, and will pursue debt reduction steadily, while maintaining dividend policy to shareholders. In the medium term, Air Liquide plans to achieve a net indebtedness to shareholders' equity ratio in line with the Group's traditional levels, that is between 35% and 50%.

This acquisition was carried out according to the Group's financial policy. Air Liquide will continue to favor liquidity as well as prudent management of financial risks, in particular through long-term interest rate hedging to avoid fluctuations in financial expenses.

Details of financial instruments

Details of financial instruments for hedging foreign exchange risk

The following table shows the breakdown by currency, as of December 31, 2004, of the nominal value of financial instruments for hedging foreign exchange relating to royalties and dividends and to refinancing of subsidiaries:

Instruments relating to royalties and dividends

In millions of euros

Type of instrument	Maturity 2005	After 2005
Forward sales contracts		
USD	142	0
CAD	15	0
AUD (Australian dollar)	12	2
CHF (Swiss franc)	9	0
JPY	6	0
Other currencies	20	0

Instruments relating to inter-company financing

In millions of euros

	Maturity 2005	After 2005
Foreign exchange swaps borrowing from banks		
USD	307	0
CAD	96	0
JPY	22	0
GBP (British pound)	12	0
Foreign exchange swaps lending to banks		
USD	(7)	0
CHF	(23)	0
GBP	(13)	0
DKK (Danish krone)	(11)	0
SEK (Swedish krona)	(10)	0
Currency swap (with exchange from variable rate to medium-term fixed rate)		
JPY		36

The notional amounts in foreign currencies are converted to euros based on the year-end exchange rate.

They represent the notional value of the financial instruments.

The difference between the market value and historical cost of the instruments used to hedge the foreign exchange risks described above is positive by 22 million euros.

Details of financial instruments for hedging interest rate risk

The financial instruments for hedging interest rates outstanding as of December 31, 2004, are shown by maturity. They are not speculative and come under the hedging policy described above.

In millions of euros

Type of instrument	Total	2005	2006	2007	2008	2009	≥ 2010
Interest rate swaps: paying fixed, receiving floating rate Objective: to exchange variable rates against fixed rates to guarantee future fixed rates							
EUR	1,530	550	150	200	200	300	130
USD	360	154		73	59		73
JPY	97			29		39	29
CAD	43		43				

In millions of euros

Type of instrument	Total	2005	2006	2007	2008	2009	≥ 2010
Interest rate swaps: paying floating, receiving fixed Objective: to exchange fixed rates against variable rates							
EUR	1,470			200	50		1,220
USD	73						73

In millions of euros

Type of instrument	Total	2005	2006	2007	2008	2009	≥ 2010
Options: caps Objective: to put a cap on interest rates							
EUR	875	100			275	200	300
USD	37				37		

In millions of euros

Type of instrument	Total	2005	2006	2007	2008	2009	≥ 2010
Interest rate options: tunnel Objective: to keep interest rates in a tunnel							
EUR	75		75				

As of December 31, 2004, the difference between the market value and historical cost of the swaps used to exchange the fixed rate EMTN and private placements into variable rates represented a positive market value of 71 million euros.

The market value of the derivative instruments used to secure the financial expenses on long-term debt at Group level was negative by 66 million euros. This is explained, in the context of falling interest rates in the main currencies, by the Group's policy of backing long-term fixed assets with fixed-rate long-term debt at the time of investment. This funding policy is aimed at protecting the Group from long-term increases in interest rates.

The net market value of all interest rate derivative instruments is therefore positive by 5 million euros as of December 31, 2004.

Share buy-back

In compliance with resolutions approved at the General Shareholders' Meeting on May 12, 2004, Air Liquide has implemented a share buyback program designed to:

- cancel shares in order to optimize shareholders' equity and net earnings per share, in one or several stages, within the limit of 10% of the Company's share capital over a 24-month period;
- buy and sell shares based on market conditions;
- allocate share options to its own or subsidiary employees;
- sell shares in any form, whether through the exchange of shares or payment in the context of financial transactions or acquisitions.

As of December 31, 2003, Air Liquide held 1,942,112 of its own shares (representing 1,9% of share capital), of which 1,915,171 were held directly.

In 2004, Air Liquide bought back 339,743 shares (adjusted for the 2,500 shares issued in June, 2004) for a total of 44.4 million euros (at an average purchase price of 130.60 euros) and cancelled 1 million shares. This rate of share buyback is lower than in 2003 (1,185,641 shares) given the major acquisition carried out in 2004.

As of December 31, 2004, Air Liquide held 1,376,249 of its own shares representing 1.3% of share capital, of which 1,346,431 were held directly. 1 million of the shares thus held have been set aside in the event of acquisitions or other financial transactions involving exchanges of shares or payment in shares, while 346,431 have been set aside in the event of share cancellation.

Risk factors

Market risks

Market risks are addressed in the Financial Policy section of the Management Report (page 91).

Specific business-related risks

As of today, Air Liquide's overall business activity does not rely on third-party patents, nor does it depend on supply, industrial, commercial or financial contracts, or new manufacturing processes.

The Group serves more than one million customers in a broad range of industries, over an extensive geographic area, thus precluding any concentration of customer credit risk for the Group.

In spite of high price volatility for electricity and natural gas driven by market deregulation, Air Liquide's policy remains the indexation of long-term customer contracts to hedge these risks. Recent fluctuations in electricity prices led the Group to replace its pricing indices, for the regulated period, with indices relevant to each national market. For several years, the Group has followed the same approach for natural gas. In parallel, Air Liquide has optimized its policy for the supply of electricity and gas. This policy enables the Group to offer the best possible terms to its customers, safely and with transparency, as it is based on reliable and efficient sources of supply.

Legal risks

The Group has a worldwide presence. Its subsidiaries operating industrial and medical gases production units are obliged to comply with rules and regulations in force locally, particularly in the technical field.

Furthermore, in Healthcare, certain products may be subject to drug regulatory control.

At this time, the Group has no knowledge of any exceptional facts or litigation, including in the very recent past, that could significantly affect its property, financial situation, activities or results.

Industrial and environmental risks

Industrial and environmental risks are detailed in the section on sustainable development in the Annual Report, particularly in the following two sections: "Preserving life and the environment" (page 42) and "Sustainable development" (page 149).

These sections indicate the number of sites under the European Seveso directive and the number of equivalent sites worldwide, distance covered by delivery trucks, electrical and thermal energy consumption, water consumption, emissions into water and the atmosphere, and progress made towards quality (ISO 9001) and environmental (ISO 14001) certifications.

These sections also include:

- The Group's safety policy, which is a key priority, with results for the last 15 years;
- The formalization within a single framework of the standards for industrial management (IMS) designed to enhance reliability, safety and risk management of the Group's industrial activities worldwide.

In addition, the Report from the Chairman of the Supervisory Board on the Company's internal control procedures presents the Group's organization and procedures for managing risks (page 139).

Insurance management

The Group has adequate insurance coverage, underwritten by first-grade insurers, for civil liability, property damage and business interruption. Since January 1, 2003, it has had in place a captive insurance company that retains part of the property damage and business interruption risk.

Property damage and business interruption

Group property and business interruption are covered by property and casualty insurance policies underwritten in each country in which the Group operates. Almost all of these policies are grouped under an international program.

These policies, which are generally of the "All Risks except" type, cover fire, lightning, water damage, explosions, vandalism, shock, equipment breakdown, theft and, based on the country and in limited amounts, natural disasters.

Business interruption is insured for most production sites under these same policies.

The coverage period for business interruption is 12 to 18 months.

Property damage deductibles are generally 15,000 euros per loss for small sites and 400,000 euros per loss for large production units, except in the United States, where the deductible is 1,500,000 dollars per loss. Business interruption is covered after a deductible period of 15 days for most operations, except in the United States, where coverage begins after 60 days.

Since January 1, 2003, the Group has retained a portion of property damage and business interruption risk through a captive insurance company in Luxembourg. This captive insurance company covers losses of up to 5 million euros per loss over and above the deductibles to a maximum of 10 million euros per year. Beyond that amount, risks are transferred to insurers. The captive is fully integrated into the international damage and business interruption program.

Insurers conduct regular visits at the main industrial sites for risk assessment purposes.

Liability

In terms of liability, the Group maintains two different coverages, one for the North American zone and another for the rest of the world. The North American zone is covered by insurance underwritten in the United States. For the other zones, the Group has taken out an umbrella policy, underwritten in France, which covers both the Company and its subsidiaries outside of the United States and Canada, beyond any local coverage.

These two policies cover liability of the Group companies for any damage they might cause to a third party in the course of doing business (operational risk) or arising from their products (product risk). Furthermore, with certain limitations, these policies cover the pollution risk and the costs of recalling products.

The amount of coverage is above 500 million euros. Both of these policies include several overlapping lines of insurance. Each line has been underwritten for a given amount with several insurers sharing the risk. Beyond the first line, the upper lines pick up the excess risk from the lower lines.

The policy underwritten by the Company in France serves as an umbrella for subsidiaries outside of North America. Under this umbrella, each foreign subsidiary has its own policy covering damages to third parties incurred through its activities or products. The amount insured for each subsidiary in its policy depends on its sales. Beyond the amount insured locally, subsidiaries are insured under the French umbrella policy.

The deductible is 2,000,000 dollars per loss for insurance underwritten in the United States for North America. The deductible of the umbrella policy underwritten in France is 15,250 euros per loss for the other countries, but with higher amounts for non-consecutive immaterial damage, pollution, recall costs and “Electronics” customers.

The main exclusions are deliberate acts, war, nuclear incidents and repair of defective products.

Pensions and other benefits

Air Liquide provides its employees with various pension plans, termination indemnities, jubilees, and other post-employment benefits for both active employees and retirees. These plans vary according to laws and regulations applicable in each country as well as specific rules in each subsidiary.

These benefits are covered in two ways:
- Defined contribution plans;
- Defined benefit plans.

Defined contribution plans are those whereby employers undertake to pay regular contributions. The employer's obligation is limited to payment of the established contributions. The employer does not provide any guarantee as to the future level of benefits paid to the current or retired employee (a type known as a "means-based obligation").

The annual liability corresponds to the contribution due in one fiscal year that releases the employer from any further liability.

Defined benefit plans are those whereby the employer guarantees the future level of fixed benefits under the agreement, most often in proportion to level of salary and length of service (a type known as a "result-based obligation").

Defined benefit plans may be either:
- financed by payments to specialized asset management funds, or
- managed internally.

Defined benefit plans require:
- Evaluation of the employer's obligations towards its employees;
- Evaluation of the assets' market value of the external funding;
- Evaluation of the expenses to be accrued annually, based on liability changes and return on the funds invested.

Defined contribution and defined benefit plans are both implemented in the Air Liquide Group.

These plans have been set up in countries where the Group has operations to ensure that Air Liquide employees receive benefits in line with customary practices of large companies operating in those countries.

Defined contribution plans basically involve the pension plans of L'Air Liquide S.A. and its French subsidiaries, the 401K plans in the United States and some Canadian pension plans.

The defined benefit plans mainly involve:
- The American, Japanese, Swiss and German plans, as well as some Canadian plans;
- The French and Italian severance payments;
- The American and Canadian retiree medical plans.

The table below illustrates the status, as of December 31, 2004, of the various defined benefit plans operating within the Group (for its major subsidiaries and obligations).

Commitments for defined benefit plans

In millions of euros

As of 12/31/2004	Projected benefits	External funding market value	Balance sheet provisions	Over-funding (under-funding)
Europe	699	277	362	(60)
Americas	452	319	56	(77)
Asia-Pacific	92	41	53	2
Total	**1,243**	**637**	**471**	**(135)**

Commitments valued by actuaries.

Benefits are regularly valued by actuaries. These valuations are performed for each plan according to International Accounting Standards. The actuarial method used is the projected unit credit method taking into account final pay.

Actuarial gains and losses above 10% of the greater of liabilities or assets are amortized over the Employees Average Remaining Service Lifetime (EARSL).

The actuarial assumptions (turnover, mortality, retirement age, salary increase) vary according to demographic and economic conditions in each country.

The discount rates used to determine the liability are based on government bonds or high-quality corporate bonds with the same duration as the liabilities at the valuation date.

The expected return on long-term assets is determined by taking into account, in each country, the asset allocation in the portfolio.

According to international accounting regulations, some obligations may appear to be under-funded or not sufficiently provisioned, even if they are on a par with or in excess of the figures established under the local regulations.

Decisions with regard to coverage of any under-funded plans are taken for each individual plan in accordance with local requirements applicable in the countries where subsidiaries are located. Any additional financing required is generally spread over several fiscal years.

The Group has established a policy to monitor and control pension and other employee benefits with the help of an independent actuary in order to ensure the relevance of the actuarial and financial assumptions and the validity of the calculations.

Charges accrued during the 2003 and 2004 fiscal years for pensions and other benefits

In millions of euros

	2003	2004
Defined benefit plans	39.2	51.2
Defined contribution plans	59.1	57.1

L'Air Liquide S.A. and subsidiaries included under the pension agreement

Several pension plans co-exist within the Group:

The parent company and a number of subsidiaries in France grant:

■ Additional benefits to retirees (5,034 retirees as of December 31, 2004) and to employees over 45, or with more than 20 years of service as of January 1, 1996 (1,047 employees as of December 31, 2004). These benefits provide a supplemental retirement income based on final pay, which is paid in addition to the other normal retirement benefits. This plan was closed on February 1, 1996.
The annual amount paid with respect to this plan cannot exceed 12% of payroll or 12% of pre-tax profit for the companies involved.
As a consequence of the plan closing, this 12% value will be reduced starting in year 2010, based on the annual decrease in the number of retirees.
Due to these limits, this plan is viewed as a defined contribution plan. The expenses are accounted for in the financial statements as they are paid since these liabilities cannot be viewed as ongoing and stable for the companies.
The contributions amounted to 36.1 million euros in 2004 (34.6 and 34.0 million euros in 2003 and 2002 respectively).
Without the limits, the actuarial value of the annual contributions paid to those eligible until the plan is stopped, would be, as of December 31, 2004, equal to 402.7 million euros (300.8 million euros for retirees and 101.9 million euros for active employees).

■ An externally funded defined contribution plan for other employees not in the plan mentioned above (4,347 employees as of December 31, 2004) with at least one year of service. Contributions to this plan are jointly paid by the employer and employee. For fiscal year 2004, employer contributions amounted to 6.2 million euros (2003 and 2002: 5.5 and 5.0 million euros respectively).

The other main pension plans are defined benefit plans in North America (United States and Canada, 36% of liabilities), in Switzerland (10% of liabilities), in Germany (22% of liabilities), in Spain (8% of liabilities) and in Japan (7% of liabilities).

Statutory auditors' offices and remuneration

Statutory auditors' offices

Ernst & Young

Principal statutory auditor

The Ernst & Young Audit firm is represented by Jean-Claude Lomberget

Tour Ernst & Young – 92037 Paris La Défense Cedex

Substitute statutory auditor

Valérie Quint with Ernst & Young Audit

Tour Ernst & Young – 92037 Paris La Défense Cedex

Mazars & Guérard

Principal statutory auditor

The Mazars & Guérard firm is represented by Frédéric Allilaire

39, rue de Wattignies – 75012 Paris

Substitute statutory auditor

Patrick de Cambourg with Mazars & Guérard

39, rue de Wattignies – 75012 Paris

All statutory auditors, principals and substitutes, were appointed on May 12, 2004. Their term of office expires at the end of the General Shareholders' Meeting to vote on the financial statements for 2009. Financial statements for 2002 and 2003 were certified by the Ernst & Young Audit and RSM Salustro-Reydel firms.

Statutory auditors' remuneration

Remuneration recorded in 2004 by the Air Liquide Group relating to statutory auditors' services are as follows:

In thousands of euros

	ERNST & YOUNG	MAZARS & GUÉRARD	Other	Total 2004	Total 2003
Audit services					
Statutory audit	5,054	771	744	6,569	5,741
Other audit services	2,895	2	67	2,964	950
Total of audit services	**7,949**	**773**	**811**	**9,533**	**6,691**
Other services					
Tax and legal (1)	1,423		501	1,924	1,193
Information systems	44		46	90	59
Other services	200		271	471	160
Total of other services	**1,667**	**0**	**818**	**2,485**	**1,412**
Total of auditors' remuneration	**9,616**	**773**	**1,629**	**12,018**	**8,103**

(1) Tax and legal services performed by Ernst & Young mainly concern foreign subsidiaries.

Stock options and stock purchase plans

Following the decisions of the General Shareholders' Meeting and on recommendation of the Selection and Remuneration Committee, the Board of Directors, the Supervisory Board and the Management Board have adopted, at Group level, stock options schemes for senior executives (including executive directors) and key employees.

These options schemes are intended to motivate key executives at Group level, retain the most performing individuals and focus them on the medium and long-term interests of shareholders.

In addition, on the occasion of Air Liquide's 100-Year celebration in 2002, stock options were granted on an exceptional basis to all Group employees worldwide with a maximum of 30 stock options each.

Stock options are granted for a minimum unitary amount equal to 100% of the average market price of the last 20 days prior to the day they were granted. The maximum exercise term is ten years for stock options granted before May 4, 2000, seven years for those granted between May 4, 2000, and April 8, 2004, and eight years for those granted since that date. A very small number of stock options have been granted on condition that certain objectives be achieved during a defined period.

Options granted over the last ten years

(maximum exercisable term after the date of grant)

	1996	1997	1998	1999	2000	2001	2002	2002 (2)	2004	2004
Date of authorization by the Extraordinary General shareholders' Meeting	05/22/96	05/22/96	05/22/96	05/12/99	05/04/00	05/04/00	04/30/02	04/30/02	04/30/02	05/12/04
Date of allocation by the Board of Directors or the Management Board	05/22/96	09/24/97	01/22/98	05/12/99	09/07/00	08/28/01	06/14/02	10/10/02	04/08/04	11/30/04
Total stock options granted	105,000	73,000	20,000	264,300	702,900	5,900	955,400	769,130	500,000	35,385
including to officers and directors	30,000	0	20,000	44,000	70,000	0	75,000	60	57,000	15,000
including to top ten executives whose number of options granted is the highest	43,000	55,000	0	46,000	83,500	5,900	112,000	300	77,000	12,325
Number of recipients	28	16	1	122	321	2	481	31,012	448	38
Exercise period start date	05/22/96	09/24/02	01/22/03	05/12/04	09/07/04	08/28/05	06/14/06	10/10/06	04/08/08	11/30/08
Expiration date	05/21/06	09/23/07	01/21/08	05/11/09	09/06/07	08/27/08	06/13/09	10/09/09	04/07/11	11/29/12
Purchase price (in euros)	138.73	140.25	140.25	148.00	142.00	155.00	168.00	128.00	139.00	131.00
Purchase price as of 12/31/04 (1)	82.29	91.41	–	108.69	114.75	125.25	135.75	116.36	126.36	131.00
Total stock options granted adjusted as of 12/31/04 (1)	172,076	92,202	24,799	353,990	854,851	7,032	1,179,924	842,116	549,921	35,385
Total stock options exercised as of 12/31/04 (1)	20,594	1,000	0	15,579	21,989	0	0	1,983 (4)	0	0
Total stock options cancelled as of 12/31/04 (1) (3)	0	83,090	24,799	22,777	51,740	2,700	36,393	42,138	11,333	650
Total stock options remaining as of 12/31/04 (1)	151,482	8,112	0	315,634	781,122	4,332	1,143,531	797,995	538,588	34,735

The total number of stock options remaining as of December 31, 2004, was 3,775,531.

(1) Adjusted to take into account share capital increases through bonus share allocations (2004, 2002, 2000, 1998, 1996).
(2) Exceptional plan approved in 2002, for the Company's 100-Year celebration and involving all Group employees who met certain conditions, including seniority. Plan limited to a maximum of 30 stock options per recipient.
(3) Loss of exercise rights and, for 1997 and 1998, non-achievement of three-year net earnings per share performance targets.
(4) Early exercise of rights provided for in the stock options plan.

During 2004, 585,306 adjusted stock options were granted at an average adjusted price of 126.64 euros to employees of the Company and of its subsidiaries. Also in 2004, 133,299 stock options were exercised at an average purchase price of 82.61 euros.

The total number of adjusted stock options, granted by the Board of Directors, the Supervisory Board, and the Management Board under the schemes authorized by General Shareholders' Meetings, but not exercised as of December 31, 2004, amounts to 3,775,531 options, i.e. 3.46% of the capital shares (average purchase price: 121.41 euros), of which 584,122 (at an average price of 123,57 euros) have been granted to the general management.

These stock options are to be exercised within a ten-year maximum term after the day they were granted for those granted by May 4, 2000, within a seven-year maximum term for those granted between May 4, 2000 and April 8, 2004, and within an eight-year term for those granted since that date.

Stock options were granted between September 24, 1997, and May 12, 1999, can only be exercised after a five-year minimum term. The stock options granted since May 12, 1999, can only be exercised after a four-year minimum term from the date they were granted.

As of December 31, 2004, out of the total number of options authorized by the General Shareholders' Meeting, 3,240,039 options have not been granted by the Supervisory Board and the Management Board.

Options granted to the ten officers of the Company and its subsidiaries (excluding officers and directors) with the highest number of options granted

In 2004, 77,000 options were granted to ten officers of the Company and its subsidiaries (excluding officers and directors) who received the highest number of options. This number was adjusted upward to 84,710 to factor in the capital increase resulting from the bonus share allocation of June 14, 2004, (one bonus share for ten held).

Options exercised in 2004 by the ten officers of the Company and its subsidiaries (excluding officers and directors) with the highest number of options exercised

Granted in	Number of options exercised	Average price (in euros)
1994	10,203	68.44
1996	817	90.52
1997	1,000	100.55
1999	12,500	110.84
2000	8,155	114.75
Total	**32,675**	**97.75**

Remuneration of officers and directors of L'Air Liquide S.A.

Gross remuneration and benefits paid to members of the Management Board of L'Air Liquide S.A. for all companies in the Group, including fringe benefits, amount to:

In thousands of euros

	Amount for 2003		Amount for 2004	
	due	paid	due	paid
Benoît Potier				
- Fixed portion	821	783	863	904
- Variable portion	826	564	1,238	826
Total	**1,647**	**1,347**	**2,101**	**1,730**
Jean-Claude Buono				
- Fixed portion	478	478	468	468
- Variable portion	383	259	522	383
Total	**861**	**737**	**990**	**851**
Klaus Schmieder				
- Fixed portion			300	300
- Variable portion			330	
Total			**630**	**300**

In addition, the Company paid 109 thousand euros for additional pension plans to the benefit of Benoît Potier.

The whole variable portion of remuneration due for any given fiscal year is paid the following year.

In 2003, the variable portion of Management Board members' overall remuneration was based primarily on the following two factors: growth in net earnings per share and return on capital employed after tax (ROCE). Those factors were supplemented by qualitative individual objectives such as to prepare for the Group's future or to react to changes in business environment.

In 2004, remuneration policy for members of the Management Board approved by the Supervisory Board at the beginning of the year, is divided into two parts:

- A fixed portion tied to the level of responsibility and experience in the function;
- A variable portion based primarily on two factors: growth in net earnings per share, excluding foreign exchange, and return on capital employed after tax (ROCE), supplemented by a portion based on qualitative individual objectives, such as to conclude successfully all of the operations tied to the acquisition of Messer assets, to prepare for the Company's future development, to respond to changes in the business environment, to implement the productivity program, and to improve the risk management system.

The following table details members' attendance fees and other remuneration paid in 2004 to the members of the Supervisory Board.

In thousands of euros

Alain Joly (Chairman of the Supervisory Board)	(1) 229
Édouard de Royere	48
Prof. Rolf Krebs	31
Michel Bon	17
Thierry Desmarest	46
Pierre-Gilles de Gennes	41
Sir Christopher Hogg	52
Gérard de La Martinière	43
Cornelis van Lede	53
Béatrice Majnoni d'Intignano	40
Lindsay Owen-Jones	43
Sir Dennis Weatherstone	62

(1) For Alain Joly, this corresponds to his remuneration as Chairman of the Supervisory Board.

In addition, Édouard de Royere and Alain Joly received retirement benefits of 1,604 thousand euros and 1,039 thousand euros.

Supervisory Board and officers' remuneration

Emoluments granted to the members of the Supervisory Board and officers of L'Air Liquide S.A., as compensation for their responsibilities in the Group, are as follows:

In millions of euros

	2002	2003	2004
Emoluments to the members of the Supervisory Board	0.6	0.7	0.7
Emoluments to the officers	5.6	6.6	8.4
Total	**6.2**	**7.3**	**9.1**

Officers include the members of both the Management Board and the Executive Committee.

The remuneration policy of senior management takes into account current market practices. It includes a substantial variable portion based on targets of Group earnings growth and individual performance.

Stock options granted to officers and directors

Total adjusted stock options granted to officers and directors, and not exercised as of December 31, 2004, amount to:

			Granted	
	Total stock options granted	Average price (in euros)	In 2004	Over the last five fiscal years
Benoît Potier	158,489	123.41	44,002	130,666
Jean-Claude Buono	87,890	120.21	18,701	68,237
Klaus Schmieder	15,000	131.00	15,000	15,000

The total number of stock options granted to Alain Joly, Chairman of the Supervisory Board, and not exercised as of December 31, 2004, amounts to 129,639 options at an average price of 104.72 euros. These stock options were granted to him prior to 2001, as Chairman and Chief Executive Officer or as Chief Executive Officer of the Company.

Stock options exercised by officers and directors

The total number of options exercised by officers and directors in 2004, amounts to:

	Number of options exercised	Granted in	Average price (in euros)
Alain Joly	33,773	1994	69.52
Jean-Claude Buono	5,069	1994	69.52

Transactions made on Company shares by officers and directors

In 2004, until November 24, 2004, when the General Regulation of the AMF (French Financial Market Authority) came into force, three members bought 1,560 shares at an average price of 143.59 euros and two members sold 21,459 shares at an average price of 141.56 euros.

From November 24, 2004, senior management's transactions on Company shares amount to:

	Nature of transaction	Average price (in euros)
Jean-Claude Buono	Sale of 700 Air Liquide shares	133.04

Estimated impact of IFRS standards on the net opening equity as of January 1, 2004

These data are evaluative and have not been audited by the Group's statutory auditors.

From January 1, 2004, pursuant to decisions of the European Parliament and the Council of the European Union, Air Liquide will prepare its consolidated financial statements in conformity with International Financial Reporting Standards (IFRS).

The half-yearly financial statements of June 30, 2005, will be the first to be prepared according to this framework.

To allow meaningful comparisons, 2004 financial data will be restated and published using the new standards.

In 2003, the Group set up a project team with specialists from the Finance Department and the subsidiaries, working in close liaison with operations managers and the statutory auditors.

The team had the following missions:

- Identifying the main divergences between the accounting principles and methods currently applied in the Group and the IFRS standards;
- Defining the new format for presenting financial statements;
- Assessing what changes will be needed in information systems;
- Evaluating the impact of changes in accounting standards on the opening balance sheet as of January 1, 2004.

The statutory auditors have approved the accounting principles selected by Air Liquide.

In a series of special meetings, the Audit and Accounts Committee has been regularly informed of progress, the accounting decisions envisaged, and the impact of the new standards on the Group's financial statements.

The Supervisory Board has been regularly informed by the Audit and Accounts Committee and by the Management Board.

Impact of IFRS standards on the net opening equity at January 1, 2004

The January 1, 2004, net opening equity will be restated by applying the IFRS standard, "First-time Adoption of IFRS." The following options allowed by that standard have been selected:

- Business combinations effected prior to January 1, 2004, will not be restated;
- Deferred actuarial gains and losses in defined benefit pension plans will be imputed to the net opening equity. Deferred actuarial losses are estimated at around 250 million euros. When deferred taxes are considered, the net opening equity would be reduced by 150 million euros.

The other standards significantly impacting the net opening equity are IAS 16, "Property, Plant and Equipment," and IAS 19, "Employee Benefits."

IAS 16 – Property, Plant and Equipment

To better reflect the value of tangible assets in the balance sheet, Air Liquide has decided to change the depreciation period of certain assets with a retroactive application to the date of acquisition. The lifetime of gas production units connected to a pipeline network and liquid gas production units has been set at 20 years instead of 15 years as previously; that of pipelines has been set at 30 instead of 25 years; that of liquid gas bulk vessels at 20 years instead of 10.

These changes will generate an increase in the value of assets between 350 and 450 million euros.

After determination of deferred taxes, the net opening equity as of January 1, 2004, would be increased by between 220 and 280 million euros. The definitive amount of this adjustment will be determined during the first semester of 2005.

In addition, IFRS standards make the component approach mandatory for components intended, from the acquisition date of the assets, to be replaced at regular intervals. Accounting for provisions for major repairs is prohibited. These measures have led Air Liquide to change the accounting treatment of provisions for major overhauls of cogeneration units.
A "maintenance costs" component is identified separately in the purchase cost of each fixed asset. It corresponds to the estimated cost of a major maintenance overhaul and is amortized between two such overhauls.

IAS 19 – Employee Benefits

Air Liquide and some of its French subsidiaries grant retirees and certain active employees additional benefits beyond the normal pension plans. These benefits and plans are all based on the employee's final salary. The supplementary plans are now closed. The annual amount paid with respect to these plans cannot exceed a percentage of payroll or, in certain cases, of the pre-tax profit for the relevant companies.

Due to these limits, this plan was viewed as a defined contribution plan. The expenses were accounted for in the financial statements as they were paid since these liabilities could not be viewed as ongoing and stable for the companies.

IAS 19 “Employee Benefits” characterizes defined contribution plans very precisely and restrictively and indicates that any plan not complying fully with the conditions imposed is a defined benefit plan by default.

As a result, the restricted definition given to defined benefit plans has forced Air Liquide to state the retirement supplement as a defined benefit plan, despite the existence of these limits that restrict the Company’s liabilities.

This requalification will result in a provision against future liabilities.

The existence of limits on these liabilities creates uncertainty in the evaluation of amounts that will actually be paid to retirees.

Considering the difficulty in quantifying the impact of the limits, it was decided to account for a provision corresponding to the actuarial value of the amounts to be paid out to pensioners until the plan disappears, apart from any impact from these limits.

Under the actuarial hypotheses chosen, that provision runs between 600 and 660 million euros.

After taking deferred taxes into consideration, the net opening equity as of January 1, 2004, is consequently reduced by between 390 and 430 million euros.

The final amount of the adjustment will be determined during the first semester of 2005.

Other IFRS standards will have no significant effect on the Group’s net opening equity as of January 1, 2004:

IAS 36 – Impairment of Assets

In IFRS, the loss of an asset’s value must be recognized when the book value exceeds the recoverable value of the asset, this corresponding to the higher of the fair value less selling costs and the useful value of the asset.

Unlike current French accounting practices, IAS 36 requires the discounting of future cash flows to determine the useful value. This discounting obligation has the effect of establishing the useful value of five of the Group’s industrial sites (among several hundred) at an amount lower than their net book value.

Consequently, a provision for depreciation of tangible assets amounting to some 40 million euros will be made.

After determination of deferred taxes, the net opening equity would be reduced by about 30 million euros.

The goodwill stated in the January 1, 2004, balance sheet has been tested for impairment applying IFRS standards. The useful value of the goodwill exceeds its net book value and therefore there is no loss of value.

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets

Costs of dismantling, removal or reconditioning of a site on which an asset is located must be integrated into the acquisition costs of tangible fixed assets and depreciated in counterpart to the liability incurred, stated as a provision.

This measure applies to Air Liquide for bulk vessels, on-site and production units located on land owned by a third party (usually the customer).

The impact on the net opening equity as of January 1, 2004, after determination of the associated deferred taxes, is a reduction of about 20 million euros.

IAS 38 – Intangible Assets

According to French accounting principles, set-up costs and certain deferred charges incurred in major operations related to business development, the amount of which cannot be set against specific goods and services, can appear as intangible fixed assets on the assets side.

These costs fall under neither the definition nor the conditions for reporting intangible fixed assets according to IFRS standards.

As a result, certain set-up costs and deferred charges, in the amount of 50 million euros, have been written off. After the related deferred taxes, the net opening equity as of January 1, 2004, would be reduced by about 30 million euros.

Development costs must be capitalized under IFRS when certain conditions have been satisfied.
Air Liquide expenses costs of research and development for the year in which they are incurred. It has been found that the conditions imposed by IFRS for capitalization of development costs were not met by Air Liquide. The accounting for development costs is unchanged under IFRS. In fact, the work performed primarily concerns development of new production or gas utilization applications or the development of new services. In most instances, this work does not lead to the completion of an intangible asset specifically intended to be used or sold.

IFRS 2 – Share-based Payments

The fair value of share options allocated to managers and employees starting in November, 2002, must be expensed in charges throughout the period of acquisition of the rights, with a corresponding increase in shareholders’ equity as counterpart.

The option plans at issue are those of April and November, 2004. Application of this standard will therefore have no impact on the net opening equity as of January 1, 2004.

IAS 32/39 - Financial Instruments

IAS standards IAS 32 and 39 relating to financial instruments will apply from January 1, 2005, only.

Impact of IFRS standards on the presentation of consolidated financial statements

Statement of earnings

Presentation of the consolidated statement of earnings will not change significantly.

Balance sheet

The main changes in the balance sheet are:

- Distinction between current and non-current;
- Presentation before offset of deferred tax asset and liability balances.

Statement of cash flow

The Statement of changes in financial position has been replaced by a Statement of cash flow identifying operating flows, investments, and financing.

This Statement explains the variation in net cash flow.

In addition, Air Liquide will provide an analysis of changes in net indebtedness.

Impact on the net consolidated earnings for 2004

Application of IFRS should not significantly impact the published net earnings for 2004.

On the one hand, the IFRS 3 standard, "Business Combinations," replaces the obligation to amortize goodwill by annual goodwill impairment tests, which will increase the IFRS 2004 earnings as compared with the result published using current standards.

Also, IFRS 3 requires that restructuring costs of an acquired company be stated in the costs for that year if such restructuring is undertaken following the acquisition. Under current accounting practices, these costs are stated as goodwill, with no impact on earnings for the year.

Application of this IFRS standard means that restructuring costs incurred following the acquisition of Messer's activities, and now stated as goodwill, will be recognized as expenses in the restated 2004 earnings.

The amounts generated by these two changes mandated by IFRS 3 are essentially the same and offset each other in the published net earnings.

The other IFRS standards should not materially affect the published net earnings. For years subsequent to 2004, application of the IFRS standards will have a significantly positive effect on earnings, resulting primarily from the abandoning of the amortization of goodwill.

Summary of the impact of IFRS on the net opening equity as of January 1, 2004

Estimated, non-audited data

Shareholders' equity and minority interests as of January 1, 2004, in compliance with French accounting regulations: 5,539 million euros

In millions of euros

	Estimated impact, after tax, of IFRS on the net opening equity as of January 1, 2004
IAS 16	
Rates of amortization of certain tangible assets	between 280 and 220
IAS 19	
Cancellation of deferred actuarial losses	(150)
Liabilities under pension plans of L'Air Liquide S.A. and its French subsidiaries	between (390) and (430)
Other standards (IAS 36, IAS 37, IAS 38)	(90)
Total estimated impact (non-audited amounts)	between (350) and (450)
Estimated shareholders' equity and minority interests as of January 1, 2004, applying IFRS standards	between 5,189 and 5,089

Consolidated financial statements

Contents

Principles and methods of consolidation

The consolidated financial statements of the Air Liquide Group have been prepared in accordance with applicable French accounting principles, in particular the CRC 99-02 regulation.

I - Principles of consolidation

1 - Companies included and consolidation methods used

The consolidation methods used are:
- full consolidation method;
- proportional method;
- equity method.

a - Full consolidation method

Where companies are fully consolidated, all assets and liabilities are included in the consolidated balance sheet after adjustments for minority interests. Revenues and expenses are similarly included in the Statement of consolidated earnings.

All significant subsidiaries in which the Air Liquide Group has an interest greater than 50% and, when certain conditions specified by law have been met, companies in which its interest is comprised between 40% and 50% are fully consolidated.

b - Proportional method

Under such consolidation method, assets and liabilities as well as revenues and expenses are recognized in the consolidated statements in proportion to the controlling interest held.

The proportional consolidation applies to partnerships in which revenues and expenses are shared between the partners equally to their controlling shares.

c - Equity method

Significant companies in which Air Liquide Group's interest is above 20% and those where its interest is greater than 50% but which are not sufficiently important to justify their being fully consolidated are accounted for by the equity method. Thus, only the share of net equity and earnings which corresponds to Air Liquide Group's percentage of interest are included.

d - Other investments

Investments in other companies not fully or proportionally consolidated or accounted for by the equity method are recorded in the consolidated balance sheet under the heading «Other investments» and are reflected in consolidated earnings only to the extent of dividends received.

2 - Adjustments arising on consolidation

a - Intercompany balances and transactions

All intercompany balances between fully consolidated companies as well as intercompany gains or losses on Group transactions are eliminated.

b - Regulatory provisions

Movements in those provisions which have been established in conformity with fiscal regulations or which are similar to reserves are eliminated in the determination of consolidated net earnings.

These provisions mainly concern depreciation for tax purposes, provisions for price increases and for investments.

c - Deferred taxes

Adjustments made for consolidation purposes which may result in timing differences between income reported for income tax purposes and that reported in the consolidated financial statements give rise to deferred taxes. They are computed using current tax rates.

Deferred income taxes are primarily the result of:
- accelerated depreciation for tax purposes;
- provisions which are not immediately tax deductible.

d - Translation of financial statements of foreign subsidiaries

The financial statements of foreign subsidiaries are translated into euros as follows:
- balance sheet items, at the official year-end exchange rates;
- statement of earnings and Statement of changes in financial position items, at average exchange rates for the year;
- resulting translation adjustments are recorded as a separate component of shareholders' equity and minority interests;
- financial statements of subsidiaries located in highly inflationist countries are translated at historical rates.

II - Valuation methods

The consolidated financial statements are prepared on the basis of historical costs without re-evaluation.

1 - Fixed Assets

a - Intangible Assets

The intangible assets are carried out at cost. Depreciation is computed on the straight-line method regarding the estimated useful life, which is generally between three and five years, excepted intangible assets corresponding to customer contracts linked to the Messer acquisition, which are amortized over an average 25-year period.

b - Property, plant and equipment

Land, buildings and equipment are carried out at cost. Financial expenses were expensed as incurred until December 31, 1994.

Effective January 1, 1995, financial expenses are capitalized during the period of construction where it relates to the financing of major projects over a 12-month period of development. This change was made considering the Group's substantial development of investments in these major projects.

Assets under capital leases are capitalized and depreciated according to Group rules.

Depreciation is computed on the straight-line method, using the following estimated useful lives:

- buildings: 20 years
- cylinders: 20 years
- plants: 10 to 15 years
- pipelines: 25 to 35 years
- other equipment: 5 to 15 years

c - Goodwill

Goodwill or badwill represent the difference between the purchase price and the fair value of the net assets acquired at the date of purchase. In the consolidated balance sheet, this difference is reflected on the assets for goodwill and on provisions for badwill, unless allocated to the related fixed assets.

Goodwil represent either the intangible assets or the control premium paid for the acquisition of assets.

Considering the nature of the acquisitions and the activities of the Group, goodwill are being amortized on a straight-line basis generally over 40 years for gas activities and over 10 to 20 years for other activities. Furthermore, where circumstances indicate that adverse changes have occurred in the estimates used in the initial computation of goodwill, the amount thereof is reduced accordingly.

Under exceptional circumstances (investments financed by proceeds from stock offering, etc.), goodwill may be eliminated against retained earnings.

d - Depreciation

When events or changes of background and market conditions involve a loss in value, a detailed review of the fixed assets is performed to reduce their net book value either to the market value or to the useful value. Useful value is calculated based on future operational cash flows representing the best estimation of the economic assumptions for the remaining useful life of the assets.

2 - Other investments

Other investments are reflected in the consolidated balance sheet at the lower of cost or market method on a going concern basis.

3 - Inventories

Inventories are valued at the lower of cost or market. The cost of certain categories of raw materials and finished goods, principally welding supplies and equipments, is determined using the LIFO method. The cost of other inventories is determined using the FIFO method, or by the average cost method.

4 - Engineering and construction

Revenues from engineering and construction activities are recorded when the contract is completed. Provisions are established for losses anticipated on uncompleted contracts.

5 - Innovation costs (research and development)

Based on the definition published by the OECD, innovation costs include all costs relating to scientific and technical activities, patent work, training and knowledge sharing necessary for the development, manufacturing, start-up and marketing of new or improved products and processes. Innovation costs are charged to income when they are incurred.

6 - Pensions and employee benefits

In accordance with laws and practices of each country, the Group contributes to pensions, pre-pensions and termination indemnity plans. The valuation methods which are applied are described in note (N) to the consolidated financial statements.

Impact of the acquisition of Messer activities on consolidated financial statements

Air Liquide signed on May 7, 2004, an agreement for the acquisition of Messer's activities in Germany, the United Kingdom and the United States. Since then, these activities have been integrated into the consolidated financial statements.

Purchase consideration for shares is 2,684 million euros.

This acquisition has been approved by European and American competition authorities under the condition of divestments which have been completed under the following conditions:

- Sale of liquid gas activities in the United Sates to Matheson Tri-Gas, Inc. (a subsidiary of Nippon Sanso), effective as of November 2, 2004;
- Sale of Industries, bulk and cylinders activities in Germany to Praxair, effective as of December 3, 2004;
- Signing, on November 24, 2004, of an agreement to sell the 51% interest held in Messer Nippon Sanso to a newly-established subsidiary by Nippon Sanso Corporation.

By purchasing this interest, Taiyo Nippon Sanso exercised its right to buy Air Liquide's shares in the joint-venture. This sale was effective as of January 14, 2005.

As of December 31, 2004, divestments net of taxes amounted to 699 million euros.

As of May 7, 2004, goodwill, after allocation of acquisition and restructuring costs and after step-up of purchased assets, amounted to 1,517 million euros.

It is being amortized over a fourty year period.

The main impacts of the Messer acquisition on 2004 financial statements are as follows:

Statement of earnings as of December 31, 2004:

In millions of euros

Net sales	470.7
Operating income before depreciation/amortization	111.9
Depreciation and amortization	(85.8)
Operating income	26.1
Net financial income (expense)	(55.6)
Earnings of discontinued activities	32.3
Minority interests	1.1
Net earnings	1.7

Earnings of discontinued activities include cash flows from these activities from May 7, 2004, to the selling date, net capital gains stemming from divestments of certain Group assets in Germany, and the write-off of computer software existing prior to the acquisition which became subsequently redundant.

Main impacts on Balance Sheet as of December 31, 2004

In millions of euros

Assets	
Net intangible assets	228.3
Property, plant & equipment	986.4
Net goodwill	1,492.2
Liabilities and shareholders' equity	
Provisions and deferred income taxes	762.8
Net indebtedness	1,988.2

Main impacts on Statement of changes in financial position as of December 31, 2004

In millions of euros

Acquisition debt (including acquisition costs)	(2,735.6)
Sales of discontinued activities	699.0

Statement of earnings

Years ended December 31

In millions of euros

	Notes	2002	2003	2004
Net sales (1)	(1)	7,900.4	8,393.6	9,376.2
Cost of products sold, operating expenses and innovation costs	(2)	(5,925.6)	(6,388.9)	(7,184.9)
Depreciation and amortization	(3)	(813.2)	(808.7)	(914.4)
Operating income (1)		**1,161.6**	**1,196.0**	**1,276.9**
Financial income (expense), net	(4)	(127.2)	(106.0)	(143.4)
Equity in earnings of companies accounted for by the equity method (1)		56.0	49.5	36.5
Other income (expense), net	(5)	(49.6)	(50.4)	(67.7)
Earnings of discontinued activities	(6)			32.3
Earnings before income taxes		**1,040.8**	**1,089.1**	**1,134.6**
Current income taxes	(7)	(343.8)	(362.6)	(337.7)
Deferred income taxes	(7)	53.6	55.3	44.9
Earnings before minority interests		**750.6**	**781.8**	**841.8**
Minority interests		47.4	56.2	64.3
Net earnings		**703.2**	**725.6**	**777.5**
Net earnings per share (in euros) (2)	(8)	**6.42**	**6.68**	**7.20**

(1) For geographic information, see pages 122 to 124.

(2) Net earnings per share for 2002 and 2003 have been adjusted to take into account the bonus share allocation in 2004 of one share for ten held.

Note (1) - Net sales - analysis by business lines

In millions of euros

	2002	in %	2003	in %	2004	in %
Gas and Services	6,887.0	87.2	7,388.5	88.1	8,275.2	88.2
AL Welding Group	460.1	5.8	423.2	5.0	485.7	5.2
Other activities	343.4	4.3	328.8	3.9	338.4	3.6
Engineering	209.9	2.7	253.1	3.0	276.9	3.0
Total	**7,900.4**	**100.0**	**8,393.6**	**100.0**	**9,376.2**	**100.0**

AL Welding Group produces and distributes welding and cutting consumables and equipment.

Other activities mainly include chemicals and diving.

Total foreign exchange impact on sales in 2004, compared with 2003, was -2.8%, i.e. 231.5 million euros. This impact was linked to the conversion of the financial statements of the Group's foreign subsidiaries into euros. It stemmed from the appreciation of the euro against foreign currencies, mainly the US dollar and the yen. Total foreign exchange impact on sales in 2003 versus 2002 was -6.3%.

The effect of changes in the consolidation perimeter on 2004 sales, compared with 2003, was +8.1%, i.e. 682.0 million euros at constant exchange rates). This was principally linked with the consolidation of Messer (+5.6%) in Germany, the United Kingdom and the United States from May 7, 2004. The remainder of this effect stemmed mainly from the full-year consolidation by the proportional method of SOAEO's subsidiaries in Singapore and Hong Kong (+1.3%), and from the acquisition of Livingston's metrology activities (+0.4%). The effect of changes in the consolidation perimeter on 2003 sales, compared with 2002 was +5.5%.

The impact of natural gas on sales was +0.5% in 2004 compared with 2003 (i.e. 36.1 million euros excluding foreign exchange). This impact concerned essentially the Group's North American activities. In 2003, compared with 2002, the impact was +2.9%.

Note (2) - Cost of products sold, operating expenses and innovation costs

In millions of euros

	2002	2003	2004
Purchases including inventory variations	(2,688.4)	(2,999.2)	(3,432.5)
Salaries and employee benefits	(1,590.8)	(1,641.4)	(1,828.8)
Other operating expenses	(1,964.6)	(2,069.3)	(2,325.9)
	(6,243.8)	**(6,709.9)**	**(7,587.2)**
Miscellaneous operating income	49.5	48.5	83.0
Production costs of fixed assets capitalized	268.7	272.5	319.3
Total	**(5,925.6)**	**(6,388.9)**	**(7,184.9)**

Innovation includes activities defined as such by the OECD, notably in the field of research and development.

In 2004, innovation costs amount to 161.5 million euros, of which research and development expenses are 103.3 million euros.

In 2003 and 2002, these costs amount to 149.5 and 151.8 million euros of which research and development expenses are 94.3 and 92.1 million euros.

Other operating expenses include net reversal of provisions of 7.2 million euros in 2004 compared with net provisions of -20.7 million euros in 2003 and -34.1 million euros in 2002.

These provisions are mainly related to pension costs, termination indemnities and other benefits, doubtful accounts receivables and payables, engineering contracts completion costs and employee profit sharing.

Note (3) - Depreciation and amortization

In millions of euros

	2002	2003	2004
Intangible assets	(35.4)	(44.7)	(65.8)
Property, plant and equipment	(740.1)	(724.6)	(781.7)
Goodwill	(37.7)	(39.4)	(66.9)
Total	**(813.2)**	**(808.7)**	**(914.4)**

Note (4) - Financial income (expense), net

In millions of euros

	2002	2003	2004
Financial expenses net of interest income	(133.3)	(110.3)	(150.4)
Financial expenses capitalized	4.2	2.7	3.4
Dividends received	1.9	1.6	3.6
Total	**(127.2)**	**(106.0)**	**(143.4)**

Note (5) - Other income (expense), net

In millions of euros

	2002	2003	2004
Gains on disposal of fixed assets and investments	8.4	2.2	12.7
Miscellaneous income and expenses (net)	(19.9)	(9.8)	(54.2)
Exceptional provisions	(38.1)	(42.8)	(26.2)
Total	**(49.6)**	**(50.4)**	**(67.7)**

Gains on disposal of fixed assets and investments are of ordinary and repetitive nature.

Miscellaneous income and expenses (net) include notably the exceptional costs related to management operations, notably the changes in some organizations within the Group.

In 2003, they comprise a net profit of 17.5 million euros arising from the consolidation of Japan Air Gases.

In 2002 and 2003, non-recurring provisions have been recorded to cover customers credit risks, expenses related to the harmonization of the Group's information systems, and exceptional depreciation of assets or deferred charges linked to the development of new activities.

In 2004, they include provisions for risks linked to the implementation of advanced technologies.

Note (6) - Earnings of discontinued activities

For details on earnings of discontinued activities, please turn to the section on the "Impact of the acquisition of Messer activities on consolidated financial statements" (page 114).

Note (7) - Income taxes

Reconciliation between the standard tax rate and the effective Group tax rate:

(in %)

	2002	2003	2004
Standard tax rate	36.5	35.9	34.5
Impact of transactions taxed at reduced rates	(2.9)	(3.2)	(3.2)
Impact of tax rates changes	(1.1)	0.2	(0.4)
Impact of permanent differences and others	(3.0)	(3.3)	(3.4)
Effective Group tax rate	**29.5**	**29.6**	**27.5**

The standard tax rate is the average rate obtained by applying the statutory tax rate for each country to their related earnings before tax.

Effective Group tax rate is determined as follows: (current and deferred income taxes)/(earnings before income taxes excluding equity in earnings of companies accounted for by the equity method).

In France, L'Air Liquide S.A. has elected to determine French income taxes on a consolidated basis, including all French subsidiaries complying with the requirements.

Foreign subsidiaries have also elected to apply for similar rules wherever this is allowed under local regulations.

Note (8) - Net earnings per share - dilutive impact of stock options

	2002	2003	2004
Net earnings (in millions of euros)	**703.2**	**725.6**	**777.5**
Adjusted average number of shares (1)	**109,477,929**	**108,624,523**	**107,937,967**
Dilutive impact of stock options	2,375,017	3,406,992	3,586,602
Adjusted average number of shares - diluted	**111,852,946**	**112,031,515**	**111,524,569**
Net earnings per share (in euros) (2)	**6.42**	**6.68**	**7.20**
Diluted earnings per share (in euros) (3)	**6.29**	**6.48**	**6.97**

(1) The adjusted weighted number of shares outstanding during the year is calculated by excluding treasury shares; the number of shares for 2002 and 2003 have been adjusted to take into account the allocation, in 2004, of one bonus share for ten shares held.

(2) The 2002 and 2003 net earnings per share take into account the allocation in 2004 of one bonus share for ten shares held.

(3) The calculation takes into account stock options granted as of December 31, of each fiscal year, assuming that all these options would be exercised.

No other financial instrument which may generate additional dilution of net earnings per share has been created by the Group.

Balance sheet

Years ended December 31

Assets

In millions of euros

	Notes	2002	2003	2004
Fixed assets				
Intangible assets	(A)	449.3	474.3	769.1
Less: accumulated depreciation		(244.2)	(250.3)	(297.8)
		205.1	**224.0**	**471.3**
Property, plant and equipment	(B)	13,696.5	13,913.7	15,432.5
Less: accumulated depreciation	(B)	(7,542.5)	(7,986.2)	(8,516.1)
	(1)	**6,154.0**	**5,927.5**	**6,916.4**
Goodwill	(C)	1,308.6	1,259.0	2,800.0
Less: accumulated depreciation		(408.0)	(431.6)	(489.1)
		900.6	**827.4**	**2,310.9**
		7,259.7	**6,978.9**	**9,698.6**
Other non-current assets				
Long-term loans, receivables and other assets		149.8	156.1	259.6
Investments in companies accounted for by the equity method	(1) (D)	313.4	268.1	206.5
Other investments	(E)	111.1	100.4	70.0
		574.3	**524.6**	**536.1**
Total long-term assets	(1)	**7,834.0**	**7,503.5**	**10,234.7**
Inventories	(F)	**563.0**	**655.5**	**758.6**
Current assets				
Trade receivables	(G)	1,848.4	1,945.6	2,250.3
Prepaid expenses and other assets	(G)	360.0	462.0	396.4
Short-term loans	(I)	46.5	43.1	61.3
Marketable securities	(I)	41.4	79.5	396.9
Cash	(I)	265.7	315.6	326.8
		2,562.0	**2,845.8**	**3,431.7**
Total current assets and inventories		**3,125.0**	**3,501.3**	**4,190.3**
Total assets		**10,959.0**	**11,004.8**	**14,425.0**

(1) For geographic information, see pages 122 to 124.

Liabilities and shareholders' equity

In millions of euros

	Notes	2002	2003	2004
Shareholder's equity				
Capital stock		1,109.0	1,099.0	1,201.1
Additional paid-in capital		12.1	67.3	76.8
Retained earnings		3,626.4	3,434.8	3,480.3
Treasury shares		(231.4)	(247.5)	(162.1)
Net earnings for the year		703.2	725.6	777.5
	(2)	**5,219.3**	**5,079.2**	**5,373.6**
Minority interests	(2)	**232.8**	**460.0**	**341.5**
Provisions and deferred income taxes	(H)	**1,170.9**	**1,104.0**	**1,793.7**
Long-term debt	(I)	**2,289.2**	**1,985.3**	**4,300.8**
Total capital employed		**8,912.2**	**8,628.5**	**11,809.6**
Current liabilities				
Trade payables		834.8	936.5	1,104.4
Other liabilities		1,125.3	1,256.7	1,236.5
Short-term debt	(I)	86.7	183.1	274.5
Total current liabilities		**2,046.8**	**2,376.3**	**2,615.4**
Total liabilities and shareholders' equity		**10,959.0**	**11,004.8**	**14,425.0**
Commitments and contingencies	(K)			

(2) See Statement of shareholders' equity - Minority interests, page 121.

Statement of changes in financial position

Years ended December 31

In millions of euros

	2002	2003	2004
Net earnings	703.2	725.6	777.5
Minority interests	47.4	56.2	64.3
Depreciation and amortization	813.2	808.7	914.4
Deferred income taxes	(53.6)	(55.3)	(46.8)
Increase (decrease) in provisions	18.4	(0.9)	(9.1)
Equity in earnings of companies accounted for by the equity method, less dividends received	(14.5)	7.9	(5.4)
Funds from operations	**1,514.1**	**1,542.2**	**1,694.9**
including funds from discontinued activities			27.0
Distribution:			
– L'Air Liquide S.A.	(366.1)	(414.2)	(336.1)
– Minority interests	(29.6)	(44.7)	(153.4)
Industrial investments	(632.8)	(746.8)	(875.4)
Financial investments	(306.9)	(74.9)	(2,858.5)
Sales of fixed assets and investments	59.0	40.2	40.9
Sales of discontinued activities			699.0
Other non-current assets and miscellaneous	5.5	5.4	(31.9)
Change in working capital	182.8	(15.6)	(234.3)
Net before financing	**426.0**	**291.6**	**(2,054.8)**
Proceeds from issues of capital stock	3.4	12.1	13.3
Purchase of treasury shares	(91.5)	(150.8)	(44.4)
Effect of exchange rate changes	194.4	151.5	88.7
Net indebtedness of newly consolidated companies	28.9	(12.3)	(62.9)
Change in net indebtedness	**561.2**	**292.1**	**(2,060.1)**
Net indebtedness at beginning of year	(2,583.5)	(2,022.3)	(1,730.2)
Net indebtedness at year-end	(2,022.3)	(1,730.2)	(3,790.3)
Net indebtedness analysis			
Short-term loans	46.5	43.1	61.3
Marketable securities	41.4	79.5	396.9
Cash	265.7	315.6	326.8
Long-term debt	(2,289.2)	(1,985.3)	(4,300.8)
Short-term debt	(86.7)	(183.1)	(274.5)
Net indebtedness at year-end	**(2,022.3)**	**(1,730.2)**	**(3,790.3)**

Statement of shareholders' equity - Minority interests

In millions of euros

	Capital stock	Additional paid-in capital	Retained earnings	Cumulative conversion adjustment	Treasury shares	Total share-holders' equity	Minority interests
Balance as of December 31, 2001	**999.0**	**259.2**	**4,514.6**	**(54.6)**	**(364.9)**	**5,353.3**	**323.0**
Increases/Decreases in capital stock	0.6	3.6				4.2	1.1
Bonus share allocation	125.9	(42.0)	(83.9)			0.0	
Distribution			(366.1)			(366.1)	(29.6)
Foreign currency translation				(374.2)		(374.2)	(34.3)
Capital decrease due to cancellation of treasury shares	(16.5)	(208.7)			225.2	0.0	
Purchase in treasury shares					(91.5)	(91.5)	
Miscellaneous			(9.4)		(0.2)	(2) (9.6)	(3) (74.8)
2002 net earnings			703.2			703.2	47.4
Balance as of December 31, 2002	**1,109.0**	**12.1**	**4,758.4**	**(428.8)**	**(231.4)**	**5,219.3**	**232.8**
Increases/Decreases in capital stock	1.0	5.3				6.3	5.8
Distribution			(414.2)			(414.2)	(44.7)
Foreign currency translation				(302.8)	0.2	(302.6)	(36.6)
Capital decrease due to cancellation of treasury shares	(11.0)		(123.5)		134.5	0.0	
Purchase in treasury shares					(150.8)	(150.8)	
Impact of merger		(4) 49.9	(4) (49.9)			0.0	
Miscellaneous			(4.4)			(2) (4.4)	(3) 246.5
2003 net earnings			725.6			725.6	56.2
Balance as of December 31, 2003	**1,099.0**	**67.3**	**4,892.0**	**(731.6)**	**(247.5)**	**5,079.2**	**460.0**
Increases/Decreases in capital stock	1.5	9.5				11.0	2.3
Bonus share allocation	111.5		(111.5)			0.0	
Distribution			(336.1)			(336.1)	(153.4)
Foreign currency translation				(106.3)	0.1	(106.2)	(14.5)
Capital decrease due to cancellation of treasury shares	(11.0)		(118.7)		129.7	0.0	
Purchase in treasury shares					(44.4)	(44.4)	
Miscellaneous			(7.4)			(2) (7.4)	(3) (17.2)
2004 net earnings			777.5			777.5	64.3
Balance as of December 31, 2004 (1)	**1,201.0**	**76.8**	**5,095.8**	**(*) (837.9)**	**(162.1)**	**5,373.6**	**341.5**

(*) Including, as of December 31, 2004, -181.7 million euros of cumulative translation adjustment for the euro area and -147.1 million euros concerning the devaluation of the Argentinean Peso.

(1) As of December 31, 2004, the number of shares issued is 109,180,823 at per value 11 euros. In 2004, movements on capital stock have been as follows:
- 135,198 shares issued for cash, resulting from the exercise of stock options,
- capital decrease due to cancellation of 1,000,000 treasury shares,
- creation of 9,898,377 shares issued for cash, resulting from the allocation of one bonus share for ten shares held,
- creation of 234,331 shares issued for cash, resulting from a 10% increase in the number of shares received during the one-for-ten bonus share allocation.

The total number of treasury shares amounts to 1,376,249 shares as of December 31, 2004 (including 1,346,431 shares held by L'Air Liquide S.A.). In the fiscal year, the movements on the treasury shares have been as follows:
- cancellation of 1,000,000 shares,
- acquisition of 337,243 shares for an average price of 131.6 euros.

(2) Including withholding taxes paid by some subsidiaries (amounts included in the overall calculation of the withholding tax on dividends paid by L'Air Liquide S.A.).

(3) Corresponding to changes of the Group percentage of interest in consolidated subsidiaries:
- in 2002, purchase of minority interests of Air Liquide Japan;
- in 2003, consolidation of Japan Air Gases;
- in 2004, purchase of minority interests of Air Liquide Japan.

(4) Consists mainly in a 60.9 million euros merger bonus accounted for consequently to the merger of Cofigaz into L'Air Liquide S.A. and offset by a 11.0 million euros transfer from Additional paid-in-capital to Retained earnings.

Geographic information

2004

Statement of earnings

In millions of euros

	France	Europe (excluding France)	Americas	Asia-Pacific	Africa		Total
Net sales							
Gas and Services	1,619.6	2,753.9	2,237.7	1,512.1	151.9		8,275.2
AL Welding Group	165.9	319.8					485.7
Other activities	230.5	43.5	57.8	6.6			338.4
Sub-total without Engineering/Construction	**2,016.0**	**3,117.2**	**2,295.5**	**1,518.7**	**151.9**		**9,099.3**
Engineering/Construction	69.5	36.8	33.3	88.3	49.0		276.9
Total	**2,085.5**	**3,154.0**	**2,328.8**	**1,607.0**	**200.9**		**9,376.2**
Operating Income							
Gas and Services	296.8	502.2	305.5	213.0	33.9		1,351.4
Other activities	43.5	38.0	5.9	4.9			92.3
R&D centers/corporate						(166.8)	(166.8)
Total	**340.3**	**540.2**	**311.4**	**217.9**	**33.9**	**(166.8)**	**1,276.9**
Equity in earnings of companies accounted for by the equity method	**10.0**	**6.1**	**1.1**	**12.4**	**6.9**		**36.5**

Balance sheet

Property, plant and equipment (net)	**872.4**	**2,756.2**	**2,163.9**	**1,007.7**	**116.2**		**6,916.4**
Investments in companies accounted for by the equity method	**59.8**	**35.0**	**13.3**	**78.8**	**19.6**		**206.5**
Total long-term assets	**1,292.8**	**4,753.9**	**2,705.6**	**1,313.5**	**168.9**		**10,234.7**

Notes:

- Net sales are based upon the location of operations except for the engeneering activity which is based upon customer location.
- Air Liquide Welding Group produces and distributes welding and cutting consumables and equipment. Other activities mainly include chemicals and diving.
- In 2004, SOXAL (Singapore) and HKOAC (Hong Kong), subsidiaries of SOAEO, were consolidated by the proportional method.

Comparisons with sales and operating income should be made with 2002 and 2003 pro forma information.

2003

Statement of earnings

In millions of euros

	France	Europe (excluding France)	Americas	Asia-Pacific	Africa		Total
Net sales							
Gas and Services	1,544.8	2,232.3	2,131.4	1,336.3	143.7		7,388.5
AL Welding Group	148.7	274.5					423.2
Other activities	222.9	38.9	60.4	6.6			328.8
Sub-total without Engineering/Construction	**1,916.4**	**2,545.7**	**2,191.8**	**1,342.9**	**143.7**		**8,140.5**
Engineering/Construction	63.9	34.3	12.8	103.8	38.3		253.1
Total	**1,980.3**	**2,580.0**	**2,204.6**	**1,446.7**	**182.0**		**8,393.6**
Operating Income							
Gas and Services	313.9	466.0	278.3	166.5	31.4		1,256.1
Other activities	48.2	29.2	4.3	4.1			85.8
R&D centers/corporate						(145.9)	(145.9)
Total	**362.1**	**495.2**	**282.6**	**170.6**	**31.4**	**(145.9)**	**1,196.0**
Equity in earnings of companies accounted for by the equity method	**5.3**	**4.1**	**1.5**	**31.9**	**6.7**		**49.5**

Balance sheet

Property, plant and equipment (net)	**862.1**	**2,082.7**	**1,964.2**	**897.0**	**121.5**		**5,927.5**
Investments in companies accounted for by the equity method	**56.9**	**31.7**	**20.9**	**139.3**	**19.3**		**268.1**
Total long-term assets	**1,257.0**	**2,564.7**	**2,241.8**	**1,268.1**	**171.9**		**7,503.5**

Pro forma

Net sales	1,980.3	2,580.0	2,204.6	1,556.6	182.0		8,503.5
Operating income	362.1	495.2	282.6	194.9	31.4	(145.9)	1,220.3

Notes:

- Net sales are based upon the location of operations except for the engeneering activity which is based upon customer location.
- Air Liquide Welding Group produces and distributes welding and cutting consumables and equipment. Other activities mainly include chemicals and diving.

Pro forma includes 50% of net sales and operating income of SOXAL (Singapore) and HKOAC (Hong Kong), SOAEO subsidiaries accounted for by the equity method.

2002

Statement of earnings

In millions of euros

	France	Europe (excluding France)	Americas	Asia-Pacific	Africa		Total
Net sales							
Gas and Services	1,465.2	2,113.5	2,226.4	962.2	119.7		6,887.0
AL Welding Group	176.2	283.9					460.1
Other activities	222.8	38.4	75.0	7.2			343.4
Sub-total without Engineering/Construction	**1,864.2**	**2,435.8**	**2,301.4**	**969.4**	**119.7**		**7,690.5**
Engineering/Construction	66.6	34.7	41.3	46.6	20.7		209.9
Total	**1,930.8**	**2,470.5**	**2,342.7**	**1,016.0**	**140.4**		**7,900.4**
Operating Income							
Gas and Services	303.0	449.3	308.9	121.6	22.6		1,205.4
Other activities	56.3	31.6	1.7	5.8			95.4
R&D centers/corporate						(139.2)	(139.2)
Total	**359.3**	**480.9**	**310.6**	**127.4**	**22.6**	**(139.2)**	**1,161.6**
Equity in earnings of companies accounted for by the equity method	**10.2**	**4.4**	**1.4**	**33.1**	**6.9**		**56.0**

Balance sheet

Property, plant and equipment, (net)	**863.1**	**2,061.1**	**2,411.5**	**730.8**	**87.5**		**6,154.0**
Investments in companies accounted for by the equity method	**56.2**	**27.7**	**28.1**	**160.7**	**40.7**		**313.4**
Total long-term assets	**1,251.4**	**2,564.4**	**2,709.2**	**1,156.9**	**152.1**		**7,834.0**

Pro forma

Net sales	1,930.8	2,470.5	2,342.7	1,133.7	140.4		8,018.1
Operating income	359.3	480.9	310.6	155.2	22.6	(139.2)	1,189.4

Notes:

- Net sales are based upon the location of operations except for the engeneering activity which is based upon customer location.

- Air Liquide Welding Group produces and distributes welding and cutting consumables and equipment. Other activities mainly include chemicals and diving.

Pro forma includes 50% of net sales and operating income of SOXAL (Singapore) and HKOAC (Hong Kong), SOAEO subsidiaries accounted for by the equity method.

Note (A) - Intangible assets

Gross Value

In millions of euros

	As of January 1	Increase	Decrease	Foreign exchange variation	Other variations (1)	As of December 31
2003						
Start-up costs	39.0	2.5	(1.4)	(1.0)	(3.8)	35.3
Deferred charges	89.2	35.1	(4.8)	(0.3)	(13.6)	105.6
Business	25.8	0.2		(1.1)	8.7	33.6
Other intangible assets	295.3	32.7	(5.2)	(9.3)	(13.7)	299.8
Total	**449.3**	**70.5**	**(11.4)**	**(11.7)**	**(22.4)**	**474.3**
2004						
Start-up costs	35.3	0.7	(3.5)	(0.4)	(0.6)	31.5
Deferred charges	105.6	5.3	(2.8)	0.1	(79.7)	28.5
Business	33.6	0.1	(2.8)	0.2	5.3	36.4
Other intangible assets	299.8	46.4	(13.2)	(11.6)	351.3	672.7
Total	**474.3**	**52.5**	**(22.3)**	**(11.7)**	**276.3**	**769.1**

Depreciation

In millions of euros

	As of January 1	Increase	Decrease	Foreign exchange variation	Other variations (1)	As of December 31
2003						
Start-up costs	(35.1)	(17.7)	0.7	1.0	22.3	(28.8)
Business	(13.9)	(3.0)		0.6	(1.6)	(17.9)
Other intangible assets	(195.2)	(24.0)	5.0	4.0	6.6	(203.6)
Total	**(244.2)**	**(44.7)**	**5.7**	**5.6**	**27.3**	**(250.3)**
2004						
Start-up costs	(28.8)	(6.4)	3.4	0.3	5.7	(25.8)
Business	(17.9)	(3.5)	1.3	(0.1)	(2.0)	(22.2)
Other intangible assets	(203.6)	(55.8)	12.2	2.3	(4.9)	(249.8)
Total	**(250.3)**	**(65.7)**	**16.9**	**2.5**	**(1.2)**	**(297.8)**

(1) Other variations on gross value and depreciation mainly correspond to accounts reclassifications and effects of changes in the consolidation perimeter. In 2003 in particular, the consolidation of Japan Air Gases and, in 2004, the consolidation of Messer for 242.0 million euros, including 277.9 million euros corresponding to the valuation of some customer contracts in Germany and in the United States as part as the allocation of goodwill, and -35.9 million euros corresponding to the write-off of computer software existing prior to the acquisition which became subsequently redundant. Intangible assets corresponding to customer contracts are amortized over a 25-year period.

Deferred charges mainly include some capitalized IT expenses, as well as incorporation or capital increases costs.They are depreciated over a three-to-five-year period. Some capitalized IT expenses have been reclassified into other intangible assets in 2004.

Other intangible assets mainly consist of customer contracts resulting from Messer acquisition, concessions, computer software, licences, patents acquired and some capitalized IT expenses. Depreciation is computed over the estimated useful lives or legal limits of the assets.

Industrial investments included in the Statement of changes in financial position correspond to the increase of intangible assets and the increase of property, plant and equipment net of the variation of the balance of fixed assets suppliers between January 1, and December 31.

Note (B) - Property, plant and equipment

Property, plant and equipment are mainly used in the gas activity.

Gross Value

In millions of euros

	As of January 1	Increase	Decrease	Foreign exchange variation	Other variations (1)	As of December 31
2003						
Land	192.9	0.4	(4.9)	(17.3)	72.7	243.8
Buildings	773.2	3.8	(18.3)	(42.5)	92.3	808.5
Equipment, cylinders, installations	12,404.9	154.5	(155.1)	(815.5)	958.1	12,546.9
Total property, plant and equipment in service	**13,371.0**	**158.7**	**(178.3)**	**(875.3)**	**1,123.1**	**13,599.2**
Construction in progress	325.5	512.2		(36.4)	(486.8)	314.5
Total property, plant and equipment	**13,696.5**	**670.9**	**(178.3)**	**(911.7)**	**636.3**	**13,913.7**
2004						
Land	243.8	5.3	(10.2)	(5.5)	17.2	250.6
Buildings	808.5	14.2	(17.4)	(17.8)	291.7	1,079.2
Equipment, cylinders, installations	12,546.9	204.6	(155.9)	(366.7)	1,372.2	13,601.1
Total property, plant and equipment in service	**13,599.2**	**224.1**	**(183.5)**	**(390.0)**	**1,681.1**	**14,930.9**
Construction in progress	314.5	638.8		(13.7)	(438.0)	501.6
Total property, plant and equipment	**13,913.7**	**862.9**	**(183.5)**	**(403.7)**	**1,243.1**	**15,432.5**

Depreciation

In millions of euros

	As of January 1	Increase (2)	Decrease	Foreign exchange variation	Other variations (1)	As of December 31
2003						
Buildings	(423.1)	(31.6)	11.6	21.7	(54.8)	(476.2)
Equipment, cylinders, installations	(7,119.4)	(702.5)	134.9	442.8	(265.8)	(7,510.0)
Total property, plant and equipment in service	**(7,542.5)**	**(734.1)**	**146.5**	**464.5**	**(320.6)**	**(7,986.2)**
2004						
Buildings	(476.2)	(36.6)	15.6	11.2	(1.8)	(487.8)
Equipment, cylinders, installations	(7,510.0)	(790.1)	127.7	206.0	(61.9)	(8,028.3)
Total property, plant and equipment in service	**(7,986.2)**	**(826.7)**	**143.3**	**217.2**	**(63.7)**	**(8,516.1)**

(1) Other variations on gross value and depreciation mainly correspond to accounts reclassifications and effects of changes in the consolidation perimeter, in particular:
- in 2003, the consolidation of Japan Air Gases for which the impact on the gross value and the amortization is respectively 590.1 million euros and -322.1 million euros.
- in 2004, the consolidation of Messer for which the impact on the gross value is 1,047.2 million euros.

(2) Depreciation on property, plant and equipment correspond to the increase of depreciation net of the decrease of investment grants.
Industrial investments included in the Statement of changes in financial position correspond to the increase of intangible assets and the increase of property, plant and equipment net of the variation of the balance of fixed assets suppliers between January 1, and December 31.

Note (C) - Goodwill

Gross Value

In millions of euros

	As of January 1	Increase	Decrease	Foreign exchange variation	Other variations (1)	As of December 31
2002	**1,276.1**	106.3		(60.9)	(12.9)	**1,308.6**
2003	**1,308.6**	28.0		(49.5)	(28.1)	**1,259.0**
2004	**1,259.0**	**1,577.4**	**(3.9)**	**(36.4)**	**3.9**	**2,800.0**

(1) Other variations mainly correspond to reclassifications and effects of changes in the consolidation perimeter in particular in 2003, the consolidation of Japan Air Gases.

The increase in goodwill mainly corresponds:

- for 2002, to the purchase of minority interests of Air Liquide Japan (Japan);
- for 2003, to the purchase of minority interests of Oy Polargas (Finland) and the acquisition of several companies which are not significant individually;
- for 2004, to the acquisition of Messer in Germany, the United Kingdom and the United States (1,517.2 million euros after foreign exchange impact on the United States) and of Livingston metrology activities in France, the Netherlands, Germany and Spain (20.1 million euros).

In 1994, a goodwill has been directly deducted from retained earnings. The impact on the net balance of the goodwill is 124.0 million euros as of December 31, 2004 (128.3 million euros in 2003 and 132.6 million euros in 2002), with no significant impact on net earnings.

Depreciation

In millions of euros

	As of January 1	Increase	Decrease	Foreign exchange variation	Other variations (2)	As of December 31
2002	**(404.9)**	(37.7)	0.5	21.2	12.9	**(408.0)**
2003	**(408.0)**	(39.4)		17.1	(1.3)	**(431.6)**
2004	**(431.6)**	**(66.9)**	**1.2**	**7.8**	**0.4**	**(489.1)**

(2) Other variations mainly correspond to reclassifications from gross value to depreciation.

Note (D) - Investments in companies accounted for by the equity method

In millions of euros

	As of January 1	Increase	Decrease	Foreign exchange variation	Other variations (1)	As of December 31
2002	**303.0**	56.0	(41.5)	(33.3)	29.2	**313.4**
2003	**313.4**	49.5	(57.4)	(33.4)	(4.0)	**268.1**
2004	**268.1**	**36.5**	**(30.5)**	**2.0**	**(69.6)**	**206.5**

(1) Other variations mainly correspond to changes in the consolidation perimeter. Particularly, the Egyptian entities bought to Messer were accounted for by the equity method in 2002. They were fully integrated in 2003. In 2004, this amount includes 67.0 million euros corresponding to the impact of change in the consolidation method of SOAEO subsidiaries in Singapore and Hong Kong, which are now accounted for by the proportional method.

In millions of euros

Group's part in companies accounted for by the equity method as of December 31, 2004	Equity in earnings	Shareholders' equity	Net Indebtedness
France	10.0	59.8	7.3
Europe (excluding France)	6.1	35.0	5.6
Americas	1.1	13.3	(3.8)
Asia-Pacific	12.4	78.8	11.4
Africa	6.9	19.6	(3.1)
Total	**36.5**	**206.5**	**17.4**

Note (E) - Other Investments

In millions of euros

	2002	2003	2004
France	44.2	37.2	14.4
Europe (excluding France)	17.9	22.5	22.2
Americas	16.0	6.9	4.8
Asia-Pacific	33.0	33.8	28.6
Total	**111.1**	**100.4**	**70.0**

Other investments mainly include in France:

- the investment in "Air Liquide Ventures" venture capital fund amounting to 11.4 million euros as of December 31, 2004,
- in 2003, the shares of Arcelor representing 0.12% of its share capital as of December 31, 2003, acquired for a total amount of 8.9 million euros. This investment was sold in 2004.

Other investments are individually not significant.

Note (F) - Inventories

In millions of euros

	2002	2003	2004
Raw materials and supplies	155.7	170.6	200.1
Finished and semi-finished goods	352.7	395.7	437.2
Work in progress (essentially engineering and construction contracts in progress)	162.5	167.1	239.1
Provision for obsolescence and loss on completion	(52.6)	(51.8)	(63.9)
	618.3	**681.6**	**812.5**
Advances received on contracts in progress	(55.3)	(26.1)	(53.9)
Net	**563.0**	**655.5**	**758.6**

The LIFO reserve amounts to 3.5 million euros in 2004 (no change with 2003 and 17.8 million euros in 2002).

Note (G) - Trade receivables and other debtors

In millions of euros

	2002	2003	2004
Trade receivables	1,941.7	2,038.5	2,341.5
Provision	(93.3)	(92.9)	(91.2)
Net	**1,848.4**	**1,945.6**	**2,250.3**
Prepaid expenses and other assets	364.5	464.6	398.8
Provision	(4.5)	(2.6)	(2.4)
Net	**360.0**	**462.0**	**396.4**

Some subsidiaries have permanent programs of non-recourse sales of trade receivables. As of December 31, 2004, amounts sold and deducted from trade receivables are 74.5 million euros (165.3 and 162.7 million euros for 2003 and 2002).

Note (H) - Provisions and deferred income taxes

In millions of euros

	As of January 1	Increase	Decrease	Foreign exchange variation	Other variations (1)	As of December 31
2003						
Deferred income taxes (assets)	(297.9)	(155.1)	16.7	5.6	(2.3)	(433.0)
Deferred income taxes (liabilities)	888.3	99.8	(16.7)	(63.5)	14.0	921.9
Deferred income taxes (net)	**590.4**	**(55.3)**	**0.0**	**(57.9)**	**11.7**	**488.9**
Employee termination indemnities & other benefits	234.0	37.3	(31.8)	(9.9)	28.4	258.0
Provision for the engineering activity	45.0	24.8	(34.0)	(0.6)		35.2
Badwill (2)	47.6		(19.2)	(2.6)	(25.8)	0.0
Other risks and accrued expenses (3)	176.1	121.4	(63.2)	(4.5)	17.1	246.9
Investment grants & deferred revenues	70.4	5.1	(9.8)	(0.1)	0.4	66.0
Employee profit sharing	7.4	8.7	(6.7)		(0.4)	9.0
Provisions	**580.5**	**197.3**	**(164.7)**	**(17.7)**	**19.7**	**615.1**
Total	**1,170.9**	**142.0**	**(164.7)**	**(75.6)**	**31.4**	**1,104.0**
2004						
Deferred income taxes (assets)	(433.0)	(68.2)	44.4	3.4	(88.6)	(542.0)
Deferred income taxes (liabilities)	921.9	42.7	44.9	(35.6)	372.0	1,345.9
Deferred income taxes (net)	**488.9**	**(25.5)**	**89.3**	**(32.2)**	**283.4**	**803.9**
Employee termination indemnities & other benefits	258.0	24.4	(17.4)	(6.9)	212.8	470.9
Provision for the engineering activity	35.2	46.5	(27.2)	(0.6)	3.3	57.2
Other risks and accrued expenses (3)	246.9	51.9	(82.4)	(2.4)	169.6	383.6
Investment grants & deferred revenues	66.0	5.9	(8.4)		5.5	69.0
Employee profit sharing	9.0	5.8	(5.7)			9.1
Provisions	**615.1**	**134.5**	**(141.1)**	**(9.9)**	**391.2**	**989.8**
Total	**1,104.0**	**109.0**	**(51.8)**	**(42.1)**	**674.6**	**1,793.7**

(1) Other variations mainly correspond to reclassifications and effects of changes in the consolidation perimeter.

At year-end 2004, the consolidation of Messer in Germany, the United Kingdom and the United States resulted in the following changes to the consolidation perimeter:
- 209.2 million euros for Employee termination indemnities & other benefits,
- 184.4 million euros for Other risks and accrued expenses, including restructuring costs,
- 369.2 million euros for Deferred taxes liabilities.

(2) Badwill resulting from the acquisition of Messer Griesheim GmbH subsidiaries in Argentina and Brazil in 2001 have been mainly allocated to the relating assets or reversed in the net earnings in 2003.

(3) Including provisions for identified tax and industrial litigations, restructuring costs, and accelerated depreciation.

Nature of deferred income taxes are detailed into "Principles and methods of consolidation". In addition, deferred income taxes (assets) related to tax losses are not significant.

The increase (decrease) in provisions indicated in the Statement of changes in financial position corresponds to the net movement of provisions, excluding movements of investment grants and other items with no financial consequences.

None of the various known cases of litigation in which companies of the Group are involved, included environmental risks, is expected to have a significant effect on the Group's consolidated financial position, beyond provisions set up for that purpose.

Note (I) - Net indebtedness

Net indebtedness

In millions of euros

	2002	2003	2004
Long-term debt	2,289.2	1,985.3	4,300.8
Short-term debt (including the short-term portion of long-term debt)	86.7	183.1	274.5
Total debt	**2,375.9**	**2,168.4**	**4,575.3**
Short-term loans, marketable securities and cash	(353.6)	(438.2)	(785.0)
Net indebtedness	**2,022.3**	**1,730.2**	**3,790.3**

Maturity profile of long-term debt as of December 31, 2004, is as follows:

(After covering short-term debt by the long-term bank confirmed non-used credit lines).

In millions of euros

2006	102.8
2007	759.0
2008	125.9
2009	1,415.5
2010	510.7
2011	379.8
2012 and beyond	1,007.1
Total	**4,300.8**

Analysis of net indebtedness by currency

In millions of euros

	2002	2003	2004
EUR (1)	962.1	979.7	2,717.7
USD and CAD	780.5	615.6	853.4
JPY (2)	235.0	133.2	223.4
Other currencies	44.7	1.7	(4.2)
Net indebtedness	**2,022.3**	**1,730.2**	**3,790.3**

(1) Changes in euro indebtedness in 2004 mainly resulted from the acquisition of Messer.

(2) Changes in yen indebtedness mainly resulted in 2002 from the acquisition of Air Liquide Japan minority interests, in 2003 from the Japan Air Gases cash integration, and in 2004 from the exceptional payment of dividends of this subsidiary.

Debt denominated in foreign currencies is repaid from funds from operations (cash flow) in the corresponding currency.

A portion of long-term debt was secured by assets pledged with a value of 39 million euros in 2004.

Note (J) - Financial instruments

Interest rate risk

In order to reduce its exposure to interest rate risk, the Group may enter into contracts to fix interest rates (swaps), or protect against a rise in interest rates (caps).

The interest rate differential received or paid is recorded in net financial expenses.

Fixed rate debt including the effect of interest rate swaps represents 61% of the total average indebtedness in 2004; the percentage represents 84% including interest rate caps.

The weighted average interest rate on total indebtedness is 4% for the year 2004.

Foreign exchange risk

The Group enters into hedging contracts for exchange risk arising from economic transactions.

As a result, the Group has no exchange risk exposure.

These transactions are entered into with carefully selected bank counterparties.

Note (K) - Commitments and contingencies

In millions of euros

	2003	2004
Commitments and contingencies linked to:		
Purchase of fixed assets and investments	262.7	204.6
Rentals and Leases	128.7	204.7
Energy purchases	87.5	165.1
Cogeneration overhauls commitments	71.2	47.0
IT Systems outsourcing in the United States	14.1	11.8
Guarantees and others	234.0	230.9
Total	**798.2**	**864.1 (1)**

(1) The Messer impact in 2004 amounts to 47.4 million euros.

Variation is mainly due to following events:

- purchase of shares, in particular Livingston in Europe and purchase of minority interests in the United States;
- new rental agreements in the United States;
- new contracts of energy supply in Europe.

Commitments are given for the Group's ordinary operations and will mostly be extinguished within the next two fiscal years.

Post-closing Events

No significant post-closing event has occurred.

Note (L) - Supervisory Board and officers' remuneration

Emoluments granted to the members of the Supervisory Board and officers of L'Air Liquide S.A., as compensation for their responsibilities in the Group, are as follows:

In millions of euros

	2002	2003	2004
Emoluments to the members of the Supervisory Board	0.6	0.7	0.7
Emoluments to the officers	5.6	6.6	8.4
Total	**6.2**	**7.3**	**9.1**

Officers include the members of both the Management Board and the Executive Committee.

The remuneration policy of senior management takes into account current market practices. It includes a substantial variable portion based on targets of Group earnings growth and individual performance. Details are provided on page 106 of this Management Report.

Note (M) - Stock options and stock purchase plans (1)

Following the decisions of the General Shareholders' Meeting and on recommendation of the Selection and Remuneration Committee, the Board of Directors, the Supervisory Board and the Management Board have adopted, at Group level, stock options schemes for senior executives (including executive directors) and key employees.

These options schemes are intended to motivate key executives at Group level, retain the most performing individuals and focus them on the medium and long-term interests of shareholders.

In addition, on the occasion of Air Liquide's 100-Year celebration in 2002, stock options were granted on an exceptionnal basis to all Group employees worldwide with a maximum of 30 stock options each.

Stock options are granted for a minimal unitary amount equal to 100% of the average market price of the last 20 days prior to the day they were granted. The maximum exercise term is ten years for stock options granted before May 4, 2000, seven years for those granted between May 4, 2000, and April 8, 2004, and eight years for those granted since that date. A very small number of stock options have been granted on condition that certain objectives be achieve during a defined period.

During 2004, 585,306 adjusted stock options were granted at an average adjusted price of 126.64 euros to employees of the Company and of its subsidiaries. Also in 2004, 133,299 stock options were exercised at an average purchase price of 82.61 euros.

Total adjusted stock options, granted by the Board of Directors, the Supervisory Board and the Management Board under the schemes authorized by the General Shareholders' Meetings, but not exercised as of December 31, 2004, amounted to 3,775,531 options i.e. 3.46% of the capital shares (average purchase price: 121.41 euros), of which 584,122 options (at an average purchase price: 123.57 euros) have been granted to the present general management.

These stock options are to be exercised within a ten-year maximum term after the day they were granted for those granted by May 4, 2000, within a seven-year maximum term for those granted between May 4, 2000, and April 8, 2004, and within an eight-year term for those granted since that date.

Stock options granted between September 24, 1997, and May 12, 1999, are only exercisable after a five-year minimum term. The stock options granted since May 12, 1999, can only be exercised after a four-year minimum term from the date they were granted.

As of December 31, 2004, out of the total number of options authorized by the General Shareholders' Meeting, 3,240,039 options have not been allocated by the Supervisory Board and the Management Board.

(1) Details on stock options granted in the last ten years are provided on page 104.

Note N - Pensions and other benefits

A) Pension plans

Air Liquide provides its employees with various pension plans, termination indemnities, jubilees and other post-employment benefits for both active employees and retirees. These plans vary according to laws and regulations applicable in each country as well as specific rules in each subsidiary.

Defined benefit plans are in most cases financed via external pension funding. Assets are invested mostly in bonds or equities.

The Group pension liabilities with respect to defined benefit plans are based on an actuarial valuation of vested and potential future rights for actives and retirees at fiscal year end date, less the market value of assets, taking into account actuarial gains and losses.

Some employees are covered by defined contribution plans. However, these plans do no create any long-term liability. The Company's sole obligation is to pay regular contributions to an external fund based on a fixed percentage of the employees pay. The pension expense is equal to the contribution amount paid during the fiscal year.

The characteristics of the plans in force in the Group are as follows:

– In France, mandatory collective agreements provide for termination indemnities (i.e. lump sums paid at retirement which are based on the employee's service and earnings at retirement). In addition, L'Air Liquide S.A. and some French subsidiaries have a group agreement providing:

- Additional benefits to retirees (5,034 people as of December 31, 2004) and to employees over 45, or with more than 20 years of service as of January 1, 1996 (1,047 people as of December 31, 2004). These benefits provide a retirement income based on final pay, which is paid in addition to the other normal retirement benefits (Social Security, ARRCO and AGIRC). This plan was closed as of February 1, 1996. The annual amount paid with respect to this plan cannot exceed 12% of payroll or 12% of pre-tax profit for the relevant entities. As a consequence of the plan closing, this 12% will be reduced starting in year 2010 based on the annual decrease in the number of retirees. As a consequence of these limits, this plan is viewed as a defined contribution plan for which the pension expense consists of annual payments as they are made to current retirees since these liabilities cannot be viewed as ongoing and stable. The contribution for the current fiscal year is equal to 36.1 million euros (for 2003 and 2002: 34.6 and 34.0 million euros respectively). Without the limits and until complete extinction of the plan, the actuarial value of the annual after-tax contributions paid on behalf of retirees as of December 31, 2004, and of eligible employees is equal to 402.7 million euros (300.8 million euros for retirees and 101.9 million euros for active employees).
- An externally funded defined contribution plan for other employees not in the plan mentioned above (4,347 people as of December 31, 2004) with at least one year of service. Contributions to this plan are jointly paid by employer and employee. For fiscal year 2004, employer contributions amount 6.2 million euros (2003 and 2002: 5.5 and 5.0 million euros respectively).

The other main pension plans are defined benefit plans in North America (United States and Canada, 36% of consolidated retirement liabilities), in Germany (22% of liabilities), in Switzerland (10% of liabilities), in Spain (8% of liabilities) and in Japan (7% of liabilities).

B) Determination of assumptions and actuarial methods

Benefits are regularly valued by actuaries. These valuations are performed according to the International Accounting Standard. The actuarial method used is the projected unit credit method taking into account final pay.

Actuarial gains and losses above 10% of the greater of liabilities or assets are amortized over the Employees Average Remaining Service Lifetime (EARSL).

The actuarial assumptions (turnover, mortality, retirement age, salary increase) vary according to demographic and economic conditions in each country.

The discount rates used to determine the liability are based on Government bonds or High-quality Corporate bonds with the same duration as the liabilities at the valuation date.

The expected return on long-term assets is determined by taking into account, in each country, the asset allocation in the portfolio.

C) Liabilities and assumptions

As of December 31, 2003, liabilities with respect to all existing plans, and all subsidiaries, were included in the consolidation, except for non material ones.

The liabilities for pension plans and similar benefits are shown below:

In millions of euros

	Liabilities	Assets	Book reserve	Unrecognized gains and losses
As of 12/31/2003	930	545	258	(127)
As of 12/31/2004	1,243	637	471	(135)

The unrecognized gains and losses as of December 31, 2004, will change in the future depending on future asset values and the actuarial assumptions.

Change in actuarial liabilities (in millions of euros):

Liabilities as of 12/31/2003	930
Service cost + interest cost - benefit payments	44
Change in actuarial assumptions	42
Change in perimeter (acquisitions, changes in plans' definitions)	266
Currency exchange	(39)
Liabilities as of 12/31/2004	1,243

Change in assets (in millions of euros):

Assets as of 12/31/2003	545
Return + contributions - benefit payments	48
Change in perimeter (acquisitions, changes in plans' definitions)	66
Currency exchange	(22)
Assets as of 12/31/2004	637

The different discount rates used are the following:

	Discount rate	
	2003	2004
Germany	5.00%	4.75%
Canada	6.25%	6.00%
United States	6.00%	6.00%
France	5.00%	4.75%
Italy	5.00%	4.75%
Japan	1.70%	1.70%

The benefit expenses for defined benefit plans and defined contributions plans for fiscal years 2003 and 2004 are as follows:

In millions of euros

	2003	2004
Defined contributions plans	59.1	57.2
Defined benefit plans	39.2	51.2

Analysis of the benefit expense for year 2004 for defined benefit plans:

In millions of euros

Service cost	31.3
Interest cost (net of asset return)	19.6
Other (including actuarial gains and losses amortization)	0.3

Main consolidated companies, employees and currency rates

L'Air Liquide S.A. assumes a part of the Group's operating activities in France. It also owns directly or indirectly financial investments in its subsidiaries. L'Air Liquide S.A. mainly receives, from its subsidiaries, dividends and royalties.

L'Air Liquide S.A. assumes treasury centralization for some French subsidiaries.

1 - Main changes occured in 2004

The change in consolidation perimeter in 2004, compared with 2003, is positive: +8.1% increase in sales, or 682 million euros at constant exchange rate.

This impact is principally linked with the acquisition of Messer (+5,6%) in May, 2004.

The consolidation by the proportional method of SOXAL (Singapore Oxygen Air Liquide Pte Ltd), HKOAL (Hong Kong Oxygen and Acetylen Cy Ltd), and EIG (Eastern Industrial Gases) (+1,3%), and the acquisition of Livingston (+0.4%), explain the remaining impact.

Organization chart under the flap

In millions of euros

	Impact on 2004 sales (compared with 2003)
A) Acquisitions:	
Companies fully consolidated:	
Messer companies: - Air Liquide Deutschland GmbH and its subsidiaries (Germany) - ALIG Acquisition LLC (United States) - Air Liquide UK Limited (United Kingdom)	470.7
Metrology business Livingston: - Trescal Gestion (France) and its subsidiaries (TIS-Livingston S.A., Climats S.A., Sapratin Technologies S.A., Somelec S.A.) - Livingston Calibration B.V. (The Netherlands) - Livingston Electronic Equipment Services S.A. (Spain) - Livingston Calibration GmbH (Germany)	36.8
Others:	
- Unident (Switzerland) acquired by Anios	1.9
- MG Tarature Srl acquired by Air Liquide Italia Srl (Italy)	3.2
- Arcana acquired by Schülke & Mayr GmbH (Germany)	0.6
- Arepa Mätteknik A.B. acquired by Air Liquide Gas A.B. (Sweden) and Arepa Test & Kalibrering A.S. by Air Liquide Danmark A.S. (Denmark)	3.0
- Allertec S.A. acquired by Air Liquide Hellas (Greece)	1.9
- I.T.M. S.A. acquired by Air Liquide España S.A. (Spain)	1.7
- Sudac Air Services Midi-Pyrénées and Air Solution acquired by Sudac Air Services (France)	1.1
- Others	34.6
B) Change in consolidation method:	
France	
- ETSA (change from the equity method to full consolidation method)	15.2
Europe	
- Air Liquide Norway (change from the equity method to full consolidation method)	2.7
Asia-Pacific - Groupe Hong Kong Oxygen and Acetylene Cy Ltd (Hong Kong) - Singapore Oxygen Air Liquide Pte Ltd (Singapore) - Eastern Industrial Gases Ltd (Thailand) Companies consolidated by the proportional method since 2004 (consolidated by the equity method in 2003)	108.6
Total change in consolidation perimeter on 2004 sales	**682.0**

C) Merger and others:

France
- Sale of Soterkenos S.A. by Sudac Air Services (France)
- Sale of the welding business of SPAL (Portugal) to Air Liquide Welding S.A. (France)

D) Companies created and newly fully consolidated in the perimeter:

France
- Omasa France
- AL-RE

Europe
- Air Liquide S.A. Acquisition GmbH & Co. KG (Germany)
- Maasvlakte Energie B.V. (The Netherlands)

Asia-Pacific
- Air Liquide China Holding (China)

E) Main changes in the Group's interest:

Europe
- Following the acquisition of minority interests by AL Innovation, the Group's interest in Metrotech is 100% in 2004 (compared with 64.9% at year-end 2003) in ATEST (compared with 95.63% at year-end 2003), in LSA (compared with 71.85% at year-end 2003) and in ASCAL (compared with 99.97% at year-end 2003).
- Following the acquisition of minority interests by AL Services, the Group's interest in Aria is 100% in 2004 (compared with 87.92% at year-end 2003) and in Logsyal (compared with 87.75% at year-end 2003).
- Following the acquisition of minority interests, the Group's interest in AL España is 99.88% in 2004 (compared with 99.83% in 2003).

Asia-Pacific
- Following the acquisition of minority interests, the Group's interest in AL Japan Ltd is 98.82% in 2004 (compared with 95.52% in 2003).

2 - Employees

The number of employees of the fully consolidated companies adds up to 35,900 people as of December 31, 2004, compared with 31,885 as of December 31, 2003.

The integration of new subsidiaries in the Group has had a positive impact of 4,000 employees.

3 - Currency rates

Main currency rates used:

Average rates

Euros for one currency	2002	2003	2004
USD	1.06	0.88	0.80
CAD	0.68	0.63	0.62
Argentinean peso	0.35	0.30	0.27
JPY (1,000)	8.47	7.64	7.44

Closing rates

Euros for one currency	2002	2003	2004
USD	0.95	0.79	0.73
CAD	0.60	0.62	0.61
Argentinean peso	0.28	0.27	0.25
JPY (1,000)	8.04	7.40	7.16

Report of the statutory auditors on the consolidated financial statements

(Free translation of the French language original)

This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report includes information specifically required by French law in all audit reports, whether qualified of not, and this is presented below the opinion on the consolidated financial statements. This information includes explanatory paragraphs discussing the auditors' assessments of certain significant accounting matters. These assessments were made for the purpose of issuing an opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. The report also includes information relating to the specific verification of information in the Group Management Report.

This report, together with the statutory auditors' report addressing financial and accounting information in the Report from the Chairman of the Supervisory Board on internal control, should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In compliance with the assignment entrusted to us by your shareholders' meeting, we have audited the accompanying consolidated financial statements of Air Liquide for the year ended December 31, 2004.

The consolidated financial statements have been approved by the Management Board. Our role is to express an opinion on these financial statements based on our audit.

Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the assets, liabilities, financial position and results of the consolidated group of companies in accordance with the accounting rules and principles applicable in France.

Justification of assessments

In accordance with the requirements of Article L.225-235 of French Company Law (*Code de Commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

■ The impact of the acquisition of certain Messer activities in Germany, the United Kingdom, and the United States is presented in the Note to the consolidated financial statements relating to this acquisition. We have reviewed the initial value of identifiable assets and liabilities, including intangible assets, resulting from this acquisition. We have verified that its treatment complies with consolidation rules.

■ Intangible assets and goodwill have been reviewed for impairment as described in the Note to the consolidated financial statements relating to the valuation methods. We have reviewed the application and the assumptions used for these impairment tests.

■ We have examined the methods and assumptions applied to record in the consolidated balance sheet the provisions for risks and charges amounting to 990 million euros and particularly the processes implemented by management to identify and assess these risks. We ensured that these provisions were in compliance with French accounting methods.

The assessments were thus made in the context of the performance of our audit of the consolidated financial statements taken as a whole and therefore contributed to the formation of our unqualified audit opinion expressed in the first part of this report.

Specific verification

In accordance with professional standards applicable in France, we have also reviewed the information in the Group Management report.

We have no matters to report regarding its fair presentation and conformity with the consolidated financial statements.

Paris and Paris-La Défense, March 9, 2005

The statutory auditors

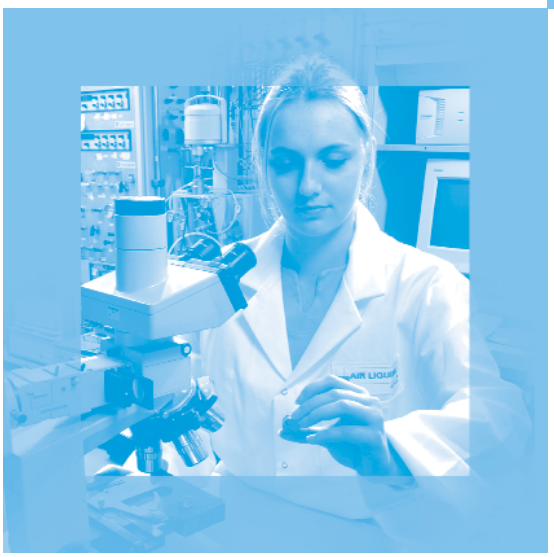
MAZARS & GUÉRARD

Frédéric ALLILAIRE

ERNST & YOUNG Audit

Jean-Claude LOMBERGET

Report from the Chairman of the Supervisory Board



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Report from the Chairman of the Supervisory Board

Conditions for the preparation and organization of the work of the Supervisory Board

The Company has adopted a structure based on a Management Board and a Supervisory Board.

Composition of the Supervisory Board

As of December 31, 2004, the Supervisory Board comprised ten members, appointed at the General Shareholders' Meeting for a period of four years. Members are selected based on their skills, integrity, independence and their firm commitment to the interests of all shareholders.

In addition, all members have recognized experience and skills in one or more fields relevant to the Company's activities: international development, industry, health, marketing, research, economics, and finance. The experience, nationalities, and cultures represented in Air Liquide's Supervisory Board complement each other and are quite diverse.

The Supervisory Board uses certain indicators as criteria in assessing the independence of its members. An independent member must not:

■ Be, nor ever have been, an employee or officer of the Company;

■ Hold office as Chairman and Chief Executive Officer, Chief Executive Officer, Chairman or member of the Management Board of a company in which the Chairman of Air Liquide's Supervisory Board or a member of the Management Board is a director or a member of the Supervisory Board;

■ Have a business relationship with the Air Liquide Group representing a significant part of the activity either of Air Liquide, or of the company in which the member of the Supervisory Board is an officer;

■ Have any close family ties to a member of the Management Board.

On the basis of these criteria, the Supervisory Board determined that, as of December 31, 2004, the following members are independent: B. Majnoni d'Intignano, Sir Christopher Hogg, Sir Dennis Weatherstone, L. Owen-Jones, T. Desmarest, C. van Lede, G. de La Martinière and Professor R. Krebs. Thus, eight out of ten members of the Supervisory Board are independent.

Role of the Supervisory Board – Relationship with the Management Board

The role of the Supervisory Board, as defined in law and in the Company's Articles of Association, is to continuously supervise the management of the Company exercised by the Management Board.

An internal document complementing the Articles of Association, has been approved by the Supervisory Board. It sets out the guiding principles directing the relationship between the Management Board and the Supervisory Board.

In particular, it describes how the following operate in practice:

■ The Supervisory Board's right to information. Most of the information is supplied either (i) in quarterly reports in a format agreed upon with the Chairman of the Supervisory Board and presented by the Management Board; or (ii) in documents based on a standard list, containing the information the Supervisory Board needs to carry out its role;

■ The Supervisory Board's right to monitor certain specific matters, in particular its review of the annual and half-yearly financial statements, the agenda for General Shareholders' Meetings, the Annual Report to the General Shareholders' Meeting, the report from the Internal Audit Department, and the Group's annual and strategic objectives;

■ The Supervisory Board's own powers, for instance, to appoint members of the Management Board and its Chairman, to set their remuneration, to form committees, and to set Supervisory Board members' attendance fees;

■ Setting thresholds, above which certain key decisions listed in Article 22 of the Articles of Association require prior authorization from the Supervisory Board:

– sureties, warranties and guarantees above a unit amount of 80 million euros or for an annual combined amount above 250 million euros,
– sales or contributions of equity interest, sales of branches of activity, mergers or partial business transfers, above a unit amount of 150 million euros or for an annual combined amount above 300 million euros,
– arranging security above a unit amount of 80 million euros or for an annual combined amount above 150 million euros,
– commitments for investment or acquisitions above a unit amount of 250 million euros or for an annual combined amount above 400 million euros,
– financing operations involving sums that could substantially change the Group's financial structure,
– granting stock options to employees or management,
– issuing securities giving access to capital,
– any transaction that could substantially change the Group's strategy,
– the Company's purchase of its own shares.

Operation of the Supervisory Board

In addition, internal regulations set guidelines for the Supervisory Board's composition aiming at balancing age, total duration of terms of office, and number of former Group officers. These internal regulations also prescribe the Supervisory Board's operating rules: conduct of meetings (number of meetings and participation by video-conference) and the formation of committees (purpose, rules of operation).

Furthermore, an internal code of conduct on the preventiion of insider trading outlines the legal and regulatory obligations binding Supervisory Board members. This code of conduct also sets the limits for dealing in Company shares, by defining abstention periods during which members may not trade in those shares.

Members of the Supervisory Board declare their trades in Company shares to the Company. This information is then forwarded to the stock market authorities in compliance with current regulations.

Finally, under the Company's Articles of Association, each member of the Supervisory Board must hold at least 500 registered shares in the Company.

Work of the Supervisory Board in 2004

In 2004, the Supervisory Board met six times, with an average attendance rate of 85.5%.

The Supervisory Board dealt with a variety of matters tied to the following three areas:

Regular supervision of the management of the Group, mainly carried out by:

■ Attending the presentation of **quarterly reports** by the Management Board on the Group's activities and results; presentation of the annual objectives, and review of the consolidated and Company annual and half-yearly financial statements at the February and September meetings in the presence of the statutory auditors; in 2004, the Supervisory Board determined the frequency and typical content of reports to be made by the Management Board on its risk management policy;

■ Reviewing **reports** from the four meetings of the **Audit and Accounts Committee,** and from the three meetings of the **Selection and Remuneration Committee**;

■ Using the **prior authorization** procedure provided for in the Articles of Association, in particular for the investments necessary for industrial projects or external growth during the year; for the share buyback program; for regulated agreements; for the stock options scheme; for sureties; and for terms and conditions of Group financing;

■ Reviewing **Company documents**: responding to applications from the Works Council, and reviewing the social report and forward-planning documents;

■ Preparing for the annual **General Shareholders' Meeting** by reviewing the proposed Annual Report from the Management Board, proposed agenda, profit allocation and **proposed resolutions** for the General Shareholders' Meeting, and, finally, by preparing the Supervisory Board's report to that Meeting.

Monitoring of issues of significance to the Group in 2004, including:

■ The acquisition of **Messer**'s activities in Germany, the United Kingdom and the United States: in regular meetings, and at an exceptional one, the Supervisory Board was kept well informed of progress and it approved the various stages of this external development project according to the approval procedure provided for in Article 22 of the Articles of Association. The acquisition was completed in May, following the approval of the European Commission (in March) and the U.S. Federal Trade Commission (in April). The Supervisory Board was also regularly informed on the divestments required by the competition authorities. With their approval, such divestments were for the most part carried out in the Fall of 2004. The Supervisory Board was also updated on the status of the integration process;

■ The Group's **strategic orientations**: the Management Board and several operating managers made presentations to the Supervisory Board on the main business lines, development drivers, and strategic goals identified in Asia, the Middle East, Europe, and America. A special meeting to address the Group's strategic goals took place in June, in addition to several presentations made at quarterly meetings;

■ Finally, taking into account the work and recommendations of the Audit and Accounts Committee, the Supervisory Board followed the **selection** process for the position of **statutory auditors** and nominated the firms Ernst & Young and Mazars & Guérard to be put to the General Shareholders' Meeting in May.

Operation of the corporate structure

The Supervisory Board met without members of the Management Board, to consider:

■ The **operation of the Management Board**; following the Messer acquisition, the Supervisory Board enlarged to three members the Management Board, by appointing Klaus Schmieder member of the Management Board in May. In November, the Supervisory Board renewed the terms of office of the Management Board's members and its Chairman, which were due to expire. The new three-year terms will expire on November 13, 2007 (subject to age limits set in the Articles of Association). Finally, based on the Selection and Remuneration Committee's recommendation, the Supervisory Board set the variable part of Management Board members' remuneration for the 2003 fiscal year, the fixed part and the principles that would apply to the variable part for 2004;

■ The **operation of the Supervisory Board**; at the General Shareholders' Meeting in May, the Supervisory Board put forward a motion to renew É. de Royere's term of office and nominated Professor R. Krebs for a seat on the Supervisory Board. It also renewed É. de Royere's membership and chairmanship of the Audit and Accounts Committee. This year again, the Supervisory Board conducted an assessment of its operation through individual assessment questionnaires filled out by Suppervisory Board members. Responses were compiled in a summary report and provided the basis for action proposals later adopted by the Supervisory Board, notably with respect to its composition, that of its committees, its jurisdiction and training opportunities for its members. Finally, the Supervisory Board set the rules for determining its members' attendance fees for the year.

Several days prior to each of the Supervisory Board's meetings, a file of meeting documentation dealing with key items on the agenda is sent out to Supervisory Board members. Every meeting includes a detailed presentation by the Chairman and members of the Management Board on all agenda items. On specific issues, members of the Executive Committee may be asked to provide their input. In addition, the statutory auditors are involved in meetings where financial statements are reviewed. Presentations give rise to questions and discussions before resolutions are put to a vote. Detailed written minutes are sent to members for review and comments before being approved by the Supervisory Board at the next meeting.

Committees

The Supervisory Board has formed two committees:

The Audit and Accounts Committee

As of December 31, 2004, the Audit and Accounts Committee had four members: É. de Royere, Chairman at the Committee, Sir Christopher Hogg, G. de La Martinière and Sir Dennis Weatherstone. Of the four Committee members, three are independent. Committee members combine experience in business management with financial and accounting expertise.

Composition and mission as defined in the Company's internal regulations

■ The Audit and Accounts Committee must include four or five members of the Supervisory Board and at least two-thirds of its members must be independent.

■ The Committee obtains information jointly or, to compare different points of view, separately, from: the Management Board, the Finance, Administration and Legal departments, the Internal Audit Department, and the statutory auditors. Relying on its members' professional experience, the Committee forms a reasonable judgement on the financial statements approved by the Management Board; on the accounting methods used; and on the existence and the operation of organizations and procedures of internal control making it possible to mitigate the risks incurred, and the way these methods and procedures are applied; the selection and renewal of the statutory auditors. The Committee reviews the selection procedure and gives advice on the choice of auditors and on the rotation of the signing partners; it reviews the nature of their work and the amount of their fees.

■ The Committee meets at least three times each year, and always before the Supervisory Board meetings at which the Management Board presents the annual or half-yearly financial statements. The Committee reports on its work both orally and in writing to the Supervisory Board.

■ The Committee can draw on external experts for assistance.

The Committee's work in 2004

The Audit and Accounts Committee met four times, with an average attendance rate of 94.1%.

■ The Committee **reviewed the consolidated and Company's annual and half-yearly financial statements** and examined off-balance sheet items; taxation; non-recurring items; provisions; and the management of risk related to customers, countries and exchange. Moreover, the Committee focused its attention on the financing conditions of the Messer acquisition, as well as its impact on financial statements and the Group's debt level.

■ The Committee also heard the **conclusions of the statutory auditors on these financial statements**. It ensured that the Internal Audit Department's working methods allowed it to complete assignments appropriate to the Group's business.

■ In addition, the Committee received **specific presentations** on the following matters:

– Initial studies on the implementation of new IAS standards. This presentation updated the Committee on the main accounting changes flowing from the change in standards,

– Through several presentations, efforts were made to finalize the typical content of the Management Board reports to the Supervisory Board on the risk management policy. Several specific presentations focused on certain risk categories,

– The Committee was informed of the Group's insurance policy and its implementation by the various Group entities.

■ Finally, the Committee played an active part **in the selection of candidates for the position of statutory auditors** to be voted on during the General Shareholders' Meeting, and communicated its recommendation to the Supervisory Board.

■ Each session required a file of meeting documentation to be prepared and sent out several days beforehand, and was preceded by individual phone interviews with the Finance Director. During the session, each presentation was made either by the Finance Director, the Internal Audit Department, the management executive expert in the area under discussion or the statutory auditors, always in the presence of a member of the Management Board, and was followed by discussion. The statutory auditors also reported in the absence of the members of the Management Board. An oral, then a written report of each meeting was prepared for the Supervisory Board.

The Selection and Remuneration Committee

As of December 31, 2004, the Selection and Remuneration Committee had three members: A. Joly, Chairman of the Committee, T. Desmarest and L. Owen-Jones. Of the three Committee members, two are independent.

Purpose

■ The Committee's purpose is to regularly review the development of the Supervisory Board, and to propose candidates for new Supervisory Board members to put to the General Shareholders Meeting. It also recommends to the Supervisory Board all the terms and conditions for the appointment and remuneration of Management Board members, as well as other conditions applicable to such members.These recommendations include the granting of stock options and pension plans. The Commitee also periodically reviews the development and performance of Management Board members.

■ It reviews the remuneration policy determined by the Management Board for other members of the executive team, and the requests made by the Management Board to the Supervisory Board to authorize the granting of options. The remuneration policy for members of the executive team takes into account market practices. Options are granted in order to align managers' interest more closely with the medium and long-term interests of shareholders.

■ The Committee is also kept abreast of development plans concerning management teams.

The Committee's work in 2004

The Selection and Remuneration Committee met three times, with an attendance of 100%.

■ During 2004, the Committee reported its conclusions from earlier work on the composition of the Supervisory Board. As a result, it proposed Professor R. Krebs as candidate and the renewal of É. de Royere's mandate. Following the approval of the Supervisory Board, both were elected at the General Shareholders' Meeting in May, 2004.

At the end of 2004, the Committee examined again the composition of the Supervisory Board, in particular the terms of office to be renewed, bearing in mind the established principle of balancing age and diversity of experience, cultures and nationalities. As in previous years, an external firm assisted the Committee in its search for new members. Based on its conclusions, the Supervisory Board formulated proposals for new and renewed membership as explained in the Supervisory Board report. The Committee also considered the future needs of the Supervisory Board.

■ The Committee reviewed the amount of members' attendance fees received by Supervisory Board members, and the Supervisory Board formulated the principles for apportionment and the amounts that applied to the fiscal year 2004.

■ At its first meeting in 2004, the committee reviewed the performance of Management Board members and communicated its conclusions to the Supervisory Board.

The Committee was also informed of the Management Board's appraisal of the performance and potential for development of individual members of the Executive Committee.

■ The committee set the variable part of the remuneration for Management Board members for the fiscal year 2003, based on the change in results and on individual performance appraisals.

■ Upon review of all the terms and conditions in which Management Board members perform their duties (in particular, pensions and options previously granted) and the situation in the external marketplace, the Committee made proposals to the Supervisory Board for the fixed remuneration and the formulas for calculating the variable remuneration for Management Board members for fiscal year 2004.

■ Following the acquisition of Messer activities, the Committee recommended that Klaus Schmieder be appointed to the Management Board.

■ The Committee proposed that the Supervisory Board fully renew the term of office of the Management Board's members and its Chairman, which were due to expire.

Internal control procedures instituted by the Company

The elements of the present report have been compiled by the Group's Internal Audit Department Director in conjunction with the Board Secretary, having been solicited by the Chairman of the Supervisory Board for this purpose.

These elements were presented to the Management Board who judged them compliant with existing Group measures.

They were also presented to the statutory auditors in order to allow them to establish their own report, as well as the Audit and Accounts Committee and the Supervisory Board.

Objectives

Internal Control procedures are part of Group policies put together by the Company and that must be implemented by each entity according to each local situation. These Group policies rely on standards, charters, codes, rules, and may also include practices.

Group policies aim:

■ To ensure that the activities and behavior of its members:
– Comply with current laws and regulations, internal standards and applicable good practices;
– Comply with the objectives defined by the Company, especially in terms of risk prevention and risk management policies.

■ To verify that all financial information communicated either internally or externally gives a true and fair view of the situation and activity of the Group.

Internal Control procedures in and of themselves, as with other assurance procedures, can not provide an absolute guarantee that all risks have been fully eliminated.

Within this context, during 2004 the Group undertook efforts with an objective of obtaining continuous improvement of the quality of Internal Control, notably:

■ Development of more thorough documentation related to the risk management process;

■ Realignment of multiple policies related to the industrial safety of individuals, products and installations under an Industrial Management System (IMS), which has the objective of optimizing safety and reliability;

■ Revision of certain existing procedures (Accounting Manual, Finance Guidelines, Information System Access Policy);

■ Reinforced communication of audit reports and follow-up of action plans that rely on documented work programs and standardized presentation formats.

Risk management

To ensure the continued development of its activities, the Group must actively pursue an approach to prevent and manage the risks (especially industrial and financial risks) to which it is exposed.

In terms of the Group's business activities, industrial risk management must essentially focus on prioritizing safety and security while maintaining permanent focus on the reliability of installations.

Financial risk management requires strict control over investments, combined with rigorous practices regarding the accounting and financial aspects of the activities.

Within this context, during 2004 the Group reinforced documentation related to risk management policy, which is supported by:

■ A more complete identification of the different forms of risk encountered by the Company during the pursuit of business activity;

■ The implementation of certain procedures and controls to better manage risks along with measures to mitigate potential financial impacts;

■ The regular review of the policy by the Management Board. The Management Board, in turn, provides regular updates to the Supervisory Board.

Control background

The control background is an important element in effective risk management.

■ It is primarily based on a highly consistent Group strategy, of which the main driving force is the internal growth of Company activities.

This strategy is relayed through management which centers on medium-term objectives that are categorized by business activity, as well as through a steering process based on annual budgetary objectives, which are further categorized down to the individual plan level.

■ The control background also depends on the strict control of Group investments, notably with:

– A centralized examination of the details of investment requests (beyond certain thresholds) and of the medium and long-term contractual commitments which may arise there from.

– Control of investment decisions practised through the use of specific follow up of the authorizations granted.

– A comparative analysis of the investments profitability (for the most significant) prior to, and subsequent to, their execution.

■ The control environment is strengthened by the independence of three key control bodies which report to the Management Board:

– The **Strategic Objectives and Management Control Department** monitors objectives on the basis of management control consistent with accounting reporting;

– The **Finance and Accounting Department** ensures:

- the reliability of accounting and financial information;
- Group financial risk management.

– The **Internal Audit Department** verifies the effective application of internal control procedures in the framework of audits carried out according to a defined program that is presented to the Group's Audit and Accounts Committee. This program is developed based on risk analysis and is regularly followed up on by the Audit and Accounts Committee itself.

The Internal Audit Department largely relies on specific standards and processes that were redefined and harmonized in 2004 in order to improve the effectiveness and visibility of audits performed.

Audit reports are widely distributed (up to the level of the Management Board) and systematically complemented by corrective action plans.

The audit reports, as well as subsequent follow-up reports, are the object of various direct communications and discussions between the Internal Audit Department and the Company's statutory auditors. Subsequent audits are conducted to verify the effective application of these action plans.

The reports and action plans are also communicated to and discussed with the statutory auditors.

■ Finally, the control environment is completed by a framework of defined limits of authorizations and delegations:

– From the Management Board to members of the Executive Committee and certain central department executives, in order to define their power related to issuing commitments and payments for commercial operations (sales or purchases);

– From the Management Board to certain executives in charge of industrial sites, in order to ensure the prevention and control of industrial risks for the sites under their responsibility;

– From the Management Board to certain financial executives, in order to ensure the security of transactions and financial flows.

The managers of various Group subsidiaries exercise their duties under the control of the Management Board while maintaining a respect for local rules and regulations.

They make sure that the policies and practices instituted are consistent with Group objectives, while being in accordance with the specific requirements of local law.

Internal control procedures

Procedures have been established and communicated by the Company to ensure that primary risks are addressed by the various entities in accordance with Group objectives.

The main procedures aim:

■ **To ensure the safety and security of employees, products, installations, as well as the reliability of operations with a respect for the rules and regulations for accident prevention.**

In order to achieve this, in 2004 the Company realigned the multiple Group policies related to safety and risk management.

A new Industrial Management System (IMS), which is designed to reinforce the overall process of safety and risk management was defined, formalized and distributed to all Group entities.

The IMS was tested within certain pilot countries during 2004 (Canada, Italy, China) and will be deployed in all of the Group's entities in 2005.

The IMS is based on:

■ Empowerment of the entities Executive Management for the effective implementation of this system.

■ The issue of key management and organizational procedures that aim to ensure the approach towards:

– Industrial regulatory compliance;
– Design validation;
– Risk Management;
– Occupational Health, Safety and Environment;
– Technical training and certification of personnel;
– Implementation of Group operating and maintenance procedures;
– Procurement and Contract Services;
– Management of Change;
– Proactive analysis and treatment of both incidents and accidents;
– Management reviews and Industrial Audits.

The Safety and Risk Management Department (DMRS) supervises and controls the effective implementation of IMS, by notably relying on:

– Continually increasing team awareness by providing specifically related training, and the distribution of a monthly security report available to all employees on the Group Intranet;

– A monthly presentation of indicators related to Safety and security performance that is based on the reporting of accidents or near accidents. This reporting enables progress to be measured in achieving the Group objective of "zero accidents";

– Audits carried out in conjunction with the Industrial Departments to ensure the effective implementation of the system and the compliance of operations with Group security rules.

■ To ensure that laws, regulations and internal management rules are respected within the Group, notably in the legal and Intellectual Property areas:

In conducting their activities, the various Group entities rely on the charters, guidelines or reference frameworks issued by the major functional departments of the Company, notably:

– For the legal area:

- Various contractual guides, notably for Large Industries;
- Instructions on how to behave in terms of respecting laws relating to the competitive marketplace (primarily in Europe and the United States);
- A "Group" note specifying the rules to be respected in order to prevent insider trading;

– For the intellectual property area:

- Procedures aiming on the one hand to ensure respect by Air Liquide for valid patents held by third parties notably in the field of cryogenic production, and on the other hand to provide protection for the Group's own intellectual property;
- A policy for the protection of Group inventions based on their identification (on a declaratory basis) and favoring the recognition of their inventors.

■ To manage and minimize financial risk:

The Company has a defined financial policy that is the subject of regular reviews. This policy, which is widely distributed to the Group entities, states the principles and procedures for the management of financial risk to which the activity is exposed, notably in relation to:

– **Liquidity risks:** the Company has defined rules aimed at ensuring an appropriate level of commitment and diversification (cash and maturities) for all sources of financing at Group level;

– **Counterparty risk:** the Company has defined rules aimed at ensuring that there is sufficient diversification and financial solidity of counterparties at Group level (commitment limits/ minimum rating);

– **Exchange and interest rate risks:** the Company has defined methods, managed on a centralized basis for the hedging of interest rates related to debt that is carried in major currencies (principally, Euro, USD, JPY) with:

- A selection of authorized tools;
- The steps involved in the hedging decision process;
- The methods for the execution of transactions;

For other foreign currency debts, rules have been defined in order to ensure that the decentralized transactions being initiated to cover exchange risks are coherent with the Group objectives. The Company has also defined methods for exchange risk hedging in terms of the choice of tools, the decision process and the execution of transactions.

These measures are completed by treasury management rules that are aimed at ensuring secure transactions, adapted to local circumstances and compliant with the regulations in force.

The application of this financial policy is controlled by the Finance and Accounting Department. To this end, certain transactions are executed on a centralized basis (management of debt and interest rates), which is completed by consolidated reports supplied by various Group entities on a monthly or quarterly basis, depending on their debt level. The Finance and Accounting Department answers to the Finance Committee regarding the effective execution of the policy and submits future transactions to the Committee for approval. The Finance Committee regularly reviews the rules governing the financial policy applicable within the Group.

■ To ensure the reliability of financial and accounting information:

In order to ensure the quality and reliability of financial and accounting information produced, the Group primarily relies on a defined framework of accounting principles and standards as well as a dual reporting system that has both management and accounting inputs with data being systematically compared by independent but interactive departments.

– In response to new accounting standards defined within IFRS, the Company undertook significant efforts to:

- Analyse and evaluate, in liaison with its statutory auditors, the impact for the Group of the new standards as of January 1, 2004;
- Inform and assist the different Group entities to prepare for implementing the new standards;
- Revise the Accounting Manual, which defines the accounting rules and principles as well as the consolidation methods applicable within the Group;

The manual, distributed to all of the Group's entities, also states the formats applicable within the Group for reporting financial and accounting information.

– Management Control reporting and the accounting reporting are each under the responsibility of independent but interactive departments, that are following identical methods and principles.

- This independence allows for the enhancement of information and analysis through the use of complementary indicators and data.
- The fact that these bodies are interactive provides for better control concerning the reliability of information thanks to a systematic process of regularly validating data.

Their consolidation is ensured by the Central Finance and Accounting Department.

This primarily includes the following:

• **Monthly management reporting, so called "monthly flash reporting".** It provides elements related to sales and the main financial indicators: Statement of earnings, funds from operations (cash flow), net indebtedness and amount of investments authorized and engaged.

• **Quarterly reporting so called "Management Control reporting".** It provides details of the primary elements of the Statement of earnings, balance sheet and Statement of changes in financial position.

These two documents are compiled by each entity according to a predefined timetable.

They are systematically accompanied by comments on activities drawn up by the director and the controller within the entity, and are consolidated at Group level with details for each business activity.

• **Quarterly reporting for accounting consolidation** is carried out by each subsidiary which, in addition, must provide (on a semi-annual basis) information on off-balance sheet commitments that may include:

- energy purchases,
- pension commitments,
- financial instruments,
- financial guarantees and deposits,
- all other contractual commitments.

Accounting consolidation and monthly reporting is sent to the Central Consolidation Department whose duty, in conjunction with the Strategic Objectives and Management Control Department, is, on one hand to analyse and comment on the results, and on the other hand, to identify and explain the differences with the projections that were made.

Through regular controls, the Finance and Accounting Department ensures the effective application of accounting methods and principles for the various Group entities.

It also relies on the audits carried out by the Internal Audit Department with which it has regular contact.

The reliability of financial and accounting information also depends on information systems which are becoming increasingly integrated (such as ERP),

Statutory auditors through their work ensure that reported financial information complies with the rules defined

Control bodies

The Supervisory Board exercises its control over Group management through various reports it receives from the Management Board, relying on work done by the Audit and Accounts Committee, according to the methods and principles described above (reports, debriefings, etc).

The Management Board ensures risk management, notably through the existing reportings and through the following:

■ Executive Committee meetings, with debriefings from the Safety and Risk Management Department (DMRS) regarding Group performance in terms of security and the progress of actions underway.

■ Investment and Operations Committee meetings that it oversees;

■ Work done by the Finance and Accounting Departments, the Strategic Objectives and Management Control Department, the Internal Audit Department which report directly to the Management Board;

■ Finance Committee meetings that determine the Group's financial policy;

Control schemes are enhanced by the involvement of entity departments, the Executive Committee in terms of implementing and following-up actions needed to improve and strengthen the quality of internal controls.

The Finance Committee

The Committee meets three times a year and upon request if need be.

This Committee includes the Group Finance and Accounting Director, the Corporate Finance and Treasury Director of the Group and certain Department members, which meet under the authority of a member of the Management Board.

The purpose of this Committee is to control the effective application of Group financial policy, to approve proposals and suggestions that have been submitted and to approve the rules governing Group financial policy.

The Investment and Operations Committee

The Committee meets four to six times a year for each geographical area, or for each significant activity.

This Committee includes the Group Finance and Accounting Director, the Market Director, the Directors for the zone and the entity concerned by the request for investments, under the authority of a member of the Management Board.

The purpose of this Committee is to assess and approve requests for investments that have been submitted, as well as medium and long-term contractual commitments that may arise there from.

Statutory auditors' report on the Report from the Chairman of the Supervisory Board on internal control procedures

Year ended December 31, 2004 (Free translation of a French language original)

This is a free translation into English of a report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders of L'Air Liquide S.A.

In our capacity as Statutory Auditors of L'Air Liquide S.A., and in accordance with article L.225-235 of the French Company Law (*Code de Commerce*), we report to you on the Report prepared by the Chairman of the Supervisory Board of your Company in accordance with article L.225-68 of the French Company Law (*Code de Commerce*) for the year ended December 31, 2004.

Under the responsibility of the Supervisory Board, it is for management to determine and implement appropriate and effective internal control procedures. It is for the President to give an account, in his report, notably of the conditions in which the duties of the Supervisory Board are prepared and organized and the internal control procedures in place within the Company.

It is our responsibility to report to you our observations on the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures notably consisted of:

- obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the Chairman's report;
- obtaining an understanding of the work performed to support the information given in the report.

On the basis of these procedures, we have no matters to report in connection with the information given on the internal control procedures relating to the preparation and processing of financial and accounting information, contained in the Chairman of the Supervisory Board's report, prepared in accordance with article L.225-68 of the French Company Law (*Code de Commerce*).

La Défense, March 9, 2005

The statutory auditors

MAZARS & GUÉRARD

Frédéric ALLILAIRE

ERNST & YOUNG Audit

Jean-Claude LOMBERGET

Sustainable development

■ Summary of indicators

■ Objectives

The principles of sustainable development have been at the heart of Air Liquide's corporate strategy for over a century. Sustainable development of Air Liquide includes four dimensions: responsibility to shareholders, long-term business development and Company performance coupled with transparency. Safety for people and assets, preservation of the environment and of natural resources, both in Group operations and at customer sites. Social and ethical commitment of Company employees to common objectives. Innovation and technological progress to guarantee the advancement of the Company and its customers.

Benoît Potier - Chairman of the Management Board

Contents

Methodology for reporting human resources, safety and environmental indicators

Protocol and definitions

In the absence of a relevant and recognized benchmark for industrial gas activities, Air Liquide has produced a protocol to define its reporting methods for human resources, safety and environmental indicators.

This protocol includes in a single document all the definitions, measurement procedures and methods for collecting this information.

In line with the Group's commitment to continuous improvement, Air Liquide is constantly making adjustments to its sustainable development indicators protocol to reflect changes in the Group. This protocol is based on the general principles defined by the Group with regard to perimeter, responsibilities, controls and limits, and establishes definitions, responsibilities, tools and data-tracing methods for each indicator. This document is regularly updated.

Perimeter and consolidation methods

Unless highlighted, the acquired Messer activities have not been integrated into the consolidation perimeter for human resources, security and environmental indicators for 2004. They will, however, be fully integrated in 2005.

As a general rule, production units or entities are integrated after one calendar year's full operation.

Human resources indicators are consolidated worldwide for all companies globally integrated within the financial consolidation perimeter.

Safety indicators are consolidated worldwide for all companies in which Air Liquide owns the majority of the share capital.

Information on kilometers traveled by delivery vehicles covers the world. Figures are calculated on the basis of data collected in the top 24 countries where the Group is established. Information on kilometers saved through on-site air gas production units is worldwide and involves all countries globally integrated within the financial consolidation perimeter.

Environmental and energy indicators for the seven main types of production units operated by the Group are consolidated for the first year based on a world perimeter that includes the main countries in which the Group is established (Austria, Belgium, Bulgaria, Denmark, Finland, France, Germany, Greece, Hungary, Italy, Luxembourg, the Netherlands, Poland, Portugal, Spain, Sweden, Switzerland, Canada, the United States, Argentina, Brazil, Chile, South Africa, Botswana, Egypt, Morocco, Tunisia, China, South Korea, India, Indonesia, Japan, the Philippines, Singapore, Taiwan, Thailand, Australia, and New Zealand). This perimeter, which accounts for about 99% of the Group's sales in Gas and Services, and 89% of the Group's total sales (excluding Messer), has been expanded from 2003. Only Europe and North America were included in the consolidation perimeter in 2003.

Data on units whose operating permit has been granted to a company in which Air Liquide has a majority interest are fully consolidated (100%). Data on units operated by a company in which Air Liquide has a 50% interest are consolidated at 50%. Data on units whose operating permit has been granted to a company in which Air Liquide has a minority interest have not been taken into account. The various types of production units are:

- main air separation units;
- co-generation units, and hydrogen and carbon monoxide production units;
- acetylene, nitrous oxide, carbon dioxide units, as well as hygiene and specialty products units.

Estimates of the Group's sales percentage covered by ISO 9001 quality or ISO 14001 environmental certifications are based on the companies included within the financial consolidation perimeter.

Energy consumption of on-site units, as well as water consumption specific to the sale of treated water at the Bayport site (United States), are excluded from the data consolidation perimeter.

Certain sites including several activities may report data on only one of those activities.

Reporting and responsibility

Human resources, safety and environmental indicators are produced by several data collection systems in the Group, each under the responsibility of a specific department:

■ human resources indicators included in the Group's general accounting consolidation tool, are under the dual responsibility of the Finance Department and the Human Resources Department;

■ safety indicators are based on the Group's accident reporting tool, which falls under the Safety and Risk Management Department (DMRS);

■ the energy indicators for the main air separation units, co-generation, hydrogen and carbon monoxide units, are tracked by the Large Industries division using a dedicated Intranet tool. This data also enables the Large Industries division to calculate carbon dioxide emissions from the co-generation and hydrogen and carbon monoxide units, as well as carbon dioxide emissions avoided through use of co-generation;

■ Complementarily, the collection of environmental data is carried out by the Safety and Risk Management Department (DMRS) using a dedicated Intranet tool, and includes:

– for the units mentioned above, other environmental indicators (atmospheric emissions, water consumption, discharge to water, etc.);

– for the smaller units (acetylene, nitrous oxide, carbon dioxide units, and hygiene and specialty products units), all indicators (energy use, atmospheric emissions, water consumption, discharge to water, etc.).

■ Indicators on kilometers (traveled and saved) are the responsibility of the Industrial Customers division. Kilometers saved are calculated from sales accounting data for gas produced by on-site units.

■ Finally, the estimation of the Group's sales percentage covered by the ISO 9001 quality and ISO 14001 environmental certifications are indicators under the responsibility of the Industrial System Department.

Controls

Each department in charge of collecting data is responsible for indicators provided. Control occurs at the time of consolidation (review of changes, inter-site comparisons). Safety and energy indicators are included in operational audits of business activities.

In addition, in the process of collecting data in the expanded perimeter, the Safety and Risk Management Department (DMRS) conducted internal audits of environmental data on a sample of sites representative of the various types of units monitored.

Where the data reported makes no sense or is missing, an estimated value may be used by default.

For the second year, and in the spirit of continuous improvement, Air Liquide has asked the Environment and Sustainable Development Department of its statutory auditors, Ernst & Young and Mazars & Guérard, to review the Group's procedures for human resources (excluding employee shareholders), safety and environmental indicators, and to check certain sites or entities on the process of data collection. The review and its findings are presented below. This review process has also given rise to recommendations, communicated within the Group, in order to improve performance in the following year.

Methodological limitations

Methodologies for reporting on certain human resources, safety, and environmental indicators may present certain limitations, given:

■ the absence of recognized definitions at the national or international levels, in particular those indicators concerning engineers and managers;

■ the representative character of measurements and the necessary estimates involved. This is particularly relevant for indicators on carbon dioxide emissions avoided, water consumption, kilometers saved by on-site units and the percentage of sales covered by quality or environmental certifications, and indicators regarding training.

External opinion on human resources, safety and environmental reporting procedures

At the request of Air Liquide, we reviewed reporting procedures of human resources[1], safety and environmental indicators published for the 2004 reporting period and presented in the synthesis of indicators in the following pages.

These indicators were prepared under the responsibility of Air Liquide's executive management, according to the Group's procedures summarized in the previous pages. It is our responsibility to provide you our findings following the review described below.

Nature and scope of review

As agreed, we carried out the following tasks:
– we reviewed the procedures and their relevance, their completeness and precision with regard to the Group's activities;
– we conducted interviews at headquarters with the departments in charge of the various reporting systems (human resources, finance, risk and safety management, Large Industries, Industrial Customers) to complete our understanding of these procedures and test their implementation;
– we visited six entities to assess the implementation of procedures: the Gaz Industriels Services department, the VitalAire subsidiary, the Claude-Delorme Research Center in France, for human resources data; and the air gases production unit in Antwerp, Belgium, as well as the cogeneration and hydrogen production units in Rozenburg, Netherlands, for safety and environmental data;

For this review, we referred to on our teams specialized in sustainable development.

In accordance with ISAE international audit standards (International Standard on Assurance Engagements), such a review does not include all the relevant controls for providing assurance on data, but it does allow us to describe findings on reporting procedures.

Findings on procedures

Based on our review, the findings on procedures are consistent with Air Liquide's methodology overview in the previous pages, in particular with regard to methodology limitations.

Compared with the previous fiscal year, formalization of data-collection procedures has improved. Within the continuous improvement process, internal control of these procedures could be strengthened.

In Paris, March 9, 2005

Éric Duvaud
Ernst & Young

Philippe Moutenet
Mazars

(1) Excluding share capital held by Group employees.

Shareholders

Growth of net earnings and net earnings per share

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Net earnings (in millions of euros)	406	423	471	516	563	652	702	703	726	778
Net earnings per share (in euros) (1)	3.63	3.74	4.17	4.56	5.00	5.81	6.34	6.42	6.68	7.20

(1) Based on the average annual number of shares (excluding treasury shares) and adjusted to account for increases in capital and share subscriptions.

Growth in overall distribution to shareholders

Fiscal year	Overall distribution in euros
1995	143,627,763
1996	160,123,309
1997	179,476,216
1998	205,141,753
1999	221,705,489
2000	281,772,221
2001	298,089,761
2002	330,455,564
2003	327,486,475
2004	**391,189,742**

Evolution of registered capital and number of shares with bonus dividend since implementation in 1995

Fiscal year	Registered capital (in %)	Number of shares with bonus dividend
1995	40%	10,162,287
1996	43%	19,063,625
1997	38%	23,110,575
1998	35%	25,539,055
1999	32%	24,087,590
2000	30%	24,944,295
2001	29%	23,315,671
2002	27%	24,489,228
2003	28%	24,266,063
2004	**30%**	**25,876,746**

Evolution of share ownership

	1990	1995	2000	2001	2002	2003	**2004**
Individual shareholders	65	57	45.4	41.7	39.9	40.5	**38.9**
Institutional investors	35	43	52.9	55.6	58.4	57.6	**59.8**
Treasury shares	–	–	1.7	2.7	1.7	1.9	**1.3**

Objective

In the last ten years, the growth in value of a portfolio of Air Liquide shares (Total Shareholder Return) has been +11.4% a year, including reinvested dividend, bonus shares and loyalty bonuses granted to registered shareholders. Our goal is to follow this long-term and transparent policy of comprehensive remuneration for shareholders in order to ensure regular growth in the value of their investment.

Safety and the environment

Safety indicators for Group as a whole

Safety	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Number of accidents	361	359	234	179	192	214	188	207	164	135	134	167	194	136	**135**
Accident frequency rate (1)	6.5	6.4	4.3	3.4	3.8	4.2	3.4	3.7	2.9	2.4	2.3	2.8	3.2	2.3	**2.3**

(1) Number of accidents involving lost time per million hours worked by Group employees. Accidents defined as recommended by the International Labour Office.

Objective

Our objective is zero accident, in every site, in every region, in every entity.

Environmental indicators for the Group as a whole

Presented here are the environmental elements most typical of the seven types of production units which characterize the Group's activities:
– large air separation, cogeneration, and hydrogen and carbon monoxide units,
– acetylene, nitrous oxide and carbon dioxide liquefaction units,
– production units in the hygiene and specialty activities

Most relevant environmental indicators for the total of the seven unit types included in the World perimeter

	Perimeter	2003	2004
Total annual electricity consumption *(GWh)*	World		**17,740**
Total annual thermal energy consumption *(LHV Terajoules)*	World		**124,702**
Total annual water consumption *(in millions of m3)*	World		(2) **44**
Annual amount of CO_2 emissions avoided by cogeneration *(in thousands of tons)*	World	856	**647**
Total CO_2 emissions into the atmosphere *(in thousands of tons/year)*	World		(3) **5,795**

(2) Representing less than 0.5 one-thousandths of the industrial water consumption of the countries under review.

(3) Representing less than 1 one-thousandths of the CO_2 emissions in the countries under review.

Details on indicators for each of the seven unit types

1 Worldwide, Air Liquide operates **208 large air separation units.** They produce oxygen, nitrogen and argon, with some sites producing rare gases. Since they do not use combustion processes, these units do not produce carbon dioxide (CO_2), sulfur oxide (SOx) or nitrous oxide (NOx) emissions, and are thus particularly environmentally friendly. They do consume large quantities of electricity, and their cooling systems require back-up water.

Air separation units	Perimeter	2000	2001	2002	2003	2004
Annual electricity consumption *(GWH)* (1)	World	14,940	15,421	15,903	16,134	(2) **16,931**
Evolution of energy consumption per m3 of gas produced (3)		100.0	96.6	94.8	93.9	**93.1**
Annual back-up water consumption *(in millions of m3)*	World					**28**
Discharge to water: oxidizable matter *(tons/year)*	World					**Below 2,000**
Discharge to water: suspended solids *(tons/year)*	World					**Below 2,000**

(1) Including small volumes of purchased steam. Figures between 2000 and 2003 have been restated based on the approach adopted for 2004.

(2) Corresponding to an electrical capacity of about 1,900 MW.

(3) Gases produced (oxygen, nitrogen, argon) calculated in m^3 of equivalent gaseous oxygen. Base 100 in 2000.

Objective

To reduce, within five years, the Group's annual world consumption of electrical energy by air gases separation units, at constant perimeter, by at least 400 GWh, or the home annual consumption of electricity of a city of 180,000 people.

2 Worldwide, Air Liquide operates **15 cogeneration units.** They produce steam and electricity simultaneously much more efficiently than units that generate these two fluids separately, which results in major energy savings. They consume natural gas and water, most of which is converted to steam and then supplied to customers. Most of the steam is condensed by customers and then reused in the cogeneration unit. In most cases, the electricity produced is supplied to the local electricity distribution network. Combustion of natural gas gives off carbon dioxide (CO_2) and produces some nitrous oxide (NOx), but practically no sulfur oxide (SOx) emissions. These units replace steam and electricity production units that would have produced more CO_2 emissions. Cogeneration units therefore help reduce CO_2 emissions in the industrial basins they supply.

Cogeneration units	Perimeter	2002	2003	2004
Annual natural gas consumption (or thermal energy) *(LHV Terajoules)*	World		71,464	**74,065**
Annual quantities of CO_2 atmospheric emissions prevented through cogeneration (1) *(in thousand of tons)*	World	740	856	**647**
Air emissions: CO_2 (carbon dioxide) *(in thousands of tons/year)*	World		3,930	**4,155**
Air emissions: NOx (nitrous oxides) *(in tons/year)*	World		4,050	**2,060**
Air emissions: SOx (sulfur oxides) *(in tons/year)*	World		Below 100	**Below 100**
Annual water consumption *(million m³)*	World		10	**7.9**

(1) Calculation takes into account the primary energy source each country uses to produce electricity (International Energy Agency).

3 Worldwide, Air Liquide operates **30 large hydrogen and carbon monoxide production units.** Desulfurization of hydrocarbons to produce fuels free of sulfur is one of the main applications for hydrogen. A top application for carbon monoxide is plastics manufacturing. Natural gas is the main raw material used in these production units, along with certain amounts of "process" water. These units produce carbon dioxide (CO_2) and entail nitrous oxide (NOx) emissions but produce practically no sulfur oxides (SOx). They also consume electricity. Their cooling circuits require back-up water.

Hydrogen and carbon monoxide units	Perimeter	2004
Annual thermal energy consumption *(LHV Terajoules)*	World	**50,366**
Annual electricity consumption *(GWh)*	World	**479**
Air emissions: CO_2 (carbon dioxide) *(in thousands of tons/year)*	World	**1,628**
Air emissions: NOx (nitrous oxides) *(in tons/year)*	World	**Below 1,000**
Air emissions: SOx (sulfur oxides) *(in tons/year)*	World	**Below 500**
Annual consumption of process and back-up water *(in million m³)*	World	**5**
Discharge to water: oxidizable matters *(in tons/year)*	World	**Below 50**
Discharge to water: suspended solids *(in tons/year)*	World	**Below 500**

4 Worldwide, Air Liquide operates **52 acetylene production units** (a gas used mainly in metal welding and cutting). They produce the gas through the decomposition of a solid - calcium carbide - using water. This process produces lime, which is generally sold to industrial customers for use in water treatment plants. Other consumption and discharge is of little significance.

Acetylene units	Perimeter	2004
Annual water consumption *(in million m³)*	World	0.4
Annual calcium carbide consumption *(in tons)*	World	36,200
Quantity of lime produced *(in tons/year)*	World	41,900

5 Worldwide, Air Liquide operates **11 nitrous oxide production units.** Nitrous oxide is used nearly exclusively as an anesthetic gas in medicine. It is produced from ammonium nitrate in solid form or as a solution in water. The cooling circuits of these units require back-up water. Other consumption and discharge is of little significance.

Nitrous oxyde units	Perimeter	2004
Annual electricity consumption *(GWh)*	World	6
Annual water consumption *(million m³)*	World	0.1
Annual ammonium nitrate consumption *(in tons)*	World	25,100
Estimate of loss of nitrous oxyde into the atmosphere *(in tons/year)*	World	800

6 Worldwide, Air Liquide operates **47 carbon dioxide liquefaction units**. Carbon dioxide has many industrial applications but is used mainly in the food industry to deep-freeze foods or produce carbonated beverages. Carbon dioxide is most often a by-product of chemical units operated by other industrial companies. In some cases, it is found naturally in underground deposits. It is purified and liquefied in Air Liquide units, which consume electricity and cooling water in the process.

Carbon dioxide liquefaction units	Perimeter	2004
Annual electricity consumption *(GWh)*	World	306
Annual water consumption *(million m³)*	World	1.8
Discharge to water: oxidizable matters *(in tons/year)*	World	Below 100
Discharge to water: suspended solids *(in tons/year)*	World	Below 100

7 **Hygiene and specialty production units** are located at seven sites in France, Belgium and Germany. These units consume natural gas, electricity and water. Combustion of natural gas produces small quantities of carbon dioxide.

Hygiene and specialty units	Perimeter	2003	2004
Annual electricity consumption *(GWh)*	World	17	**18**
Annual natural gas consumption *(LHV Terajoules)* (1)	World	217	**271**
Air emissions: CO_2 (carbon dioxide) *(in thousands of tons/year)*	World	13	**12**
Annual water consumption *(in million m³)*	World	1	**0.6**
Discharge to water: oxidizable *matters (in tons/year)*	World	Below 1,000	**Below 1,000**
Discharge to water: suspended solids *(in tons/year)*	World	Below 100	**Below 100**

(1) Including steam requirements.

Transportation indicators

	Perimeter	2003	2004
Kilometers traveled by all vehicles delivering gas in liquid or cylinder form *(in millions of km/year)*	World	303	**325**
Estimate of truck transport kilometers avoided through on-site customer units *(in millions of km/year)*	World	*55*	**54**

Quality and Environmental Certification indicators (2)

	Perimeter (3)	2004
Estimate of the Group's sales % covered by an ISO 9001 Quality Certification	World	**65%**
Estimate of the Group's sales % covered by an ISO 14001 Environmental Certification	World	**14%**

(2) The Group's approach to the issue of quality integrates the formalization program for industrial management systems, the Responsible Care commitment and ISO certifications.

(3) Including Messer activities.

Human resources

Indicators for the Group as a whole

Employees (1)	2001	2002	2003	2004 Excluding Messer	2004 Including Messer
Group employees	30,800	30,800	31,900	**33,500**	**35,900**

In 2004

Distribution of employees by geographic zones	France	Europe (excl. France)	Americas	Asia-Pacific	Africa
Excluding Messer	**32%**	**28%**	**22%**	**14%**	**4%**
Including Messer	**30%**	**32%**	**21%**	**14%**	**3%**
Age distribution (2)	under 30	30-40	40-50	50-60	over 60
	16%	**34%**	**28%**	**20%**	**2%**
% employees resigning in the year					**3.4%**

Diversity parity	2003	2004
Women		
% women among engineers and managers	14%	**17%**
% women among engineers and managers hired during the year	24%	**31%**
% women among employees considered high potential	20%	**21%**
Number of nationalities		
Among expatriates	36	**36**
Among senior managers	25	**21**
Among employees considered high potential	35	**37**
Training		
% total payroll allocated to training	around 3%	**around 3%**
Average number of days of training per employee	2.5 days	**2.7 days**
% employees who attended a training program at least once during the year		**67%**
Remuneration		
% employees with an individual variable share as part of their remuneration	36%	**40%**
Performance review		
% employees who have had a performance review meeting with their supervisor during the year	60%	**70%**
Investment equity		
% capital held by Group employees	0.9%	**0.86%**
% Group employees shareholders of L'Air Liquide S.A.		**Over 40%**

(1) Employees under contract, excluding temporary employees.

(2) From this line down, Messer is excluded from all indicators.

Detailed human resources information for L'Air Liquide S.A. is available on request from the "Social Report".

Objectives

Diversity

To give ever more say to women in the Group, in particular through recruitment of engineers and managers. Our objective is to increase the hiring of women in this category, from nearly one out of three new hires today to more than two out of five, and this within five years.

Training

To increase training opportunities so that, within five years, all employees have the chance to enhance their skills and facilitate their advancement through, on average, at least three training days a year.

Monitoring of performance

In every site, in every region, in every entity, our objective is that 100% of all employees meet their direct supervisor once a year for a performance evaluation interview and meet a manager from the Human Resources Department every three years or so for a career development interview.

Innovation

Indicators for the Group as a whole

Research	2004
Budget	150 millions of euros
Number of researchers	550 from more than 25 nationalities
Number of research centers	8 (France, Germany, the United States, Japan)
Industrial partnerships	Over 100
International collaborations	Over 100 with universities and research institutes

Patents	2003	2004
New inventions patented during the year	236	**225**
Patents obtained in the Group's four main zones of operations (*)	105	**109**

(*) Europe, the United States, Japan and China.

Objective

To disseminate innovations within the Group and acknowledge innovators. Within five years, and in the largest number of areas, to obtain over 500 new patents, valid directly in the Group's four main zones of operations: Europe, the United States, Japan and China.

Glossaries

Business glossary

Adsorption
The retention of gaz molecules on a solid surface known as the adsorbent. Adsoption is used either to separate gases (e.g., nitrogen from oxygen) or purify them. For example, water, CO_2 or hydrocarbons may be removed from air gas before separation by a cryogenic air separation unit.

Aerosoltherapy
The delivery of medications through inhalation. Medications are administered in very fine particles through a nebulizer.

Arc welding
A welding technique that uses the energy from the electric arc produced between an electrode and the metal workpiece as its source of heat.

Carrier gases
Carrier gases (e.g., nitrogen, oxygen, and hydrogen, etc.) are used to transport and dilute process gases or to protect semiconductors from minute dust particles.

Cogeneration
The simultaneous production of steam and electricity. Cogeneration enables more efficient use of primary energy and produces less air pollution, particularly carbon dioxide (CO_2) emissions.

Cryoconservation
Conservation, mainly of organic products, at very low temperatures in cryogenic fluids such as liquid nitrogen.

Cryogenic equipment
Equipment for chilling, producing, transporting, storing and distributing gas at extremely low temperatures.

Electronics specialty gases
Specialty gases, like silane and arsine, are "process gases" used at each stage of the chip manufacturing process to allow molecular-scale deposits.

Fab
A plant that makes semiconductors.

Floxal
Customer on-site nitrogen production service capable of meeting a wide variety of requirements, including purity, consumption profile, pressure and back-up stock. Three technologies are currently used: permeation, which uses polymer membranes, adsorption and cryogenic distillation.

Fuel cell
A device that combines hydrocarbon or hydrogen with another chemical, usually oxygen, to produce electricity. A hydrogen fuel cell produces electricity and releases only water.

Gas quenching
Traditional "quenching" consists of plunging metal parts into oil, after they have been heated at a high temperature, to change their mechanical properties. The pieces then have to be washed and the oil recycled. Gas quenching, which uses nitrogen, is an environmentally friendly alternative, since it avoids washing and recycling.

Greenhouse effect
Just like greenhouse glazing, the earth's atmosphere allows penetration of the sun's rays. When heated by these rays, the earth re-emits infrared radiation, some of which passes back through the atmosphere, but the rest is reflected back towards the earth by "greenhouse" gases in the atmosphere. The main greenhouse gas is carbon dioxide (CO_2). Reflection of infrared radiation towards the earth maintains its surface temperature. More and more scientists believe that the current heating of the planet is probably the result of an increase in the concentration of greenhouse gases.

GTL (Gas to Liquid)
The transformation of stranded natural gas into a liquid hydrocarbon. The GTL process, which consumes large volumes of oxygen, provides a solution by converting gases into liquid hydrocarbons free of sulfur, that can be easily transported.

Membrane/permeation
Similar to the filtration of a liquid through a fabric, permeation of a gas mixture, usually through a polymer-based membrane, allows gases to be separated out. This process is particularly useful in recovering hydrogen from a refinery's waste gases.

Metrology

Metrology consists in the verification and calibration of measurement devices, a critical procedure to operate a production site. Metrology is thus at the heart of customers' production processes.

NOx

Nitrous oxides are among the pollutants responsible for acid rain. They are part of automobile emissions and are also produced during all high-temperature combustion operations requiring air. Air is composed mainly of oxygen and nitrogen, which can recombine as nitrous oxides. Replacing air with oxygen avoids the formation of these oxides since nitrogen is not present.

On-site production

Producing industrial and medical gas with equipment installed on the customer's site and operated by Air Liquide.

Oxygen therapy

The treatment of chronic respiratory insufficiency by administering oxygen to patients at home through oxygen cylinders, oxygen extractors using ambient air, or liquid oxygen tanks.

Plasma

A gaseous medium in a highly energized state. Plasma is the fourth state of matter, after solid, liquid and gas. It generally occurs at a very high temperature (several tens of thousands of degrees Celsius) and is produced when an electrical charge is applied to the gas.

PPM

A unit of gas concentration given in parts per million. PPM represents a concentration of onecubic centimeter (cm^3) of gas in a cubic meter (m^3).

PPT

A unit of gas concentration given in parts per trillion. One PPT is 1 part in 1,000,000,000,000. One PPT thus represents a concentration of 1 one-thousandth of a cubic millimeter of gas in a cubic meter.

Rare gases

Rare gases are natural, inert gases found in the air we breathe in very small volumes: argon (0.9% of air), neon (0.002%), krypton (0.0001%), xenon (0.00001%).

SOx

Sulfur oxides are among the main pollutants responsible for acid rain and certain respiratory illnesses. They are produced during the combustion of hydrocarbons containing sulfur. Hydrogen makes it possible to produce fuels with very low concentrations in sulfur by extracting it from hydrocarbons before combustion.

Surfactant

A surfactant is a chemical capable of associating both with a fat and with water, allowing a wide range of fat-in-water mixtures. Soap is the most common surfactant. Surfactants have a number of applications in industry, cosmetics and healthcare.

Sustainable development

The 1987 report by the U.N. World Commission on Environment and Development defined sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". In simple language, sustainable development balances long-term wealth creation with social performance and environmental conservation.

Synthesis gas or syngas

A mixture often produced by natural gas or naphtha reformers that contain hydrogen and carbon monoxide in variable proportions depending on the process used. Synthesis gas generally cannot be used without the hydrogen and/or carbon monoxide first being purified. It is used mainly in the chemicals and oil and gas industries.

TFT-LCD

Thin Film Transistor-Liquid Crystal Display are two technologies used to produce graphic screens that use ultrapure gases in a way that's very similar to the manufacture of semiconductors.

TGCM

TGCM (Total Gas and Chemical Management) is an Air Liquide services offer that handles every aspect of gas and liquid chemical management, both before and after production of semiconductors, from procurement, quality control, metering and maintenance to the recycling of gases and waste materials.

TGM

TGM (Total Gas Management) is a services offer identical to TGCM, but it focuses only on gas products.

Wafer

Wafer: a slice of silicon cut from a silicon ingot with a diameter of 150, 200 or 300 mm. Wafers are used as semiconductor substrates.

Financial glossary

Adjusted price
Share price adjusted to take account of changes in capital (issue of new shares, share split, etc). The adjusted share price is used to produce meaningful comparisons of price changes over time.

Bond
Tradable security issued by a public or private company, a group or a government. Bonds carry fixed interest for a specific period and are redeemable on maturity.

Bonus dividend
Dividend increased by a maximum of 10%, granted to loyal shareholders for all direct shares held continuously for more than two calendar years.

Bonus share allocation
Transaction by which the company issues new shares at no cost to shareholders in proportion to the number of shares already held. Air Liquide has allocated bonus shares on a regular basis.

CAC 40
Stock market index, weighted by the free float, which tracks the 40 most actively traded stocks on the Euronext regulated markets in Paris. Inclusion is based on size and liquidity criteria.

Capital gain
Gain realized on the sale of a security, that is, the difference between its sale price and its original purchase price, or book value.

Cash flow
Cash generated by a company's operations. Cash flow corresponds roughly to after-tax earnings plus depreciation and amortization and minority interests.

Capital employed
Financial resources used by a company to develop its business. It is the sum of equity, minority interests and net indebtedness.

Custody account fees
Fees charged by a financial intermediary for maintaining share records. They generally represent a percentage of the portfolio or a set fee per line of shares held. Air Liquide's Shareholder Services provides this service free of charge for shares held in a direct registered account.

Deferred settlement service (SRD)
Service available for the most traded stocks by which settlement for orders or delivery of shares is deferred to the last trading day of the month. Air Liquide shares are eligible for this service.

Dividend
The part of the company's net profits distributed to shareholders. Shareholders determine the dividend at the General Shareholders' Meeting after approval of the financial statements and the allocation of earnings proposed by the Management Board in agreement with the Supervisory Board.

Euronext Paris
Company that organizes, manages and develops the securities market and acts as market regulator (financial transactions, monitoring of companies listed on the stock market) with the delegated authority of France's Financial Market Authority (AMF).

Euro stoxx 50
Stock Exchange index composed of 50 of the highest capitalizations and most actively traded stocks listed in the eurozone.

Face value
The issue price of a share as defined in a company's Articles of Association. A company's total capital is the face value of the share multiplied by the number of shares in circulation. The face value of the Air Liquide share is 11 euros.

French Financial Market Authority (AMF)
New market authority resulting from the merger of the Stock Exchange Transactions Commission (COB) and the Financial Market Council (CMF). It governs and oversees the conduct and professional ethics of the markets and protects the interests of investors and shareholders.

Fractional rights
Part of a share that cannot be distributed in the case of a bonus share allocation or subscription if the number of shares held is not a multiple of the transaction. Example: in a one for ten bonus share allocation, a shareholder holding 125 shares is allocated 12 new shares and five fractional rights (i.e., the equivalent of half a share).

Free float
The part of a company's capital in public ownership and tradable on the stock markets. The higher the free float, the greater the liquidity of the shares. 100% of Air Liquide's capital is floated.

Goodwill
The difference between the acquisition price and the book value of existing equity capital at the date of entry into the Group's perimeter.

Investment club
Group of 5 to 20 individuals that jointly manages a securities portfolio by making regular payments and sharing the income and capital gains.

Liquidity
Ratio of the volume of shares traded over the total number of shares in circulation.

Market capitalization
A company's market value, equal at any given time to the quoted share price multiplied by the number of shares in circulation.

Net earnings
Profit or loss made by the company. It is calculated by adding operating income, financial income and expenses, earnings of companies accounted for by the equity method and exceptional items, then subtracting taxes and minority interests.

Net Earnings per Share (EPS)
Net consolidated earnings divided by the number of shares making up the capital.

Operating income
Annual sales minus the cost of producing, distributing and selling products and the depreciation or amortization of capital expenditures. It indicates a company's ability to generate the margins necessary for its operation and growth.

PER (Price Earning Ratio)
The ratio of the market price of a share over earnings per share. It is a measure of how many times the share price capitalizes earnings.

Preferential subscription right
Tradable right giving shareholders priority in subscribing to a number of new shares in proportion to the number of shares already held in the event of a share issue.

Quorum
Minimum percentage of shares with voting rights required to be present or represented for a General Shareholders' Meeting to be validly constituted.

ROCE (Return On Capital Employed)
The ratio of net earnings before financial expenses and after taxes over average capital employed. It reflects the net return on funds invested by shareholders and those loaned by banks and financial institutions.

ROE (Return On Equity)
The ratio of net earnings over shareholders' equity. It represents the net return on money invested by shareholders.

Share
Tradable security representing a portion of the company's capital. The owner of a share, the shareholder, is a part-owner of the company and enjoys certain rights.

Share buyback
Transaction by which a company buys its own stock on the market, up to a limit of 10% of its capital. The transaction requires shareholder approval at the company's General Shareholders' Meeting. In compliance with relevant regulations, these shares can subsequently be retained, sold, transferred or cancelled.

Shareholders' equity
The part of a company's capital belonging to its shareholders. It includes the value of issued shares, retained earnings and earnings for the period.

Tax credit
Allowance granted by the French public treasury amounting to 50% of the amount of dividend paid.

Yield
Ratio of dividend per share over the share market price.

Supplementary information for the Reference Document

Contents

General Information

General information on L'Air Liquide S.A.

Corporate name and registered offices

L'Air Liquide, a joint stock company run by a Management Board and a Supervisory Board for the study and application of processes developed by Georges Claude.
Registered offices: 75, quai d'Orsay, 75321 Paris Cedex 07 – France

Legal form

A joint stock company with a Management Board and a Supervisory Board under French law, governed by the Commercial code.

Law applicable to l'Air Liquide S.A.

French law.

Foundation and expiry dates

The Company was founded on November 8, 1902, for a set term expiring on February 17, 2028.

Corporate purpose

The Company's corporate purpose comprises:

1. The study, exploitation, sale of patents or inventions of Messrs. Georges and Eugène Claude, pertaining to the liquefaction of gases, the industrial production of refrigeration, liquid air and oxygen, and the applications or utilizations thereof.

2. The industrial production of refrigeration of liquid air, the applications or uses thereof, the production and liquefaction of gases, and in particular oxygen, nitrogen, helium and hydrogen, the applications and uses thereof in all forms, in blends and combinations, without any distinction as to state or origin, in all domains of the applications of their physical, thermodynamic, chemical, thermochemical and biological applications, and in particular in the domains of propulsion, the sea, health, agri-business and pollution.

3. The purchase, manufacturing, sale, use of all products pertaining directly or indirectly to the foregoing corporate purpose, as well as all sub-products resulting from their manufacturing or their use, of all machines or devices used for the utilization or application thereof and, more specifically, the purchase, manufacturing, sale, use of products, metals or alloys, derived or resulting from a use of oxygen, nitrogen and hydrogen pure, blended or combined, in particular of all oxygenated of nitrogenous products.

4. The study, acquisition, direct or indirect exploitation or sale of all patents, inventions or methods pertaining to the same corporate purposes.

5. The direct exploitation or the exploitation by creating of companies, of everything which is connected, directly or indirectly, with the Company's purpose or is apt to contribute to the development of its industry.

6. The supply of all services, or the supply of all products apt to develop its clientele in the domain of industry or health.

The Company may request or acquire all franchises, make all constructions, acquire or take out on a rental basis all quarries, mines and all real property, and take over all operations connected with its corporate purpose, sell these franchises, assert them, merge or create partnerships with other companies by acquiring shares or company rights, through advances or in any appropriate manner. It may undertake these operations either alone or jointly.

Lastly, and more generally, it may carry out all industrial, commercial, real, personal, financial operations pertaining directly or indirectly to the corporate purposes specified above.

Business and company register

552 096 281 R.C.S. Paris
APE code: 244A

Consulting legal documents

The Articles of Association, Minutes of General Shareholders' Meetings and other company documents may be consulted at Company headquarters.

Financial year

The Company's financial year starts on January 1, and ends on December 31, of the same year.

Distribution of profits as provided for in the Articles of Association

The Company's net proceeds, established in the annual inventory, after deducing the Company's operating expenses, including all amortization and provisions, constitute the net profits.

From these profits, a deduction is made of the amount necessary for paying to the shareholders, as a first dividend, five percent of the sums paid-up on their shares, and not amortized, and five percent of the sums from premiums on shares issued in cash, and appearing in a "share premium" account, without it being possible, if the profits of a given year do not permit this payment, for the shareholders to claim such amounts from the profits of subsequent years.

The General Shareholders' Meeting may decide to earmark any portion of the available surplus of said profits it wishes for the creation of general or special reserve and providence funds, under any name whatsoever or even simply as an amount carried forward.

The balance constitutes a mass which is intended for the distribution of the second dividend as well as the amount provisionally assessed as necessary to pay a 10% increase to registered shares satisfying the following conditions.

As from January 1, 1996, the shares registered as of December 31, of each year in nominative form for at least two years, and which remain registered until the date of the payment of the dividend, will entitle their owners to collect a dividend per share which is 10% higher, rounded down if necessary to the lower centime, than the dividend per share distributed in respect of other shares, provided that the amount of such latter dividend is at least equal to the amount of the dividend per share distributed in the preceding year for such same shares.

In the event that, as from January 1, 1996, the Management Board, with the approval of the General Shareholders' Meeting, decides, after obtaining the approval of the Supervisory Board, to increase the capital by incorporating reserves, profits, or premiums, the shares registered in the nominative form for at least two years on the date on which the allotment process begins will entitle their owners to an allotment of shares which is 10% higher than the allotment made in favor of other shares, and according to the same procedure.

The increases defined in each of the two preceding paragraphs may be modified or eliminated by simple decision of the Extraordinary General Shareholders' Meeting, according to the procedures it determines.

Pursuant to the law, the number of shares eligible for these increases shall not for any given shareholder exceed 0.5% of the Company's share capital.

When the General Shareholders' Meeting decides to distribute sums drawn from the reserves at its disposal, the resolution shall expressly indicate the reserve items from which the drawing is made.

Except in the case of a reduction of the capital, no sums shall be distributed to the shareholders when following such distribution the shareholders' equity is or would fall below the amount of the capital plus the reserves the distribution of which is prohibited by law or by the Articles of Association.

General Meetings

Methods of convocation

The General Shareholders' Meeting is composed of all the shareholders, regardless of the number of shares they own, on the condition that all due payments have been made thereon and that they are not deprived of voting rights.

In accordance with the law and the Articles of Association, only those shareholders who own nominative shares registered in the share account at least five days before the scheduled date of the meeting may take part in the General Shareholders' Meeting, vote by absentee ballot, or be represented at the meeting. The owners of bearer shares who wish to attend, vote by absentee ballot, or be represented at the meeting must therefore, five days before the scheduled date of the meeting, present proof of a registration in account of their share with an intermediary and of the inalienability of these shares until the date of the General Shareholders' Meeting.

However, the Management Board will always, if it deems it suitable, have the right to shorten these periods. It will also be entitled to authorize the sending by electronic mail to the Company of the proxy and ballot forms in accordance with the legal and regulatory conditions in force.

The General Shareholders' Meeting meets each year, as required by law, during the first semester. It may also meet extraordinarily whenever the Management Board or the Supervisory Board deems that it is useful.

Meetings take place at the registered offices or at any other place designated by the author of the notice.

The General Shareholders' Meeting shall be convened and shall deliberate as prescribed by law. Each shareholder shall have as many votes as the voting shares he or she owns or represents, without further restriction, saving as imposed by the law in force.

Conditions of use of voting rights

The voting right attached to a jointly held share is exercised by the usufruct owner in the Extraordinary General Shareholders' Meeting and in the Ordinary General Shareholders' Meeting. There is no double voting rights.

Thresholds set by the Articles of Association

Any direct or indirect owner, acting alone or jointly, of a fraction of the Company's capital or voting rights is obliged to inform the Company within fifteen days beginning on the date of transacting, and independently of the date of the effective transfer of the ownership of the shares, each time a threshold corresponding to 1% of the share capital or the voting rights is crossed, in either direction, including above the 5% threshold.

In the event of a failure to respect this additional obligation of information, one or several shareholders, owning a fraction of the Company's capital or voting rights amounting to at least 1%, may request that the shares exceeding the fraction which should have been declared be deprived of their voting rights for any General Shareholders' Meeting held until the end of a period of two years following the date on which the notice is rectified. The request will be recorded in the Minutes of the General Shareholders' Meeting.

Identification of share owners

The Company may avail itself at any time of the legal and statutory provisions in force permitting the identification of the owners of shares as well as the number of shares they own.

Capital

Amendment of authorized capital and shareholder rights

Increase of authorized capital

The share capital may be increased on one or more occasions, either by contributions in kind or in cash, or by incorporating reserves, premiums or profits, or by converting bonds into shares, or exchanging bonds against shares, or by setting-off liquid or payable claims against the Company or by any other means stipulated by law, pursuant to a decision of the Extraordinary General Shareholders' Meeting voted in the conditions set forth in the Articles of Association. However, if the capital increase is carried out by incorporating reserves, profits or share premiums, the decision is taken on the quorum and majority conditions stipulated for Ordinary General Shareholders' Meetings.

The General Shareholders' Meeting will determine the procedures for increasing the share capital; it may also delegate to the Management Board, without prejudice to the powers of the Supervisory Board determined in by Articles of Association, the powers necessary for carrying out said capital increase, on one or more occasions, determining the procedures thereof, and declaring the completion thereof, and making the correlative amendments to the Articles of Association.

In the event of the issue of new shares payable in cash, and unless otherwise decided by the Extraordinary General Shareholders' Meeting acting in accordance with the conditions stipulated by law, the owners of previously created shares who have made all payments called-up or their assignees, will have a preferential right to the subscription of new shares, in the proportion of the amount of the par value of the shares they own. The parties concerned will be notified of this preferential right in accordance with law.

Regulations drawn up by the Management Board, with the approval of the Supervisory Board, will establish the conditions, deadlines and forms in which the benefit of the provisions of the previous paragraph may be claimed.

Reduction of authorized capital

The share capital may also be reduced by decision of the General Shareholders' Meeting, by proposal of the Management Board or the Supervisory Board, in the conditions stipulated by law, or by reimbursing or redeeming shares on the Stock Exchange, or by exchanging existing shares for new shares, in an equivalent or lesser number, with or without the same par value, with or without a cash balance to be paid or received. The General Shareholders' Meeting may always compel the shareholders to sell or purchase existing shares to permit the exchange of existing shares for new shares, with or without a cash balance to pay or receive, even if the reduction decided upon may not be the result of losses.

Share capital

As of December 31, 2004, the authorized capital was 1,200,989,053 euros, divided into 109,180,823 shares with a par value of 11 euros each, all of the same class.

Cancellation of shares and reduction of capital following acquisition by the Company of its own shares

The Combined General Shareholders' Meeting of May 12, 2004, authorized the Management Board to cancel, at its discretion, on one or several occasions, within the limit of 10% of the Company's authorized capital, and per 24-month period, shares purchased under the authorization voted by the Combined General Shareholders' Meeting of May 12, 2004, and those purchased under the authorization voted by the Combined General Shareholders' Meeting of May 15, 2003, and to reduce the capital accordingly.

This authorization is granted for a period of 24 months from the meeting date. Under that authorization, 350,000 shares were cancelled on February 25, 2005.

Capital authorized but not issued and commitments to authorize capital

The Combined General Meeting of May 12, 2004, granted the Management Board authority for five years to increase the capital, in one or more stages, by a maximum of 2 billion euros, including premiums:

– either by capitalization of reserves, earnings or premiums;

– or by cash subscription, reserved preferentially to holders of existing shares, or to consignees of their rights, where the corresponding authorizations relate exclusively to shares.

This authority was used up to the level of 111,459,788 euros by a bonus share allocation resolved on May 12, 2004, and implemented on June 14, 2004, in the amount of 108,882,147 euros and on July 13, 2004, in the amount of 2,577,641 euros, corresponding to the allocation plus 10%, in compliance with the Articles of Association.

Moreover, the Combined General Meeting of May 12, 2004, gave the Management Board authority, for a period of 38 months, for the purpose of granting to employees and/or officers, subject to the approval of the Supervisory Board, and the Supervisory Board for the purpose

of granting to members of the Management Board, under sections L 225-177 ff. of the Commercial code, options to purchase new shares of the Company to be issued to increase the capital, or shares of Air Liquide repurchased by the Company, provided that the total number of shares for which options are thus granted not exceed 3% of the Company's share capital on the date the options are granted by the Management Board or the Supervisory Board.

The subscription or purchase price of the shares shall not be less than the average of the opening price over the 20 trading days immediately preceding the date on which the options are granted, rounded down to the next euro.

Under this authorization, 35,385 options to purchase Air Liquide shares were allocated at the Management Board meeting of November 30, 2004.

The Combined General Meeting of May 12, 2004, also granted authority to the Management Board, for a period of five years, subject to the approval of the Supervisory Board, to increase the share capital, in one or more transactions by up to 150 million euros, including premiums, through the issue of shares with a par value of 11 euros, for offering, under sections L 443-1 ff. of the Labor code pertaining to Employee Savings Plans, and to section L 225-138 of the Commercial code, to employees of the Company and some of its subsidiaries, within the meaning of section L 225-180 of the Commercial code, provided that such employees have been in the employ of the Company or its subsidiaries for at least three months, and that the number of shares issued does not to exceed 1,000,000.

The offering price shall not be higher than the average of the share price quoted over the 20 trading days immediately preceding the Management Board's decision setting the opening date of the offering period, nor be lower than 80% of that average price.

This authority has not been used.

Securities not representing capital

The Combined General Meeting of May 12, 2004, authorized the Management Board, for a period of five years, to issue one or more debentures amounting to a maximum of 4 billion euros, in one or more stages, at the times and on the terms that it deems fit.

To date, the Group has issued debentures for a total of 1 billion euros.

Other securities giving access to capital

Convertible bonds

The Combined General Meeting of May 12, 2004, authorized the Management Board, for a period of five years, in one or more stages, both in France and abroad, to issue bonds convertible to shares worth a maximum of 1,500 million euros, either in euros or in foreign currency or in currency units set in reference to several currencies. Shareholders' preferential rights are maintained.

This authority has not been used.

Share subscription options

As of December 31, 2004, the number of adjusted options outstanding, allocated and not yet exercised, was 3,775,531.

Trend in capital over the past five years

Issue date	Nature of transaction	Number of shares created	Cumulative number of shares	Capital increase	Issue premiums and reserves	Capital amount
(in euros except for shares)						
29 Feb 00	Exercise of share subscription options	437,171	82,868,169	4,808,881	30,292,847	911,549,859
04 May 00	Exercise of share subscription options	4,419	82,872,588	48,609	227,878	911,598,468
04 May 00	Bonus share allocation (one for ten)	8,287,258	91,159,846	91,159,838	(91,159,838)	1,002,758,306
19 July 00	Bonus share allocation (one for ten) Loyalty premium	225,381	91,385,227	2,479,191	(2,479,191)	1,005,237,497
01 Mar 01	Exercise of share subscription options	58,341	91,443,568	641,751	3,722,286	1,005,879,248
01 Mar 01	Cancellation of acquired shares	(575,529)	90,868,039	(6,330,819)	(69,943,267)	999,548,429
04 Apr 01	Cancellation of acquired shares	(424,471)	90,443,568	(4,669,181)	(51,235,439)	994,879,248
29 Dec 01	Increase of capital reserved for employees	300,823	90,744,391	3,309,053	36,700,406	998,188,301
18 Jan 02	Exercise of share subscription options	82,502	90,826,893	907,522	5,392,170	999,095,823
25 Feb 02	Cancellation of acquired shares	(1,500,000)	89,326,893	(16,500,000)	(208,682,216)	982,595,823
30 Apr 02	Exercise of share subscription options	25,499	89,352,392	280,489	1,589,828	982,876,312
30 Apr 02	Bonus share allocation (one for eight)	11,169,049	100,521,441	122,859,539	(122,859,539)	1,105,735,851
15 Jul 02	Bonus share allocation (one for eight) Loyalty premium	269,951	100,791,392	2,969,461	(2,969,461)	1,108,705,312
10 Jan 03	Exercise of share subscription options	27,049	100,818,441	297,539	1,615,735	1,109,002,851
25 Feb 03	Exercise of share subscription options	2,768	100,821,209	30,448	157,084	1,109,033,299
25 Feb 03	Cancellation of acquired shares	(1,000,000)	99,821,209	(11,000,000)	(123,464,901)	1,098,033,299
15 May 03	Fusion with COFIGAZ	1,868	99,823,077	20,548	110,949	1,098,053,847
26 Jan 04	Exercise of share subscription options	98,639	99,921,716	1,085,029	5,633,424	1,099,138,876
27 Feb 04	Cancellation of acquired shares	(1,000,000)	98,921,716	(11,000,000)	(118,723,907)	1,088,138,876
12 May 04	Exercise of share subscription options	62,055	98,983,771	682,605	3,719,905	1,088,821,481
12 May 04	Bonus share allocation (one for ten)	9,898,377	108,882,148	108,882,147	(108,882,147)	1,197,703,628
13 Jul 04	Bonus share allocation (one for ten) Loyalty premium	234,331	109,116,479	2,577,641	(2,577,641)	1,200,281,269
21 Jan 05	Exercise of share subscription options	70,369	109,186,848	774,059	5,902,371	1,201,055,328
25 Feb 05	Exercise of share subscription options	3,193	109,190,041	35,123	319,081	1,201,090,451
25 Feb 05	Cancellation of acquired shares	(350,000)	108,840,041	(3,850,000)	(41,812,039)	1,197,240,451

Since 1996, each allocation of bonus shares entails two capital increases: the first corresponds to the new shares allocated to all existing shares. This takes place on the date of resolution by the Management Board to proceed with the transaction, authorized by the Supervisory Board. The second corresponds to the new shares allocated as a loyalty premium, only to shares registered continuously for more than two years. This takes place on the date of recording of completion of the transaction by the Chairman of the Management Board.

Market for the Company's shares

Place of listing

L'Air Liquide S.A. shares are listed only in Paris on the Eurolist of Euronext regulated market, ISIN code FR0000120073 and are eligible for the Deferred Settlement Service.

Other listed securities of L'Air Liquide's consolidated subsidiaries and affiliated companies

Société d'Oxygène et d'Acétylène d'Extrême-Orient, listed in Paris under ISIN code FR0000031171.

Séchilienne-Sidec, listed in Paris under the ISIN code FR0000060402.

Share performance

Stock price over the past 18 months

Prices are adjusted to take into account the allocation of one bonus share for ten held, effective June 14, 2004.

Month *(in euros)*	Securities exchanged during month	Close	High	Low
Sept 03	9,854,064	110.27	124.73	109.27
Oct 03	8,779,642	115.91	119.27	108.55
Nov 03	8,137,510	121.82	123.64	116.18
Dec 03	7,351,678	127.27	128.09	120.46
Jan 04	8,401,861	122.46	129.00	119.09
Feb 04	6,322,024	129.64	131.91	121.46
Mar 04	7,725,143	125.91	132.27	122.00
Apr 04	8,695,215	132.82	138.46	125.73
May 04	8,981,125	131.64	135.00	126.36
June 04	11,148,279	135.90	138.50	129.55
July 04	6,182,307	134.50	138.20	130.00
Aug 04	7,119,836	128.60	134.00	122.50
Sept 04	7,853,704	126.30	133.70	125.80
Oct 04	7,878,869	126.60	131.80	124.00
Nov 04	6,593,112	130.10	134.70	126.40
Dec 04	8,301,755	136.00	136.50	128.60
Jan 05	8,315,611	131.90	138.10	129.60
Feb 05	7,444,664	135.70	137.90	131.20

Stock Exchange price and trading volume

	Daily averages				
Year	Number of securities	Capital *(in thousands of euros)*	High (adjusted)	Low (adjusted)	Close
2000	227,598	32,807	131.50	94.91	128.40
2001	335,843	52,570	143.03	105.13	127.19
2002	421,246	62,170	145.46	101.46	114.27
2003	429,685	55,075	128.09	95.46	127.27
2004	367,580	49,994	138.50	119.09	136.00

Dividends

Year *(in euros)*	Paid	Net Dividend [1]	Tax credit	Total income	Number of shares	Distribution
2000	05/10/01	3	1.5	4.5	91,429,644	274,288,932
			Bonus dividend [2]			
		0.3	0.15	0.45	24,944,295	7,483,289
						281,772,221
2001	05/07/02	3.2	1.6	4.8	90,821,483	290,628,746
			Bonus dividend [2]			
		0.32	0.16	0.48	23,315,671	7,461,015
						298,089,761
2002	05/21/03	3.2	1.6	4.8	100,818,441	322,619,011
			Bonus dividend [2]			
		0.32	0.16	0.48	24,489,228	7,836,553
						330,455,564
2003	05/18/04	3.2	1.6	4.8	99,912,917	319,721,335
			Bonus dividend [2]			
		0.32	0.16	0.48	24,266,063	7,765,140
						327,486,475
2004	05/17/05	3.50 [3]	[4]	3.50	109,180,823	382,132,881
			Bonus dividend [2]			
		0.35 [3]		0.35	25,876,746	9,056,861
						391,189,742

(1) Ordinary dividend paid on all shares.
(2) Bonus dividend paid only on shares registered continuously for two calendar years.
(3) Subject to the approval at the General Shareholders' Meeting of May 11, 2005.
(4) The dividend paid out for the 2004 fiscal year does not carry an *avoir fiscal* (special French tax credit), but gives rise to a 50% allowance instead, as provided for in section 158-3 subsection 2 of the Tax code.

Responsibility for Reference Document and statutory auditors

Person responsible for the Reference Document

Benoît Potier, Chairman of the Management Board of L'Air Liquide S.A.

Certification of person responsible for the Reference Document

"To the best of my knowledge, the data contained in this Reference Document are true. They contain all the information investors need in order to assess the assets, activities, financial situation, profits and prospects of L'Air Liquide S.A. and its Group, and omit nothing that might alter their implications."

Benoît Potier
Chairman of the Management Board

Report of the statutory auditors on the Registration Document (*Document de Référence*)

(Free translation of a French language original)

In our capacity as statutory auditors for L'Air Liquide S.A. and in compliance with Article 211-5-2 of the AMF General Regulation, we have verified, in accordance with French professional standards, the information in respect of the financial position and historical financial statements included in the accompanying Registration Document.

This Registration Document is the responsibility of the Chairman of the Management Board who signed this document. Our responsibility is to issue a conclusion on the fairness of the information contained therein with respect to the financial position and financial statements.

We conducted our examination in accordance with French professional standards. This examination consisted in assessing the fairness of the information on the financial position and financial statements and to verify their consistency with the audited financial statements. We also read other financial information contained in the Registration Document in order to identify any significant inconsistencies with information in respect of the financial position and financial statements and to bring to your attention any obvious misstatements we noted based on our general understanding of the Company gained through our audit. The prospective information presented by management is based on their intentions and not on a properly prepared individual component or item.

We issued an unqualified opinion on the annual and consolidated financial statements drawn up by the Management Board in compliance with accounting rules and principles applicable in France and for the year ending December 31, 2004, in accordance with French professional standards.

RSM Salustro-Reydel and Ernst & Young Audit issued an unqualified opinion on the annual and consolidated financial statements drawn up by the Management Board in compliance with accounting rules and principles applicable in France and for the years ending December 31, 2003, and 2002, in accordance with French professional standards.

On the basis of our examination, we have nothing to report on the fairness of the information on the financial position and the financial statements included in the Registration Document.

Paris-La Défense, April 8, 2005

The statutory auditors

MAZARS & GUÉRARD
Frédéric ALLILAIRE

ERNST & YOUNG Audit
Jean-Claude LOMBERGET

The Registration Document also includes the following reports:

- The statutory auditors' report on the annual and consolidated financial statements as of December 31, 2004 (shown respectively on page 20 of the 2004 "Rapport Social" incorporated by reference and on page 137 of the Registration Document) which include the basis of their assessment in accordance with Article L.225-235 of French company Law (*Code de Commerce*);
- In accordance with Article L.225-235 of French company Law (*Code de Commerce*), the statutory auditors' report (on page 148 of this Reference Document) on the report prepared by the Chairman of the Supervisory Board of L'Air Liquide S.A. that describes the internal control procedures for the preparation and treatment of accounting and financial information.

Cross-referencing schedule for the Reference Document

The Reference Document includes this Annual Report and the Social Report for 2004. To facilitate reading of the Annual Report filed as Reference Document, the following schedule will help identify the main information required by the *Autorité des Marchés Financiers* (French Financial Market Authority) under its regulations and instructions for implementation.

AMF

The present Reference Document was registered on April 8, 2005, with the *Autorité des Marchés Financiers* (AMF), in compliance with sections 211-1 to 211-42 of its General Regulation. It can be used in support of financial operations when a note of operation stamped by the *Autorité des Marchés Financiers* complements it.

Ten-year consolidated financial summary

	Notes	1995	1996	1997	1998	1999
Key figures in millions of euros						
Net sales		4,907.2	5,241.5	5,851.3	6,087.6	6,537.7
Of which Gas and Services		4,102.4	4,324.3	4,959.9	5,194.2	5,694.0
Operating income		649.1	663.2	782.5	847.6	935.0
Net earnings		405.7	422.7	471.1	515.6	562.7
Funds from operations (cash flow)		860.9	910.0	1,013.5	1,156.5 (6)	1,308.4
Payments on industrial investments		548.4	887.3	1,173.2	1,222.5	1,129.4
Payments on financial investments		117.2	157.8	95.3	211.6	309.0
Distribution	(1)	143.6	160.1	179.4	205.2	221.7
Shareholders' equity at year-end		3,398.5	3,759.1	4,171.5	4,346.9	4,926.8
Net indebtedness at year-end		525.2	842.0	1,258.6	1,676.8	2,432.7
Capital						
Number of shares issued and outstanding		66,279,226	73,117,927	73,156,045	82,921,825	82,862,583
Adjusted number of shares	(2)	111,601,187	112,939,222	113,003,564	113,006,560	112,509,903
Results per share in euros						
Net earnings per share	(3)	3.63	3.74	4.17	4.56	5.00
Dividend per share		2.13	2.13	2.38	2.40	2.60
Total dividend (including tax credit)		3.20	3.20	3.57	3.60	3.90
Dividend adjusted per share		1.25	1.38	1.54	1.75	1.90
Ratios						
Return on equity (ROE)	(4)	12.4%	11.8%	11.9%	12.1%	12.1%
Return on capital employed after tax (ROCE)	(5)	11.5%	11.0%	10.5%	10.1%	9.6%

Bonus dividend: Since 1995, a bonus dividend equal to 10% of the dividend has been allocated to shares registered for more than two years as of December 31, preceding the allocation year, and held until the date of the payment of the dividend. In 2004, the bonus dividend amounts to 0.35 euro per share (no dividend tax credit is included), representing a total amount of 9.1 million euros.

(1) Without withholding tax of 8.7 million euros in 2003, 83.9 million euros in 2002, 68.0 million in 2001, 36.1 million in 2000, 26.2 million in 1999, 19.2 million in 1998, 13.6 million in 1997, 13.7 million in 1996, 8.8 million in 1995 and including a surplus dividend of 9.1 million euros in 2004, 7.8 million euros in 2003, 7.8 million in 2002, 7.5 million in 2001, 7.5 million in 2000, 6.3 million in 1999, 6.1 million in 1998, 5.5 million in 1997, 4.1 million in 1996 and 2.2 million in 1995.

(2) Adjusted to account for the weighted number of shares outstanding resulting from stock dividends declared in 2004, 2002, 2000, 1998, 1996 and 1994, stock offerings (from 1995 to 2004) and treasury shares.

(3) Calculated on the adjusted weighted number of shares outstanding during the year (excluding treasury shares).

	Notes	2000	2001	2002	2003	2004
Key figures in millions of euros						
Net sales		8,099.5	8,328.3	7,900.4	8,393.6	9,376.2
including Gas and Services		7,113.6	7,256.7	6,887.0	7,388.5	8,275.2
Operating income		1,116.0	1,177.6	1,161.6	1,196.0	1,276.9
Net earnings		651.8	701.9	703.2	725.6	777.5
Funds from operations (cash flow)		1,564.3	1,627.4	1,514.1	1,542.2	1,694.9
Payments on industrial investments		910.2	769.8	632.8	746.8	875.4
Payments on financial investments		104.8	332.4	306.9	74.9	2,858.5
Distribution	(1)	281.8	298.1	330.5	327.5	391.2
Shareholders' equity at year-end		5,285.9	5,353.3	5,219.3	5,079.2	5,373.6
Net indebtedness at year-end		2,280.3	2,583.5	2,022.3	1,730.2	3,790.3
Capital						
Number of shares issued and outstanding		91,429,644	90,821,483	100,818,441	99,912,917	109,180,823
Adjusted number of shares	(2)	112,214,133	110,736,776	109,477,929	108,624,523	107,937,967
Results per share in euros						
Net earnings per share	(3)	5.81	6.34	6.42	6.68	7.20
Dividend per share		3.00	3.20	3.20	3.20	3.50
Total dividend (including tax credit)		4.50	4.80	4.80	4.80	3.50
Dividend adjusted per share		2.41	2.57	2.90	2.90	3.50
Ratios						
Return on equity (ROE)	(4)	12.8%	13.2%	13.4%	14.1%	14.9%
Return on capital employed after tax (ROCE)	(5)	10.5%	10.7%	10.8%	11.6%	11.3%

(4) Return on equity: (Net earnings)/(weighted average of shareholders' equity).

(5) Return on capital employed after tax: (Net earnings atfer taxes and before minority interests - financial income (expense) after taxes)/weighted average over the period of (shareholders' equity + minority interests + net indebtedness).

(6) Excluding the net capital gain of 38.3 million euros from divesting the hydrogen peroxide business.

Design and production
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Written by: Françoise Lafragette

Photos: Air Liquide thanks its employees who collected or contributed to the photographs in this Annual Report.
Cryospace, Japan Air Gases, Jean-Louis Etienne-Clipperton Expedition, Agence africaine de presse,
Jeff Heger, M. Meszarovits, Studio Pons, X. Renauld, Le Square, X.

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