

2005

Linde AG. Financial Statements for the year ended December 31, 2005.

LeadIng.



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Corporate Governance Report

Corporate Governance

Linde AG welcomes the German Corporate Governance Code produced by the Government Commission and last updated in June 2005.

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

Compliance with the German Corporate Governance Code

On March 3, 2006, the Executive Board and the Supervisory Board made the annual declaration of compliance with § 161 of the German Stock Corporation Law (AktG). It is published on page 5 of this report and on the company's website. Linde AG complied and continues to comply with the recommendations of the Code, except that we do not disclose individualized figures for the compensation paid to members of the Executive and Supervisory Boards and these are not disclosed separately. The individual emoluments paid to members of the Supervisory Board can be derived from the bylaws and the information given in the remuneration report on pages 08–09. As regards the emoluments of the Executive Board, we believe that the disclosure of the total amount of compensation paid underlines the principle of the collective responsibility of the Executive Board. Moreover, we are of the view that the disclosure of individualized figures counteracts the advantages conferred by differentiating salaries based on performance. Although our view on this matter remains unchanged, we will disclose individualized figures for the compensation paid to members of the Executive Board for the first time in the 2006 Annual Report in accordance with the requirements of the German Law on the Disclosure of Compensation paid to Management Boards. Individualized figures for the compensation paid to members of the Supervisory Board will also be disclosed.

Linde AG has also complied and will in future comply extensively with the suggestions made in the Code, with the exception of the following three deviations:

→ The Code suggests that the Shareholders' Meeting is transmitted on the Internet. We transmit the speeches of the Chairman of the Supervisory Board and the President of the Executive Board, but not the general discussion. In principle, the bylaws permit the transmission of the Shareholders' Meeting in full via electronic media. It is our view, however, that due to high technical costs and

the potential length of Shareholders' Meetings the associated costs cannot currently be justified in terms of benefit to the shareholders. Moreover, as far as the verbal contributions are concerned, we do not wish to encroach on the right to privacy of the individual speakers. Nevertheless, we will follow developments carefully.

→ We consider that the suggestion that the election or re-election of members of the Supervisory Board take place at different dates and for different periods of office is inappropriate for a Supervisory Board which is constituted in accordance with the German Codetermination Law. To date, all Supervisory Board members have been elected for the same period of office. As the employee representatives are elected for five years, this would result in the unequal treatment of the shareholder representatives. We will also keep an eye on developments in this area.

→ Finally, there is a suggestion in the Code that variable emoluments paid to members of the Supervisory Board should also be linked to the long-term performance of the company. At the Shareholders' Meeting on June 8, 2005, revised arrangements for the remuneration of the Supervisory Board were agreed. It was specifically decided not to introduce a long-term component.

During the year, the Executive Board and the Supervisory Board considered, among other things, the amended version of the Code dated June 2, 2005. In this connection, the procedural rules for the Supervisory Board were also revised. Therefore, the Supervisory Board included, for example, new rules on its independence. Some members of the Supervisory Board are currently or have in the past year been members of the management boards of companies with which Linde has business relations. Transactions with these companies are effected as if they were between unrelated third parties. In our opinion, these business transactions do not affect the independence of the Supervisory Board members concerned. The Supervisory Board has an adequate number of members to ensure a sufficient level of independence.

No conflicts of interest on the Executive Board or the Supervisory Board

During the reporting period, there were no consultancy contracts or other service or works agreements between members of the Supervisory Board and the company. No conflicts of interest arose for the members of the Executive Board or Supervisory Board. Where such conflicts of interest do occur, they must be disclosed immediately to the Supervisory Board. During the year, no transactions were effected between Linde AG or its Group companies and members of the Executive Board or any related parties.

Developing our core values

Linde has traditionally subscribed to a high standard of ethical principles. In line with these values of future competence, commitment and responsibility, the Executive Board adopted a corporate responsibility policy in 2005, which is mandatory in both our business segments. The code of behavior, also drawn up in 2005 for all our employees worldwide, makes our corporate values tangible and calls upon the employees to comply with legal provisions as well as the high ethical standards we have set. Linde has also signed up to the Global Compact, a United Nations initiative. In this, Linde expressly commits to contributing to improvements in environmental protection and working conditions throughout the world and to the protection of human rights.

Enhanced investor protection

Linde AG has taken account of the changes to the German Securities Trading Law (WpHG) in the form of the German Investor Protection Enhancement Act (AnSVG), which came into force on October 30, 2004. The newly-established insider compliance office has introduced a register of insiders, which lists those people who have access to insider information. Those affected were informed about their legal responsibilities as a result of the Act and the legal consequences of violating those duties. In addition, a guideline was issued on ad hoc publicity in Linde AG. A flow-chart has been drawn up to ensure publication if ad-hoc publicity is required.

Directors' dealings

Linde AG publishes on its website without delay those transactions required to be notified under §15a of the German Securities Trading Law (WpHG) which have been effected by the persons named therein, in particular officers of the company and related parties, in shares of the company or related financial instruments, and sends the relevant document immediately to BaFin (the German Federal Financial Supervisory Authority).

In the course of the year, members of the Executive Board and Supervisory Board informed BaFin about three notifiable purchase or sale transactions in total. One member of the Executive Board purchased 400 Linde shares at a price of €59.46 per share. Under the share option scheme, one member of the Supervisory Board purchased 3,000 Linde shares at a price of €35.34 per share and sold them at a price of €58.13.

Interests in share capital

At the balance sheet date, there were no interests in share capital required to be disclosed under section 6.6 of the German Corporate Governance Code. Based on information provided, no member of the Executive Board or of the Supervisory Board holds shares or related financial instruments amounting to more than 1 percent of the issued share capital. The total holdings of all the members of the Executive and Supervisory Boards also do not exceed 1 percent of the issued share capital.

Remuneration of the Executive Board and Supervisory Board

The remuneration report, which also includes information about the share option scheme, is on pages 06–09 of this annual report and forms part of the management report.

Communications and stakeholder relations

Linde AG complies with the legal requirement to treat all shareholders equally. Transparency plays an important role in our company and we always aim to provide shareholders and the public with comprehensive, consistent and up-to-date information.

In addition to considering the interests of its shareholders, Linde takes account of the concerns of other stakeholders, who also contribute to the success of the company. As far as possible, we include all the stakeholders in our corporate communications. Linde's stakeholders include all its employees, its customers and suppliers, trade associations and government institutions.

Accountancy and audit

In June 2005, the Supervisory Board issued the mandate for the audit of the annual financial statements to KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG), Berlin and Frankfurt am Main, who had been appointed at the Shareholders' Meeting as auditors of the financial statements and Group financial statements for the year ended December 31, 2005.

When the auditors were instructed, it was ensured that no conflicts of interest existed. The statement submitted by the auditors confirming their independence was noted by the audit committee. It was agreed with the auditors that the Chairmen of the Supervisory Board and of the audit committee would be informed immediately during the audit of any potential reasons for the disqualification of the auditors or for their lack of impartiality, unless these could be eliminated without delay. Finally, the auditors are obliged to report immediately all the significant audit findings and events arising from the audit which have an impact on the duties of the Supervisory Board. The auditors have also undertaken to inform the Supervisory Board if they discover facts in the course of their audit which reveal any inaccuracies in the company's declaration of compliance with the Code.

Declaration of compliance with the German Corporate Governance Code

On March 3, 2006, we made the following annual declaration of compliance with § 161 of the German Stock Corporation Law (AktG) and made it available to shareholders on a permanent basis on the company's website at www.linde.com:

"The Executive Board and the Supervisory Board of Linde AG declare in accordance with § 161 of the German Stock Corporation Law:

Linde AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code as amended on May 21, 2003 and, from July 21, 2005, with the recommendations of the Code as amended on June 2, 2005 since it made its last declaration of compliance on March 14, 2005 with the deviations set out therein (no individualized figures disclosed for compensation paid to members of the Executive and Supervisory Boards).

It will also comply in future with the recommendations of the Code as amended on June 2, 2005, except for the deviations referred to above.

The total compensation paid to members of the Executive Board and the Supervisory Board has been and will continue to be disclosed in the Notes to the Group financial statements or in the remuneration report, subdivided into fixed fees, performance-related components and, if applicable, components with a long-term incentive.

In the annual financial statements and consolidated financial statements for the fiscal year 2006, individualized figures will be disclosed in accordance with the provisions of the German Law on the Disclosure of Compensation paid to Management Boards. Individualized figures for the compensation paid to members of the Supervisory Board will also be disclosed."

All the declarations of compliance with the Code which have been made so far can be found on our website.

Wiesbaden, March 3, 2006
Linde AG

The Supervisory Board

The Executive Board

Remuneration report

(which forms part of the management report)

The remuneration report sets out the structure and the basic features of the remuneration payable to members of the Executive and Supervisory Boards. It forms part of the management report and, except for the non-disclosure of individualized figures, complies with the recommendations of the German Corporate Governance Code. It also contains information in accordance with § 289(2) No. 5 of the revised German Commercial Code (HGB), so that there is no need for additional disclosure in the Notes to the financial statements.

Remuneration of the Executive Board

The structure and amount of the remuneration of the Executive Board are based on the extent of the international activity of the company and its size, its economic and financial situation, its performance and its prospects, given the environment in which it operates. The emoluments also depend on the duties of the individual member of the Executive Board and on his or her personal performance and the performance of the Executive Board as a whole. The remuneration is calculated so that it is competitive in the international context and offers an incentive for sustainable improvements in the value of the company in a dynamic environment.

The remuneration system comprises cash emoluments, share options and pension commitments. There are two components of the cash emoluments of the Executive Board, fixed emoluments and variable performance-related emoluments. The cash remuneration is based on an annual target income, around 40 percent of which on average is paid to the Board member in fixed monthly amounts if all the performance objectives are met in full, while 60 percent is variable. The target income is reviewed at regular intervals, at least every three years. The members of the Executive Board receive no remuneration for any Group offices held.

Fixed emoluments

Each member of the Executive Board receives a fixed monthly salary. In addition, a guaranteed amount of the dividend-related bonus is paid in advance in twelve monthly installments at the same time as the monthly salary.

Benefits in kind are also provided, which are taxed individually. These comprise mainly insurance benefits at normal market rates and company cars.

Variable emoluments

The variable emoluments comprise a dividend-related bonus and performance-related bonuses.

The annual bonus is dependent on the achievement of certain objectives specified at the beginning of the fiscal year by the standing committee of the Supervisory Board for that year and has an upper limit. The main performance criteria for the bonus are return on capital employed (ROCE) and operating profit (EBITA) and, to a lesser extent, individual targets.

The variable dividend-related bonus and the performance-related bonus are payable on the day after the Shareholders' Meeting at which the appropriation of profits is decided.

Share options

Options (remuneration components with a long-term incentive) are granted every year to the members of the Executive Board and to other employees entitled to options, based on the share option scheme approved at the Shareholders' Meeting in May 2002. The options confer the right to subscribe to shares in Linde AG at the exercise price. The exercise price for acquiring new shares is 120 percent of the base price. The base price is the average closing price of Linde shares in XETRA trading on the Frankfurt stock exchange over the last five trading days before the issue date of the options. The options are issued in five annual tranches, each with a term of seven years. There is a two-year qualifying period, which commences on the issue date. During the remaining five-year term, the options can be exercised at any time, except during blocked periods. The Supervisory Board determines the options to be allocated to members of the Executive Board and, for other employees entitled to options, the Executive Board decides on the allocations, with the approval of the Supervisory Board. With effect from the 2004 tranche, the Supervisory Board can decide to restrict the exercise of options issued to members of the Executive Board, if there are exceptional unforeseen movements in the price of Linde shares.

The 2002 and 2003 tranches of the Linde share option scheme first became valuable and exercisable in fiscal 2005. Where notifiable securities transactions under § 15a of the German Securities Trading Law (WpHG) arose as a result, these were properly notified and published on the Linde home page. Further information about Linde's share option scheme is given in the Notes to the financial statements.

Pension commitments

There are pension commitments in respect of the members of the Executive Board. The pension is based on a certain percentage of the most recently paid fixed monthly salary. This percentage increases for every year of membership of the Executive Board, until the maximum

percentage agreed for that individual has been reached. Payments are made on a monthly basis once the member has retired from the company and is eligible for his or her pension. If the employment contract is terminated before the occurrence of the insured event (old age pension, medical disability or incapacity for work, survivors' pension in the event of death), a vested right to future pension benefits may still exist. In isolated cases, a pension benefit may need to be paid immediately.

Emoluments of the Executive Board

The total cash remuneration of members of the Executive Board in 2005 was €9,685,627 (2004: €8,435,365), while their total remuneration was €11,277,227 (2004: €10,336,165). The total remuneration includes share options, which were granted to members of the Executive Board under the Linde Management Incentive Programme and which have a notional value of €1,591,600 (2004: €1,900,800). In fiscal 2005, 230,000 options (2004: 240,000) were granted to the members of the Executive Board. These options had a fair value at the issue date of €6.92 (2004: €7.92) per option. An analysis of the total cash remuneration is given in the following table:

in €	2005	in %	2004	in %
Fixed emoluments	2,655,627	27	2,690,738	32
Variable emoluments	7,030,000	73	5,744,627	68
Total cash emoluments	9,685,627	100	8,435,365	100

At December 31, 2005, pension provisions relating to current members of the Executive Board amounted to €6,658,748 (2004: €3,160,021 in accordance with § 6a of the German Income Tax Law (EStG)).

Loans and advances

During the fiscal year, no loans or advances were made to members of the Executive Board.

Total emoluments of former members of the Executive Board

Former members of the Executive Board and their dependants received pensions and similar payments in fiscal 2005 of €2,385,616 (2004: €2,713,060).

A provision of €34,504,903 (2004: €25,401,353 in accordance with § 6a of the German Income Tax Law (EStG)) has been made in the financial statements for current pensions and future pension benefits in respect of former members of the Executive Board and their dependants.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is determined at the Shareholders' Meeting, based on a proposal from the Executive Board and the Supervisory Board and set out in item 11 of the bylaws. In June 2005, revised arrangements were approved at the Shareholders' Meeting. These apply for the first time to the fiscal year 2005.

The emoluments comprise two components, a fixed component and a variable one which is dependent on the company's performance. With effect from fiscal 2005, the variable component no longer depends solely on the dividend, but also on the return on capital employed (ROCE) for the Linde Group in the relevant fiscal year.

Fixed emoluments

Each member of the Supervisory Board receives annual fixed emoluments of €35,000 which is paid at the end of the fiscal year.

The company also pays the members of the Supervisory Board an attendance fee of €500 every time they attend a Supervisory Board meeting or a committee meeting.

Variable emoluments

The first part of the variable remuneration for each member of the Supervisory Board is €300 for each €0.01 by which the dividend declared by the Shareholders' Meeting exceeds a dividend of €0.50 per share with full dividend entitlement distributed to the shareholders. The second part of the variable remuneration is €450 for each 0.1 percent by which the return on capital employed (ROCE) of the Linde Group exceeds the rate of 7 percent in the relevant fiscal year.

The total of the fixed emoluments and the performance-related emoluments must not exceed €90,000 per fiscal year.

The variable remuneration is paid on the day after the Shareholders' Meeting which determines the appropriation of profits.

Emoluments of the chairmen, deputy chairmen and committee members

The Chairman of the Supervisory Board receives three times the fixed and variable emoluments, while each Deputy Chairman and each member of the standing committee receives one and a half times the amount. The Chairman of the audit committee receives an additional €40,000 and every other member of the audit committee receives €20,000. However, if a member of the Supervisory Board holds several offices which pay a higher level of remuneration at the same time, he or she only receives the remuneration for the office which is the most highly paid.

Where members of the Supervisory Board or of its committees are being paid a higher level of remuneration, the maximum amount of €90,000 per fiscal year is increased in each case by the same rate or the same fixed amount.

VAT, reimbursement of expenses

Linde AG reimburses the members of the Supervisory Board for any necessary expenses incurred and the VAT on their emoluments.

Emoluments of the Supervisory Board

Based on a dividend of €1.40 per share entitled to dividend and ROCE in the Linde Group of 12.5 percent, the total emoluments of the Supervisory Board for discharging their duties in the parent company and in the subsidiaries in 2005 were €2,124,192 (2004: €1,739,489)*.

in €	2005	2004
Fixed emoluments	892,504	126,467
Variable emoluments	1,200,600	1,592,490
Total emoluments*	2,124,192	1,739,489

Loans and advances

In fiscal 2005, no loans or advances were made to members of the Supervisory Board.

* including VAT.

Management Report

Corporate organization

Linde AG, the holding company of the Linde Group, comprises Linde Gas, Linde Engineering and Linde Material Handling operating divisions and the Corporate Center.

Sales and incoming orders

In fiscal 2005, Linde AG achieved sales of €3.089 billion, 34.6 percent up on the prior year figure of €2.295 billion. Of these sales, 43 percent (2004: 55 percent) were to customers in Germany. Exports accounted for 57 percent (2004: 45 percent) of sales, with 67 percent (2004: 74 percent) relating to Europe, 16 percent (2004: 13 percent) relating

to the Asia/Pacific region, 7 percent (2004: 9 percent) relating to America and 10 percent (2004: 4 percent) relating to Africa. Incoming orders for Linde AG in fiscal 2005 were €3.593 billion (2004: €2.725 billion), which represents an increase of 31.9 percent.

Results of operations

Profit on ordinary activities rose from €152 million to €240 million. The main reason for this improvement was a significant increase in gross profit on sales, which rose from €528 million to €731 million. The Linde Engineering division generated a substantial proportion of this increase. The Linde Gas and Linde Material Handling divisions succeeded in increasing their operating profit once again and therefore made a contribution to the positive results of operations of Linde AG.

The decrease in other operating income and other operating expenses is due to the sale of Linde Refrigeration in 2004. In that year, the company figures included income of €90 million and expenses of €67 million which related to Refrigeration.

The financial result has decreased from €92 million to €61 million. The reason for this was the decline in investment income from €224 million to €156 million. On the other hand, the net interest payable, including write-downs of financial assets and of securities held as current assets, improved from €132 million to €95 million.

Special items include the profit on disposal of three companies in the Linde Gas division of €413 million. PanGas, Switzerland, and Linde Technoplyn, Czech Republic, were brought into the newly-formed Group company Linde Beteiligungs- und Verwaltungsgesellschaft mbH and Linde Gas Italia was brought into OM Carrelli Elevatori S.p.A., both fully-owned subsidiaries of Linde AG.

The special items also include an amount of €286 million arising from the change in the accounting policy for pension provisions and provisions for obligations relating to pre-retirement part-time work, based on international standards.

Net income of €286 million was €137 million higher than the prior year figure, a significant rise. In fiscal 2005, an amount of €118 million was transferred to revenue reserves.

Results of operations (summary)

in € million	2005	2004
Sales	3,089	2,295
Cost of sales	2,358	1,767
Gross profit on sales	731	528
Functional costs	630	570
Other income	131	238
Other expenses	53	136
Financial result	61	92
Profit before taxes on income	240	152
Taxes on income	81	3
Special items		
Profit on disposal of investments	413	-
Remeasurement of pensions	286	-
Net income	286	149
Transfer to revenue reserves	118	-
Unappropriated profit	168	149

Net assets and financial position

Total assets rose to €8.247 billion, an increase of 10.5 percent over the previous year.

Fixed assets rose by €687 million to €7.359 billion. There were additions of €1.190 billion and write-ups of €5 million, set against disposals of €396 million and amortization and depreciation of €112 million. Included in additions to Investments in affiliated companies of €1.045 billion was the contribution in kind to the newly-formed Linde Beteiligungs- und Verwaltungsgesellschaft mbH.

The percentage of total assets comprised by fixed assets was 89 percent (2004: 89 percent). The main component of fixed assets is financial assets, due to the function of Linde AG as the holding company of the Linde Group. Total equity increased by €157 million to €3.785 billion as a result of the rise in net income, the transfer to revenue reserves and the issue of new shares. The equity ratio, based on total assets, fell from 48.6 percent to 45.9 percent. Total provisions amounted to €1.422 billion, €367 million higher than in the prior year. This increase was due in part to the remeasurement of pension provisions and obligations relating to pre-retirement part-time work to conform with international standards, as a result of which there were additions to provisions of €286 million.

Balance sheet structure as a percentage of total assets of €8.247 billion (2004: €7.460 billion)

	2005	2004
Assets		
Long-term financial assets	84 %	84 %
Other fixed assets	5 %	5 %
Receivables and other assets	5 %	7 %
Liquidity	5 %	2 %
Sundry assets	1 %	2 %
Equity and liabilities		
Equity	46 %	49 %
Provisions for pensions	10 %	8 %
Other provisions	7 %	6 %
Liabilities	37 %	37 %

Research and development

In fiscal 2005, we invested a total of €81 million in research and development, which was €4 million more than in the prior year.

As in 2004, most of our research and development expenditure was related to the Linde Material Handling division, with costs of €46 million (2004: €46 million). The key objectives of our R&D activities are to reduce the energy consumption and emissions of our forklift trucks and to improve the handling qualities of our products.

In the Linde Gas division, we spent €19 million (2004: €18 million) on research and development. We focused in particular in this area on researching new applications for gases.

In our Linde Engineering division, we spent €16 million in 2005 (2004: €13 million) on innovations and the development of technologies for all the main types of plant, especially for hydrogen, olefin and natural gas plants.

Corporate responsibility

Global economic, ecological and social trends and events are the factors which determine to an ever-increasing extent the competitive environment of companies which operate throughout the world. Linde AG is meeting these challenges by applying a long-term corporate responsibility strategy. By corporate responsibility, we mean the company acting in a responsible manner with the capital entrusted to it, with its employees and with natural resources, as well as promoting the interests of society.

The four dimensions of Linde's corporate responsibility – the environment, our employees, society and the capital market – illustrate these spheres of action.

Long-term objectives

As the central element of our corporate responsibility strategy, we have adopted a corporate responsibility policy. In this policy, we undertake to behave responsibly towards our shareholders, business partners, employees, society and the environment – throughout the world and in every division.

In our corporate responsibility road-map, we have set ourselves ambitious objectives. In 2005, we were able to complete a number of important projects successfully:

- the organizational establishment of corporate responsibility in the whole Group
- the setting-up of a Group-wide data collection system for environmental and personnel figures on which reporting will be based, and
- the adoption of a Code of Behavior for all employees and the establishment of a corporate compliance committee.

Our tasks for 2006 include:

- the adoption of ethical and legal principles for purchases and sales
- the expansion of our social commitment
- the development of the corporate volunteering program
- the linking up of global HSE activities, and
- the development of an HSE policy for the entire Group.

Quality, safety and environmental protection

Linde has undertaken to act responsibly towards people and the environment. Quality, product safety and occupational safety, as well as environmental protection, are laid down in guidelines in the individual divisions and form a significant part of our corporate strategy. To us, the systematic integration of quality management, environmental protection management, product safety and occupational safety into all our work-flows is the prerequisite of safe, environmentally friendly and cost-effective products and services. A continuous process of improvement to these management systems ensures that risks to humans and to the environment are avoided as far as possible. Innovative technologies and products which protect and respect natural resources are the focus of Linde's research and development activities.

One example is the base technology of fabric cleaning, using carbon dioxide as an environmentally friendly alternative to the chlorinated hydrocarbon perchloroethylene (PER). The use of carbon dioxide liquefied under pressure with the addition of special detergents achieves results which are as good as when PER is used, but without harmful side-effects on health and the environment. Linde owns the license rights to the detergents used. Cleaning using carbon dioxide, offered under the brand name Fred Butler, is cost-effective, highly efficient and also saves one-third of the electricity costs, with no need for water or for town gas. 98 percent of the carbon dioxide used is recycled and can therefore be used many times. We intend to introduce this innovative method and our technology gradually via a franchising system in the major European countries.

Audits

To identify potential improvements in our quality management and HSE management, and to review the compliance of our individual companies throughout the world with legal requirements and standards, audits are performed regularly in the Linde Group. We focus particularly on conducting audits in the areas of occupational safety and health protection, as well as environmental protection.

Social commitment

The social commitment of Linde AG is directly related to our business areas. We focus on the promotion of good health and environmental protection, as well as on education and science. Moreover, we are active in many ways in the local areas which are near the Group's major sites.

Currently, we are particularly committed to the area of education and science, for example by providing funds to set up the Carl von Linde Academy and the corresponding professorial chair at the Technical University of Munich. The academy has the goal, as an interdisciplinary scientific institute, of providing prospective engineers, computer scientists and natural scientists with the intellectual, cultural and sociological equipment they will need for their subsequent professional careers and therefore goes beyond purely technical qualifications and training.

HSE and personnel data

In 2005, in the course of applying our corporate responsibility reporting procedures, we have for the first time collected HSE (health, safety and environment) and personnel data. We based this on recognized international guidelines for corporate responsibility reporting and on particular company-specific requirements.

To obtain this non-financial data, we have developed and used the REPORTAL data collection and information system employed for many years for our financial reporting. In 2006, it is planned to improve the data quality still further, to include individual locations not yet recorded in the survey and to rework the figures collected. This year, we also want to define Key Performance Indicators (KPIs), which we will use to measure and monitor progress in achieving overall corporate responsibility targets.

In our 2006 Corporate Responsibility Report (due to be published in October), we will report on the HSE and personnel data of the past year and on the corporate responsibility KPIs we have developed.

Employees

The number of employees in Linde AG at December 31, 2005 had risen during the year by 52 to 8,998. Personnel costs of €674 million, prior to the remeasurement of pension obligations and obligations for pre-retirement part-time work, were slightly higher than the prior year figure of €668 million.

Employees by division

	2005	2004
Linde Gas	2,467	2,444
Linde Engineering	2,482	2,461
Linde Material Handling	3,539	3,596
Corporate Center	510	445
Linde AG	8,998	8,946

Included in the number of employees in the Corporate Center are 172 (2004: 103) Datacenter employees.

In Linde AG, the proportion of part-time employees in 2005 was 4.7 percent (2004: 4.6 percent) and the rate of turnover was 0.8 percent (2004: 0.7 percent). The proportion of female employees during the year was 16.6 percent (2004: 16.7 percent).

Training

The proportion of trainees in Linde AG in 2005 remained constant at 5.4 percent. The number of our trainees at December 31, 2005 was 484, a similar figure to the prior year. There were 108 trainees in the Linde Gas division, 98 in the Linde Engineering division and 269 in the Linde Material Handling division.

In addition to conventional training, Linde offers sandwich courses at vocational colleges and higher education establishments as an alternative to traditional university courses. The courses offered in cooperation with vocational colleges in Baden-Württemberg give those who take them an international orientation, both through relevant practical experience within the Group and through separate theory phases at international higher education establishments.

At Linde, we set great store by the professional development of our employees. In the past year, more than 68.3 percent (2004: 62.8 percent) of our employees took part in an average of 1.6 days (2004: 1.8 days) training in Linde AG's professional development programs.

Pensions

Occupational pensions are becoming increasingly important for our employees. This applies particularly to the opportunity our employees have to provide for their retirement by converting portions of their salary into pension contributions and receiving tax relief thereon, to improve their pension situation in old age, which forms part of the Linde retirement plan (LVP). In 2005, 2,811 employees (2004: 2,529) took advantage of this type of pension. This is highlighted by the high level of acceptance of the offer, which is due not least to the attractiveness of the existing implementation routes.

The assets to finance the pension obligations of employees working in Germany, which are held separately in trust under a contractual trust arrangement, increased in value in the course of 2005. The total plan assets (employer's contributions plus the portions of salary converted into contributions to the Linde retirement plan) at December 31, 2005 were €267 million (2004: €234 million). Of this amount, €248 million related to the employer's contributions and €19 million to the salary converted into contributions.

In fiscal 2005, Linde AG spent a total of €47 million (2004: €59 million) on pensions and staff welfare costs prior to the adjustments for pension obligations and obligations relating to pre-retirement part-time work.

Linde Corporate Health Insurance Scheme

The number of members of Linde's corporate health insurance scheme (BKK) increased once again during the year. At December 31, 2005, BKK covered 26,109 members (2004: 25,823) and 12,604 dependants (2004: 12,781). A uniform contribution rate of 12.7 percent plus the 0.9 percent special contribution required by law applied.

At the beginning of fiscal 2006, a fundamental change was made to personnel costs in BKK. The Executive Board of Linde AG made a declaration in accordance with the provisions of the Social Security Code to BKK to the effect that our company would no longer in future bear the personnel costs of the employees working for the BKK. This declaration means that all the personnel costs of these employees will need to be borne by BKK alone from January 1, 2006. From the same date, the contractual relationship ceased to be between our company as the employer and the BKK employees, and was transferred to BKK.

Further background information on employees, environmental protection and safety and about our commitment to society is to be found in our Corporate Responsibility Report published in October 2005 (which can be obtained by post or on the Internet: www.linde.com).

Thank you to our employees

The Executive Board would like to thank all Linde employees for their commitment and hard work. They have contributed significantly to the successful implementation of the various programs designed to achieve sustainable increases in the profitability and competitiveness of our company in fiscal 2005.

Risk report

As a global company, the Linde Group is exposed in the course of its business operations to various risks which are inextricably linked to entrepreneurial activity. We counter these risks by applying a comprehensive risk management system, which forms an integral part of our business processes and is a major element in our corporate decision-making. The aim of the system is to identify potential risks arising from our activities at an early stage and to monitor these risks and reduce them by introducing appropriate control measures. At the same time, the management of the Linde Group pursues a strategy of exploiting available opportunities in order to continue to achieve sustainable earnings-based growth. The main components of the risk management system are the planning system, internal reporting procedures and an extensive risk reporting process.

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

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

Due to the different business activities in the Gas and Engineering and Material Handling business segments, the risk profiles developed use various methods for managing risks tailored to the needs of each division.

The decentralized organization of our risk management system takes account of this framework. In each operating unit, there are risk managers who discharge their responsibilities. They are supported in turn by risk officers from the various functional areas within the unit. This system ensures that risk management is fully integrated into all our business processes.

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

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

We have set up, in addition to the established process, a Group-wide ad-hoc reporting system for risks which occur unexpectedly, so that we are able to react quickly to changing situations. The decentralized risk managers are supported by the central Group risk management team, which coordinates functions and processes, as well as determining the standard framework and guidelines for the whole Group.

The central department also establishes the consolidated risk position of the Linde Group, about which it keeps the Executive Board fully informed on a regular basis.

As far as risk management is concerned, risks are only covered on the insurance market if this seems reasonable in terms of economic benefits.

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

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

Market risk

The Linde Group is exposed to market risk in respect of both purchases and sales. As far as purchases are concerned, the potential risks relate to the availability and cost of raw materials, energy, input materials and intermediate products.

We try to reduce these procurement and price risks on the purchasing side by sourcing materials worldwide, entering into long-term supply contracts and constantly optimizing our portfolio of suppliers. We also make use of contracts with price escalation clauses to reduce the negative effects of changes in purchase prices. When selecting suppliers, Linde places particular emphasis on efficiency and quality.

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

On the sales side, the Linde Group is exposed to ever greater competition as a result of increasing globalization and enhanced market transparency, which initially appears as a downward pressure on prices. We are countering the growing competitive pressure in all our divisions, which is having a significant impact on market share and on earnings, not only by introducing product innovations and measures to optimize our services, but also by implementing projects to enhance our business processes and cost structures.

In the Linde Gas division, we launched our GAP (Growth and Performance) program, which aims to make gradual improvements in our structures and processes and to optimize our cost situation. Moreover, in the Material Handling business segment, we set up the GO (Growth and Operational Excellence) program, which has replaced the TRIM.100 program which terminated on schedule in 2005. GO comprises a number of activities, which not only aim to achieve continual improvements in cost structures, but also to open up new areas for growth. These programs enhance our efficiency and competitiveness and create the appropriate conditions for countering competitive risk.

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

Production risk

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

We are countering these risks by taking preventive maintenance measures, stocking major spare parts, implementing fire protection measures, training our employees and expanding our network of external suppliers.

We have insured against any other losses which might occur, to the extent that this is reasonable in terms of economic benefits. To manage the quality risk in the production of goods and provision of services, quality assurance is ranked highly by Linde right at the beginning of the value creation process. From the beginning, Linde delimits the quality-related risks by setting demanding quality standards for development, performing detailed reviews along the entire length of the production process chain and maintaining constant contact with suppliers.

Research and development risk

The results of operations of the Linde Group may be adversely affected by innovations, product developments or technological developments which prove to be uncompetitive or which are not launched onto the market at the right time.

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

Financial risk

The term financial risk encompasses for us, above all, liquidity, market and credit risks. These risks arise from operating activities and lead to appropriate interest-rate and currency hedging transactions, funding decisions and changes in the value of financial items in the balance sheet.

Our mandatory risk policy guideline systematically controls these financial risks. This sets out the type of financial instruments that may be used, the limits for individual transactions and a list of banks with which we have agreements. To manage credit risk, we rely mainly on the credit ratings of the counterparties and we limit the extent and duration of any commercial transactions to be concluded accordingly. Regular reviews are performed by an independent supervisory unit to ensure compliance with all the limits set.

The principle of functional separation between the front, middle and back offices must be observed and monitored throughout the risk

management process. This means that there is a strict personal and organizational separation between the completion of a commercial transaction and its processing and verification. We use a treasury management system to implement, record and measure our transactions. The operations in the Treasury department are subject to regular reviews by our internal and external auditors, generally once a year.

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

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

Business and financing activities which are not in the local currency inevitably lead to foreign currency cash flows. The Group guideline states that the individual business units must monitor the resulting risks themselves and agree appropriate hedging transactions with the Group Treasury, provided that no country-specific restrictions or other reasons not to hedge apply. Specific risks are aggregated by currency and the resulting net position per currency for the Linde Group is determined in each case. Furthermore, we regularly run value at risk scenarios on the net position. Hedging decisions are made according to the risk strategies of the Treasury committee. Forward exchange deals, currency swaps and simple currency options are all used here. The main currencies are USD, GBP, CHF and some Eastern European currencies (PLN, HUF, CZK). Translation risks have not been hedged in 2005.

In the Gas and Engineering business segment, we also use financial instruments to hedge against exposure to changes in the price of electricity.

In our project business in the Linde Engineering division, foreign currency risks are reduced as much as possible by natural hedges, for example by purchasing supplies and services in the currency of the contract. Any foreign currency amounts exceeding these figures are immediately hedged fully when they arise.

Interest rate risks arising from the different maturities of borrowings on the capital market are centrally managed by Linde. Here, we use simple interest rate derivatives, such as interest rate and cross-currency swaps, as well as interest rate options. At December 31, 2005, around 25 percent of the Group's exposure was financed at variable rates.

Project risk

The Linde Engineering division is subject to special risks as a result of its project activities, which involve the design and construction of turnkey plants. The main potential areas of risk lie in the costing and economic handling of these highly complex major projects which generally run for a period of several years. Specific risks include unexpected technical problems, unforeseeable developments at the project locations, problems with our partners or subcontractors and logistical difficulties. The handling of the project may also be affected by disruption to our own production of individual central components of major plants. Each of these individual components can lead to significant additional costs or contract penalties. We counter these risks with strict project and risk management systems. We are constantly developing the internal tools we have at our disposal, adapting them to meet ever-increasing requirements.

Personnel risk

Our future economic success depends considerably on the dedication, motivation and abilities of our employees. We therefore set great store by winning the long-term commitment of our qualified employees and senior managers and by attracting and integrating new employees into our company. We offer our employees a wide range of qualifications and opportunities for professional development, performance-related pay and attractive social benefits. We encourage promotion from the ranks of our own junior managers to more senior management positions, and therefore conduct detailed analyses of our personnel requirements and focus on our succession planning.

IT risk

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

We employ various technical and organizational measures to counter the risks arising from unauthorized data retrieval and data misuse or data loss. Our technical preventive measures include for example the use of virus scanners, firewall systems and access and data retrieval controls.

Legal risk

In the course of our business activities, we are exposed to liability risks. The risks may arise from potential claims for damages relating to product liability (where the Healthcare segment in particular with its pharmaceutical products has an increased level of risk), or from the infringement of legal conditions. In addition to applying high quality and safety standards to avoid claims, we take out insurance to limit the potential consequences if a loss occurs.

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

External risk

Linde may be exposed to external risks arising from constant changes in its political, legal and social environment. As we engage in economic activity in countries where there are some political and legal uncertainties, we are exposed to the corresponding risks, which might manifest themselves in the form of potential state control, restrictions on capital transfers or even expropriation. Potential natural disasters and terrorist attacks also pose a theoretical, if not very probable, risk to the net assets, financial position and results of operations of the Linde Group.

Overall risk

There were no significant risks for Linde AG and the Linde Group in the 2005 fiscal year. Seen from today's position, no risks have been identified which could endanger the continued existence of the company as a going concern in the future or which could have a significant adverse effect on the net assets, financial position and results of operations of the company.

Events after the balance sheet date

Sale of Ladenbau GmbH & Co. KG

In December 2005, Linde AG sold its subsidiary Linde Ladenbau GmbH & Co. KG to Dolma Holding AG, an association of three shop-fitting firms with its registered office in Schlosstrud in the Swiss canton of Aargau. The legal transfer of Linde Ladenbau GmbH & Co. KG took place on January 27, 2006.

Linde makes a friendly bid for BOC

In January 2006, Linde AG submitted an informal friendly bid for the British gases company BOC Group plc. As this report went to press, it was uncertain whether this preliminary approach would lead to a formal takeover bid and whether the deal would take place.

Outlook

Macroeconomic trends: Slight cooling of the economy expected

The financial policies of many industrialized countries will be quite restrictive in the coming year, as a result of the increased debt burden. Japan in particular will continue to consolidate its finances due to its high budget deficit. In the United States, the costs of repairing the damage caused in 2005 by hurricanes off the coast of Florida will not be felt until the current year and might adversely affect America's consolidation policy scheduled for the years 2006 and 2007. We expect the financial costs of clearing the flood damage to continue until 2007. Moreover, in the past year, the US Federal Reserve Bank increased its base rate to a level which is virtually neutral in terms of the effect on the economic trend, so we assume that with further increases in interest rates there is no chance of a boost to the economy from this side. Overall, there will be a slight cooling in macroeconomic demand in the United States.

In the eurozone, we anticipate that the coming year will see a fairly neutral course in terms of financial policy. Some EU Member States, including Germany and Italy, will again exceed the 3 percent cap for their budget deficit set out in the Maastricht Treaty. In most European countries, the interest burden will not initially be reduced. Therefore, the pressure will increase to consolidate the budgets.

Given this general situation, growth in the global economy will probably slow down slightly overall in 2006.

Germany: Recovery in the domestic economy

In the coming year, the economic upturn in Germany will accelerate slightly thanks to positive signals from abroad. We are, however, not yet expecting a high level of dynamism. One of the reasons for the anticipated positive business trends is Germany's standing as a strong export nation. Nevertheless, it is likely that the rise in exports will slow down a little overall, due to the deceleration in the growth of the world economy. Leading economic research institutes are forecasting an increase in economic output for the current year of 1.4 to 1.5 percent, after 0.9 percent in the past year. While wages are only set to rise at a moderate rate, increases in the price of fuel, particularly crude oil, will result in private households having less purchasing power. In the course of the current year, this dampening effect should weaken and the German domestic market should recover slightly. To summarize, a stronger domestic economy should more than compensate for a slight weakening of exports compared to the previous year and lead to faster growth in the German economy. We do not, however, anticipate a fundamental turnaround in the job market, despite these positive signs.

Given these macroeconomic trends, we assume that sales and earnings of Linde AG in the current year will be higher than in 2005.

In the Linde Gas division, we anticipate a further increase in sales in 2006, thanks to continuing high levels of growth, especially in the Healthcare segment, and our strong market position in Germany. Earnings will be at a similar level to those in 2005.

Plant construction will continue to expand in most parts of the world in the current fiscal year. The Linde Engineering division will once again be a player here, due to a broad range of products and many years of experience in handling major projects. As a result of this good starting position, and the fact that the final account is due to be issued on some major projects in fiscal 2006, earnings will be slightly higher than in 2005.

The year 2005 was a record year in the entire industrial truck industry, so it is anticipated that fiscal 2006 will see a moderate slowdown in the markets. Nevertheless, we are expecting a slight increase in sales in 2006 in Linde Material Handling, while earnings remain at the same level as in 2005.

Dividends

We pursue an earnings-oriented dividend policy and align dividends with future earnings trends.

Financial Statements

Balance sheet of Linde AG

in € million	Note	Dec. 31, 2005	Dec. 31, 2004
Assets			
Intangible fixed assets		83	70
Tangible fixed assets		360	338
Long-term financial assets		6,916	6,264
Fixed assets	[1]	7,359	6,672
Inventories	[2]	1,468	1,648
Less payments on account received from customers		- 1,468	- 1,648
		-	-
Receivables and other assets	[3]	441	552
Securities	[4]	56	17
Cash and cash equivalents	[5]	341	157
Current assets		838	726
Prepaid expenses	[6]	50	62
Total assets		8,247	7,460
Equity and liabilities			
Capital subscribed		307	305
Conditionally authorized capital €114 million (2004: €65 million)			
Capital reserve		2,682	2,664
Revenue reserves		628	510
Net retained profit		168	149
Equity	[7]	3,785	3,628
Special tax-allowable reserves	[8]	14	12
Provisions for pensions and similar obligations	[9]	864	571
Other provisions	[10]	558	484
Provisions		1,422	1,055
Liabilities	[11]	3,026	2,765
Total equity and liabilities		8,247	7,460

Income statement of Linde AG

in € million	Note	2005	2004
Sales	[12]	3,089	2,295
Cost of sales		2,358	1,767
Gross profit on sales		731	528
Selling expenses		241	219
Research and development costs		81	77
General and administrative expenses		308	274
Other operating income	[13]	131	238
Other operating expenses	[14]	53	136
Investment income	[15]	156	224
Other interest and similar income		36	38
of which €12 million (2004: €12 million) from affiliated companies			
Write-downs on long-term financial assets and securities classified as current assets		13	28
Interest and similar charges			
of which €79 million (2004: €91 million) to affiliated companies		118	142
Profit on ordinary activities		240	152
Special items			
Profit on disposal of investments	[16]	413	-
Remeasurement of pensions	[17]	286	-
Taxes on income		81	3
Net income		286	149
Transfer to revenue reserves		118	-
Net retained profit		168	149

Summary of fixed asset movements in Linde AG

in € million	Acquisition/manufacturing cost				Dec. 31, 2005
	Jan. 1, 2005	Additions	Disposals	Transfers	
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	84	29	10	23	126
Payments on account	23	2	-	- 23	2
Intangible fixed assets	107	31	10	-	128
Land, land rights and buildings, including buildings on third-party land	504	8	3	3	512
Technical equipment and machinery	696	17	8	9	714
Other equipment, operating and office equipment	382	45	20	4	411
Payments on account and assets under construction	20	37	-	- 16	41
Tangible fixed assets	1,602	107	31	-	1,678
Shares in affiliated companies	6,177	1,045	414	-	6,808
Shares in related companies	108	-	3	-	105
Securities held as fixed assets	226	7	-	-	233
Other loans	1	-	-	-	1
Long-term financial assets	6,512	1,052	417	-	7,147
Fixed assets	8,221	1,190	458	-	8,953

Summary of fixed asset movements in Linde AG

in € million	Amortization and depreciation				Net book value		
	Accumulated amortization/ depreciation at Jan. 1, 2005	Amortization/ depreciation for the year	Disposals	Write-ups	Accumulated amortization/ depreciation at Dec. 31, 2005	Dec. 31, 2005	Dec. 31, 2004
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	37	18	10	-	45	81	47
Payments on account	-	-	-	-	-	2	23
Intangible fixed assets	37	18	10	-	45	83	70
Land, land rights and buildings, including buildings on third-party land	373	13	1	-	385	127	131
Technical equipment and machinery	579	30	6	-	603	111	117
Other equipment, operating and office equipment	312	38	20	-	330	81	70
Payments on account and assets under construction	-	-	-	-	-	41	20
Tangible fixed assets	1,264	81	27	-	1,318	360	338
Shares in affiliated companies	240	12	25	-	227	6,581	5,937
Shares in related companies	-	1	-	-	1	104	108
Securities held as fixed assets	8	-	-	5	3	230	218
Other loans	-	-	-	-	-	1	1
Long-term financial assets	248	13	25	5	231	6,916	6,264
Fixed assets	1,549	112	62	5	1,594	7,359	6,672

Notes to the financial statements of Linde AG

General information

The financial statements of Linde AG have been drawn up in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

Where items in the balance sheet and income statement have been combined under one heading to improve the clarity of presentation, they have been disclosed individually in the Notes to the financial statements. The income statement has been prepared using the cost of sales method, so that it is easy to make international comparisons with other income statements.

The complete list of shareholdings is filed in the Commercial Register of the Wiesbaden Local Court.

Accounting policies

Intangible fixed assets acquired for a consideration are stated at acquisition cost less accumulated amortization charged on a straight-line basis.

Tangible fixed assets are reported at acquisition or manufacturing cost less accumulated depreciation based on the estimated useful life of the asset. Estimated useful lives are as follows: buildings 25 to 50 years, technical equipment and machinery 6 to 15 years and other equipment, operating and office equipment 4 to 10 years.

The declining balance method is still the main method used, although the straight-line method is adopted if this leads to higher levels of depreciation. Low-value assets are written down in full in the year of acquisition. If fiscal regulations allow additional depreciation, this is applied.

Shares in affiliated companies and related companies are stated at the lower of cost and fair value.

Non-interest-bearing or low-interest loans are stated at the lower of present value or the value permitted for tax purposes.

Inventories are stated at the lower of average acquisition or manufacturing cost and market value. Manufacturing cost includes both direct costs and indirect material and production costs.

Appropriate allowances are made for inventory risks arising from the storage period, reduction in usability etc. When measuring receivables and other assets, allowances are made for identifiable risks.

Receivables in foreign currency are stated, if necessary, at the spot rate on the balance sheet date, where this is lower. Receivables which are matched by a currency hedge are reported at the relevant forward exchange rate.

Liabilities in foreign currency are stated at the higher of the buying rate on the date the transaction was recorded and the spot rate on the balance sheet date.

Until now, the provisions set up for direct pension obligations have been measured based on actuarial principles, in accordance with § 6a of the German Income Tax Law (EStG), using a discount rate of 6 percent and the 1998 mortality tables of Dr. Klaus Heubeck. In fiscal 2005, Linde AG amended its method of measuring pension provisions so as to conform with international accounting policies. In contrast with the methods used to date, the measurement of the provision was based on an interest rate in line with the market of 4.25 percent, a trend in salaries of 2.5 percent and a trend in pensions of 1.5 percent.

Other provisions are measured so as to take account of identifiable risks and uncertain obligations. Liabilities are stated at their repayment amount.

To hedge against exposure to interest rate and currency risks, derivative financial instruments are also used in the form of forward exchange transactions, options and swaps. All derivative instruments are concluded within fixed limits on the basis of detailed guidelines and are used not only for hedging purposes but also to optimize financing. Cash-generating units are created if possible. For other derivative financial instruments, provisions are set up in the case of negative fair values.

Notes to the balance sheet

[1] Fixed assets

Movements in fixed assets are shown on the preceding pages.

Long-term securities classified as fixed assets comprise long-term investment securities, which have been earmarked under the fiduciary transfer to Linde Pensionsfonds e. V.

[2] Inventories

in € million	2005	2004
Raw materials and supplies	72	68
Work in progress, goods and services	1,253	1,400
Finished goods and merchandize	56	61
Payments on account	87	119
	1,468	1,648

[3] Receivables and other assets

in € million	2005	2004
Trade receivables	152	143
(of which due in more than 1 year)	(6)	(10)
Receivables from affiliated companies	221	238
Receivables from related companies	16	18
(of which due in more than 1 year)	(0)	(0)
Other assets	52	153
(of which due in more than 1 year)	(1)	(1)
	441	552

[4] Securities

These comprise commercial papers, as in the previous year.

[5] Cash and cash equivalents

Cash and cash equivalents comprise checks in hand, cash in hand and cash at banks.

[6] Prepaid expenses

Prepaid expenses comprise mainly the discount on the convertible bond.

[7] Equity

Capital subscribed

The company's subscribed capital at the balance sheet date amounts to €306,851,957.76 and is fully paid up. It is divided into 119,864,046 shares at a par value of €2.56 per share. The shares are bearer shares.

In fiscal 2005, the share capital was increased by €1,373,880.32 as a result of the issue of 536,672 new shares out of conditionally authorized capital 2002 for the purposes of the current share option scheme for management (Linde Management Incentive Programme 2002).

Authorized capital, comprising Authorized Capital I and II, was €120,000,000 at the balance sheet date. These authorizations expire on June 7, 2010. In both cases, the shareholders have subscription rights.

Under Authorized Capital I, the Executive Board is entitled to increase subscribed capital by up to €80,000,000 in the period to June 7, 2010 against cash contributions, subject to approval by the Supervisory Board. The Executive Board is entitled, subject to approval by the Supervisory Board, to exclude the subscription rights of shareholders for the residual amounts, and to exclude subscription rights to the extent that holders of convertible bonds or warrant-linked bonds may be granted the subscription rights to which they are entitled when they exercise their rights of conversion or option rights or settle the conversion obligation. The Executive Board can also, subject to approval by the Supervisory Board, exclude subscription rights for an amount of €3,500,000 to the extent necessary to issue employee shares. In addition, the Executive Board can, subject to approval by the Supervisory Board, exclude the subscription rights of shareholders for an amount of up to 10 percent of the capital subscribed available at the time of the resolution concerning the use of Authorized Capital I, provided the issue price of the new shares is not significantly lower than the price of the shares traded on the stock exchange.

Under Authorized Capital II, the Executive Board is entitled to increase subscribed capital by up to €40,000,000 in the period to June 7, 2010 against cash or non-cash contributions, subject to approval by the Supervisory Board. If the capital increase is by way of cash contributions, the Executive Board is entitled, subject to approval by the Supervisory Board, to exclude the subscription rights of shareholders for the residual amounts, and to exclude subscription rights to the extent that holders of convertible bonds or warrant-linked bonds may be granted the subscription rights to which they are entitled when they exercise their rights of conversion or option rights, or settle the conversion obligation. The Executive Board can also, subject to approval by the Supervisory Board, exclude subscription rights if the capital increase is by way of non-cash contributions for the purpose of acquiring subsidiaries or investments in companies, or of forming business combinations.

The conditionally authorized capital, comprising 2002 conditionally authorized capital, 2005 conditionally authorized capital and a further conditionally authorized capital, was €113,986,119.68 at the balance sheet date.

At the Shareholders' Meeting on June 8, 2005, the Executive Board was authorized, subject to the approval of the Supervisory Board, to issue convertible bonds and/or warrant-linked bonds in the period to June 7, 2010, to a total nominal amount of up to €1,000,000,000 with a term not exceeding 10 years and with the rights of conversion or option rights in respect of up to 19,531,250 new shares in the company with a proportionate share of the capital subscribed of up to €50,000,000. To service the conversion and option rights arising from this authorization, it was resolved at the Shareholders' Meeting to create conditionally authorized capital of up to €50,000,000 (2005 conditionally authorized capital). The issued share capital will only be increased if the holders of convertible bonds or warrant-linked bonds issued during the period from June 8, 2005 and June 7, 2010 as a result of the authorization given at the Shareholders' Meeting use their rights of conversion or option rights, or if the holders of such convertible bonds settle the conversion obligation.

At the Shareholders' Meeting on May 17, 2000, conditionally authorized capital of up to €50,000,000 was approved, which will only be issued if the holders of convertible bonds or warrant-linked bonds issued by May 16, 2005 use their rights of conversion or option rights or if the holders of such convertible bonds settle the conversion obligation.

In May 2004, convertible bonds were issued through the fully-owned subsidiary Linde Finance B.V. with a total nominal amount of €550,000,000 while excluding shareholders' subscription rights. The convertible bonds grant, subject to adjustments to the conversion rate, conversion rights to a proportion of the shares in the subscribed capital of up to around €24.93 million through the issue of up to 9,737,615 shares.

At the Shareholders' Meeting on May 14, 2002, the Executive Board was authorized, with the approval of the Supervisory Board, to issue by May 14, 2007 up to 6,000,000 subscription rights to shares to members of the Executive Board of the Company, members of management boards of affiliated companies as defined by §§ 15 ff. of the German Stock Corporation Law (AktG) and to selected executives, each with a term of 7 years (Management Incentive Programme). To service these subscription rights, it was resolved at the Shareholders' Meeting on May 14, 2002 to create conditionally authorized capital of €15,360,000, divided into 6,000,000 new shares (2002 conditionally authorized capital). The issued share capital will only be increased if the holders of option rights issued by the company following the authorization given on May 14, 2002 use their option rights and the company does not fulfill the option rights by transferring own shares or by making a payment in cash.

In 2005, options under the Management Incentive Programme were exercised for the first time. To service the option rights, a total of 536,672 new shares were made available by the balance sheet date out of the 2002 conditionally authorized capital. As a result of the issue of these new shares, the capital subscribed was increased to €306,851,957.76, divided into 119,864,046 shares. The 2002 conditionally authorized capital was correspondingly reduced to €13,986,119.68, divided into 5,463,328 shares.

The Company is also authorized by a resolution passed at the Shareholders' Meeting on June 8, 2005 to acquire up to 10 percent of capital subscribed through the purchase of own shares, expiring on November 30, 2006. At this meeting, the previous authorization which was due to expire on October 31, 2005 was revoked.

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

Commerzbank AG, Frankfurt am Main, informed us in writing on October 21, 2005 in accordance with § 24 WpHG that, as the parent company of Atlas-Vermögensverwaltungs-GmbH, 61348 Bad Homburg v. d. H., as a result of an intra-Group share transfer from Commerzbank AG, Kaiserstrasse 16, 60311 Frankfurt am Main, to Atlas-Vermögensverwaltungs-GmbH on October 14, 2005, the share of voting rights in Linde AG in accordance with § 21(1) WpHG held by the latter had exceeded the 5 percent and 10 percent thresholds and now stood at 10.04 percent. It also notified us that Commerzbank AG continues to hold 10.04 percent of the voting rights in Linde AG. These voting rights are attributable to Commerzbank AG in accordance with § 22(1), sentence 1, No. 1 WpHG.

Commerzbank AG, Frankfurt am Main, informed us in writing on February 7, 2006 that it was correcting its notification dated October 21, 2005. On October 21, 2005, it informed us that, as the parent company of Atlas-Vermögensverwaltungs-GmbH, Louisenstrasse 63, 61348 Bad Homburg v. d. H., as a result of an intra-Group share transfer from Commerzbank AG, Kaiserstrasse 16, 60311 Frankfurt am Main, to Atlas-Vermögensverwaltungs-GmbH on October 14, 2005, the latter had exceeded the 5 percent and 10 percent thresholds and that its share of the voting rights in Linde AG amounted to 10.04 percent.

According to the information now available to Commerzbank AG, options under share option schemes were exercised in Linde AG, which resulted in an increase in shares outstanding. Therefore, Atlas-Vermögensverwaltungs-GmbH only exceeded the 5 percent threshold on October 14, 2005, as its share of the voting rights at that date was 9.9958 percent. The number of shares transferred to Atlas-Vermögensverwaltungs-GmbH remained the same at 11,978,440.

These voting rights are attributable to Commerzbank AG in accordance with § 22(1), sentence 1, No. 1 WpHG. With the 0.0810 percent held by Commerzbank AG in accordance with § 21(1) WpHG, the total voting rights of Commerzbank AG in Linde AG at October 14, 2005 amounted to 10.08 percent.

Allianz AG, Munich, notified us in writing on September 15, 2005 in accordance with § 21(1) and § 24 WpHG that, as a result of an intra-Group share transfer, the share of voting rights held by AZ-LIN 2 Vermögensverwaltungsgesellschaft mbH, Königinstrasse 28, 80802 Munich, in Linde AG on September 14, 2005 had exceeded the 5 percent and 10 percent thresholds and now stood at 11.01 percent. It also notified us that the share of voting rights in Linde AG held by Allianz AG, Königinstrasse 28, 80802 Munich, had not changed sufficiently to require notification.

In addition, Allianz AG, Munich, informed us in writing on November 22, 2005 in accordance with § 21(1) WpHG and § 24 WpHG that the share of voting rights in Linde AG held by AZ-Argos 19 AG, trading in future under the name Allianz Deutschland AG, Königinstrasse 28, 80802 Munich, had, as a result of the restructuring of the group, exceeded the 5 percent and 10 percent thresholds on November 17, 2005 and now amounted to 11.34 percent. These voting rights are attributable to AZ-Argos 19 AG in accordance with § 22 (1), sentence 1, No. 1 WpHG. Allianz AG also notified us that the share of voting rights in Linde AG held by Allianz AG, Königinstrasse 28, 80802 Munich, had not changed sufficiently to require notification.

Deutsche Bank AG, Frankfurt am Main, informed us in writing on November 3, 2005 in accordance with §§ 21 (1), 22 (2) and 24 WpHG that, with effect from October 27, 2005, its subsidiary DB Value GmbH, Scharnhorststrasse 20, 06686 Sössen/Gostau, no longer holds a 10.001 percent share of the voting rights in Linde AG directly, but only as a result of voting rights attributed to it in accordance with § 22 (1) No. 2 WpHG. At the same time, Deutsche Bank AG notified us in accordance with §§ 21(1), 24 WpHG that DB Equity S.à.r.l. 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, exceeded the 5 percent and 10 percent thresholds of voting rights in Linde AG on October 27, 2005 and now had a 10.001 percent share of the voting rights. Moreover, it informed us that the share of voting rights held by Deutsche Bank AG had not changed sufficiently to require notification.

Deutsche Bank AG, Frankfurt am Main, informed us in writing on February 9, 2006 of the following corrections to its notifications in accordance with §§ 21 ff. WpHG dated November 3, 2005 and February 1, 2006:

Deutsche Bank AG informed us in writing on February 9, 2006 as described above in accordance with § 21(1) WpHG that Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt am Main, fell below the 10 percent threshold of voting rights in Linde AG on June 14, 2005 and that it held a 9.99 percent of voting rights at that date. The voting rights are attributable to Deutsche Bank AG in accordance with § 22 (1), sentence 1, No. 1 WpHG, and its holding remains unchanged at 11,933,405.

At the same time, Deutsche Bank AG notified us in accordance with §§ 21(1), 24 WpHG that its subsidiary DB Value GmbH, Scharnhorststrasse 20, 06686 Sössen/Gostau, fell below the 10 percent threshold of voting rights in Linde AG on June 14, 2005 and that it held a 9.99 percent share of voting rights at that date. The number of voting rights remains unchanged at 11,933,405.

The fact that the 10 percent threshold was not exceeded in the cases above was due to the partial issue of conditionally authorized capital in Linde AG. This was due to share options under the Linde Management Incentive Programme being exercised in 2005.

Deutsche Bank AG also notified us in accordance with §§ 21(1), 22(2), 24 WpHG that, with effect from October 27, 2005, its subsidiary DB Value GmbH, Scharnhorststrasse 20, 06686 Sössen/Gostau, no longer held voting rights in Linde AG directly, but only as a result of voting rights attributed to it in accordance with § 22 (1) No. 1 WpHG, with its share of the voting rights now standing at 9.96 percent. The change in the share of voting rights held is due to the exercise of further options and the associated issue of conditionally authorized capital referred to above.

At the same time, Deutsche Bank AG notified us in accordance with §§ 21(1), 24 WpHG that DB Equity S.à.r.l., 6, avenue Pasteur, L-2310 Luxembourg, exceeded the 5 percent threshold of voting rights in Linde AG on October 27, 2005 and now has a 9.96 percent share of the voting rights.

[8] Special tax-allowable reserves

This relates to special reserves permitted under § 6b of the German Income Tax Law (EStG).

In 2005, the depreciation on fixed assets permitted only under the tax rules amounted to €3.1 million (2004: €1.3 million). The impact of the special tax depreciation for 2005 and prior years on the earnings for the year of Linde AG is immaterial.

[9] Provisions for pensions and similar obligations

In fiscal 2005, in a departure from the provisions of § 6a of the German Income Tax Law (EStG), the measurement of pension provisions was based on an interest rate in line with the market of 4.25 percent, a salary trend of 2.5 percent and a pension trend of 1.5 percent.

[10] Other provisions

in € million	2005	2004
Tax provisions	78	56
Sundry provisions	480	428
	558	484

Other provisions include amounts put aside for

- outstanding invoices and materials invoices which have not yet been received
- personnel expenses
- warranty obligations and risks relating to transactions in course of completion
- other obligations and risks arising from current transactions.

The provisions for obligations in Linde AG relating to pre-retirement part-time work are calculated on the basis of individual contractual agreements.

[11] Liabilities

	Due within 1 year	Due in 1 to 5 years	Due in more than 5 years	Total	Total
in € million	2005	2005	2005	2005	2004
Advance payments received from customers	385	-	-	385	327
Trade payables	135	-	-	135	140
Liabilities to affiliated companies	1,489	550	400	2,439	2,181
Liabilities to related companies	1	-	-	1	4
Other liabilities	64	1	1	66	113
(of which taxes of)	-	-	-	(21)	(76)
(of which social security of)	-	-	-	(14)	(12)
(secured by mortgages)	-	-	-	(35)	(35)
Liabilities	2,074	551	401	3,026	2,765

Liabilities to affiliated companies include the subordinated bond for €400 million issued in 2003 and the convertible bond for €550 million issued in May 2004. Both bonds were issued by the fully-owned subsidiary Linde Finance B.V.

Notes to the income statement

[12] Sales

The tables below show an analysis of sales by division and by geographical region:

Analysis by division

in € million	2005	2004
Linde Gas	847	832
Linde Engineering	1,202	490
Linde Material Handling	1,062	990
Consolidation	- 22	- 17
	3,089	2,295

Analysis by geographical region

in € million	2005	2004
Germany	1,326	1,253
Other Europe	1,185	771
America	127	97
Asia	262	124
Africa	170	39
Australia	19	11
	3,089	2,295

[13] Other operating income

in € million	2005	2004
Profit on disposal of fixed and current assets	16	4
Exchange rate gains	4	16
Income from the release of provisions	18	28
Revenue from commercial business, rentals and leases	12	34
Charges to Group companies	56	24
Recognition and receipt of receivables written off	1	4
Write-ups of long-term securities	4	16
Profit on disposal of Linde Refrigeration	-	90
Financial result from long-term construction contracts ¹	14	13
Sundry income	6	9
	131	238

¹ The financial result from long-term construction contracts is included in Other operating income. Interest which does not relate to long-term construction contracts is disclosed in the Financial result.

[14] Other operating expenses

in € million	2005	2004
Exchange rate losses	9	19
Charges by Group companies	42	37
Transfer to special tax-allowable reserves	2	2
Loss on sale of Linde Refrigeration	-	67
Sundry expenses	-	11
	53	136

[15] Investment income

in € million	2005	2004
Income from profit-sharing agreements	16	16
Income from long-term equity investments	180	253
(of which from affiliated companies)	(177)	(249)
Expenses from loss-sharing agreements	40	45
(of which from affiliated companies)	(35)	(44)
	156	224

[16] Profit on disposal of investments

This special item comprises the profit on disposal of three companies in the Linde Gas division of €413 million. PanGas, Switzerland, and Linde Technoplyn, Czech Republic, were brought into the newly-formed Group company Linde Beteiligungs- und Verwaltungsgesellschaft mbH and Linde Gas Italia into OM Carrelli Elevatori S.p.A., both fully-owned subsidiaries of Linde AG.

[17] Remeasurement of pensions

The expense arising from the remeasurement relates to the adjustment, outside ordinary business activities, as a result of applying international principles to the carrying amounts of pension obligations and obligations for pre-retirement part-time work.

Supplementary information on the Notes

[18] Contingent liabilities and Other financial commitments

Contingent liabilities

in € million	2005	2004
Bills endorsed and discounted	18	17
Guarantees	92	127
Warranties	2,600	2,502

Included in the liabilities in respect of warranties are amounts issued by Linde Finance B.V. under the Debt Issuance Program (total volume €5 billion).

Other financial commitments

The total amount of other financial commitments at December 31, 2005 in Linde AG was €100 million (2004: €61 million). These relate to commitments arising from rental and lease agreements, orders for capital expenditure, call-in obligations, etc.

In its capacity as the holding company of the Linde Group, Linde AG assumes warranty obligations on behalf of its subsidiaries. On the one hand, these relate to performance warranties, especially in the Linde Engineering division. On the other hand, they include guarantees issued on behalf of individual affiliated companies outside Germany that those companies will continue as going concerns.

[19] Auditors' fees and services

in € million	2005	2004
Audit	1	1
Other reports	-	-
Tax consultancy	-	1
Other services	1	1
	2	3

[20] Cost of materials

in € million	2005	2004
Cost of raw materials and supplies and merchandize	1,515	1,505
Cost of services purchased	164	226
	1,679	1,731

[21] Personnel expenses

in € million	2005	2004
Wages and salaries ¹	537	518
Social security contributions	92	91
Pension costs and personnel welfare costs	47	59
Remeasurement of pensions	284	-
	960	668

¹ In 2005, this includes a €2 million adjustment for obligations relating to pre-retirement part-time work

[22] Employees

The average number of employees (part-time employees pro-rata) can be allocated to the different functions of the company as follows:

	2005	2004
Production	5,802	5,701
Sales	907	831
Research and development	618	630
Administration	1,255	1,292
	8,582	8,454
Trainees	426	413
	9,008	8,867

[23] Share option scheme

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

The aim of this share option scheme is to allow around 360 members of the worldwide management team to participate in price rises in Linde shares and thereby in the increase in the value of the company. Participants may be granted options within the next year to subscribe to Linde shares in annual tranches, each with a term of seven years. The intention is to launch the scheme on a revolving basis each year, with Linde reserving the right to redefine the participants for each tranche of the scheme. The Supervisory Board determines the allocation of subscription rights to members of the Executive Board of Linde AG. Otherwise, the Executive Board, with the approval of the Supervisory Board, determines the number of options to be issued.

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

The option conditions provide for a qualifying period for the share options of two years from their date of issue. At the end of this period, the options can be exercised during the entire option term, i.e. during the five years from the end of the qualifying period, excluding any blocked periods. These are the periods from three weeks before to two days after the public reporting dates of the company, and the last two weeks before the end of the fiscal year until two days after the announcement of the annual results, and 14 weeks before until the third banking day after the annual general meeting of the shareholders. In order to meet the option entitlements of the option holders, Linde AG may elect to provide own shares which it has repurchased in the market, or to issue new shares out of the share capital conditionally authorized for this purpose or, instead of providing new shares, to make a payment in cash per option which represents the difference between the exercise price and the XETRA closing price of Linde shares on the exercise date. These arrangements allow for flexibility in the exercise of the subscription rights. It may make economic sense to use own shares where these are available, rather than increasing share capital or making a payment in cash. Moreover, if Linde uses own shares, it can avoid diluting the equity of the company. The decisions as to how the option entitlements will be met will be made in each case by the appropriate executive bodies of the company, which will be directed solely by the interests of the shareholders and of the company. For share options issued to members of the Executive Board, it is envisaged that, with effect from the 2004 tranche, the Supervisory Board will be able to decide to restrict the exercise of options, if there are exceptional unforeseen movements in the price of Linde shares. This was not the case in fiscal years 2004 and 2005.

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

Movements in the options issued under the Linde Management Incentive Programme were as follows:

Option values

	Options originally issued		Total	Dec. 31, 2004	Exercised in 2005	Expired in 2005	Dec. 31, 2005
	Executive Board	Other management					
1st tranche (2002)	240,000	760,000	1,000,000	965,300	3,100	7,600	954,600
2nd tranche (2003)	240,000	777,600	1,017,600	995,700	533,572	-	462,128
3rd tranche (2004)	240,000	764,500	1,004,500	1,001,500	-	9,800	991,700
4th tranche (2005)	230,000	875,700	1,105,700	1,105,700	-	-	1,105,700
Total	950,000	3,177,800	4,127,800	4,068,200	536,672	17,400	3,514,128

As a result of the exercise of 536,672 options, capital subscribed increased in fiscal 2005 by €2 million and the capital reserve rose by €17 million.

[24] Derivative financial instruments

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

The main derivatives used in Linde AG are interest rate swaps, combined interest rate/currency swaps and forward exchange transactions. Occasionally, options are also used.

Derivative financial instruments in Linde AG are generally recorded on the trading day in accordance with the provisions of the German Commercial Code (HGB). Negative fair values are recognized in provisions according to the principle of the lower of cost or market, while positive fair values are not recognized until they are realized.

If an asset or liability is hedged, the derivative and underlying transaction are valued together.

Provisions amounted to €3.2 million (2004: 6.1 million). Of this amount, €3.1 million (2004: €2.9 million) related to forward exchange transactions and €0.1 million (2004: €3.2 million) to swap transactions.

Premiums for derivative financial instruments of €0.1 million (2004: €0.9 million) are recognized as assets under Other assets, and written off over the life of the instrument.

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

Currency risks

Linde AG generally enters into forward exchange contracts to hedge the exposure to risks arising from fluctuations in receivables, payables and liabilities denominated in foreign currencies, as well as from outstanding contracts and anticipated transactions.

Linde AG sometimes adopts a portfolio approach for foreign currency risks arising from the project business in the Linde Engineering division. Under this approach, the individual risks are matched centrally and the net position is hedged using forward exchange transactions or FX options.

Forward exchange transactions are also used to hedge the exposure to foreign currency risks arising from internal financing. Linde AG accounts for embedded derivatives according to the rules set out in the German Commercial Code (HGB). These only occur in Linde AG when existing purchase/sale contracts are concluded in a currency which is not the functional currency of one of the contracting parties.

Interest rate risks

Linde AG is refinanced mainly through the issue of bonds and medium-term notes in various currencies by Linde Finance B.V. Linde hedges the exposure to the resulting future interest rate and currency risks by entering into appropriate interest rate and combined interest rate/currency swaps.

In addition to the hedging of capital market liabilities at the individual company level, interest rate risks are carefully managed at the level of Linde AG. Interest rate swaps and interest rate options are used for this, which have the effect of transforming liabilities at variable interest rates into fixed-interest liabilities.

Measurement information for financial instruments

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

Interest curves

	EUR	USD	GBP	JPY	PLN	CZK	SKK
Interest for 6 months	2.61 %	4.66 %	4.54 %	0.06 %	4.51 %	2.30 %	3.05 %
Interest for 1 year	2.83 %	4.80 %	4.53 %	0.14 %	4.51 %	2.52 %	3.20 %
Interest for 5 years	3.16 %	4.83 %	4.53 %	1.00 %	4.94 %	3.20 %	3.50 %
Interest for 10 years	3.39 %	4.90 %	4.46 %	1.62 %	4.97 %	3.46 %	3.65 %

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

Fair value of derivative financial instruments – Assets

in € million	Non-current				Current		Total	
	Due to in 1 to 5 years		Due in more than 5 years		Due within 1 year		2005	2004
	2005	2004	2005	2004	2005	2004		
Forward exchange transactions	-	4	-	-	4	32	4	36
Foreign currency options	-	-	-	-	-	1	-	1
Swap transactions	5	7	1	1	-	-	6	8
Interest rate options	1	2	-	-	-	-	1	2
	6	13	1	1	4	33	11	47

Fair value of derivative financial instruments – Liabilities

in € million	Non-current				Current		Total	
	Due to in 1 to 5 years		Due in more than 5 years		Due within 1 year		2005	2004
	2005	2004	2005	2004	2005	2004		
Forward exchange transactions	11	-	-	-	22	8	33	8
Foreign currency options	-	-	-	-	-	-	-	-
Swap transactions	8	13	2	4	-	-	10	17
Interest rate options	1	2	-	-	-	-	1	2
	20	15	2	4	22	8	44	27

Nominal amounts – Assets

in € million	Non-current				Current		Total	
	Due to in 1 to 5 years		Due in more than 5 years		Due within 1 year		2005	2004
	2005	2004	2005	2004	2005	2004		
Forward exchange transactions	1	54	-	-	245	455	246	509
Foreign currency options	-	-	-	-	-	10	-	10
Swap transactions	168	196	120	125	25	-	313	321
Interest rate options	25	175	-	-	-	25	25	200
	194	425	120	125	270	490	584	1,040

Nominal amounts – Liabilities

in € million	Non-current				Current		Total	
	Due to in 1 to 5 years		Due in more than 5 years		Due within 1 year		2005	2004
	2005	2004	2005	2004	2005	2004		
Forward exchange transactions	329	11	-	-	593	212	922	223
Foreign currency options	-	-	-	-	-	10	-	10
Swap transactions	314	425	95	95	125	105	534	625
Interest rate options	25	75	-	-	-	-	25	75
	668	511	95	95	718	327	1,481	933

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

Supervisory Board

In fiscal 2005, the total emoluments of the Supervisory Board for discharging their duties in the parent company and in the subsidiaries, including VAT, was €2,124,192 (2004: €1,739,489). Of this amount, €892,504 (2004: €126,467) related to fixed emoluments and €1,200,600 (2004: €1,592,490) to variable emoluments.

In the past two fiscal years, there have been no advances or loans to members of the Supervisory Board. Moreover, the members of the Supervisory Board received no emoluments or benefits for any personal services they have provided, such as consultancy or mediation services.

Executive Board

Emoluments of the Executive Board

in €	2005	2004
Fixed emoluments	2,655,627	2,690,738
Variable emoluments	7,030,000	5,744,627
Total cash emoluments	9,685,627	8,435,365

In fiscal 2005, under the share option scheme (Linde Management Incentive Programme), 230,000 subscription rights (2004: 240,000) were granted to members of the Executive Board as part of their total emoluments. These had a fair value at the issue date of €6.92 (2004: €7.92) per subscription right, which gives a total of €1,591,600 (2004: €1,900,800).

In the fiscal year, there were no advances or loans to members of the Executive Board.

Total remuneration paid to former members of the Executive Board and their dependants amounted to €2,385,616 (2004: €2,713,060).

A provision of €34,504,903 (2004: €25,401,353 in accordance with § 6a of the German Income Tax Law [EStG]) has been made in the financial statements for current pensions and future pension benefits in respect of former members of the Executive Board and their dependants.

The remuneration report presents the basic features and the structure of the remuneration of the Executive Board and the Supervisory Board. It has been included as part of the management report of Linde AG.

[26] Declaration of compliance with the Corporate Governance Code

On March 14, 2005, the Executive Board and the Supervisory Board of Linde AG approved the prescribed declaration pursuant to § 161 of the German Stock Corporation Law (AktG) on the recommendations of the German Corporate Governance Code and made it available to shareholders on a permanent basis. The declaration of compliance has been published on the Internet at www.linde.com/InvestorRelations/CorporateGovernance.

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

[27] Proposed appropriation of profits of Linde AG

The Executive Board recommends to the Supervisory Board that, at its meeting to approve the financial statements on March 3, 2006, it proposes a resolution to the Shareholders' Meeting to be held on May 4, 2006 for the following appropriation of profits: payment of a dividend of €1.40 (2004: €1.25) per share entitled to dividend.

The amount to be distributed in respect of 119,864,046 (2004: 119,327,374) shares entitled to dividend was €167,809,664.40. The remaining amount of €248,689.87 will be carried forward.

Wiesbaden, February 22, 2006

Linde Aktiengesellschaft
The Executive Board

Auditors' report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report of Linde Aktiengesellschaft, Wiesbaden, for the year ended December 31, 2005. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report, based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of Linde Aktiengesellschaft in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Düsseldorf, February 22, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Rolf Nonnenmacher
Wirtschaftsprüfer

Michael Gewehr
Wirtschaftsprüfer

Supervisory Board and Executive Board

Members of the Supervisory Board

(At December 31, 2005)

Supervisory Board

Members of the Supervisory Board of Linde AG are members of the following other German supervisory boards and of comparable German and foreign boards:

Dr. Manfred Schneider

Chairman of the Supervisory Board of Linde AG

→ External offices:

Allianz AG
 Bayer AG (Chairman)
 DaimlerChrysler AG
 Metro AG
 RWE AG
 TUI AG

Hans-Dieter Katte

Deputy Chairman of the Supervisory Board of Linde AG,
 Chairman of the Works Council, Linde Engineering division,
 Linde AG, Höllriegelskreuth

Michael Diekmann

Second Deputy Chairman of the Supervisory Board of Linde AG,
 Chairman of the Executive Board of Allianz AG

→ External offices:

BASF AG
 Lufthansa AG

→ Group offices:

Allianz Deutschland AG (Chairman)
 Allianz Lebensversicherungs-AG (Chairman)
 (until December 31, 2005)
 Allianz Versicherungs-AG (Chairman)
 (until December 31, 2005)
 Allianz Global Investors AG (Chairman)
 Dresdner Bank AG (Chairman)

→ Group offices:

Assurances Générales de France
 (Vice-President of the Management Board)
 Riunione Adriatica di Sicurtà S. p. A.
 (Vice-President of the Management Board)

Dr. Josef Ackermann

Chairman of the Management Board and Chairman of the
 Group Executive Committee of Deutsche Bank AG

→ External offices:

Bayer AG
 Lufthansa AG
 Siemens AG

Dr. Karl-Hermann Baumann

Former Chairman of the Supervisory Board of Siemens AG

→ External offices:

E.ON AG
 Schering AG

Dr. Gerhard Beiten

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

Siegfried Friebe

Chairperson of the Works Council, Linde-KCA-Dresden GmbH

→ Membership of other German supervisory boards.

→ Membership of comparable German and foreign boards.

Gerhard Full

Former Chairman of the Executive Board of Linde AG

Gernot Hahl

Chairman of the Works Council,
Linde Gas division, Linde AG, Worms

Joachim Hartig

Chairman of the Works Council,
Linde Material Handling division,
Linde AG, Aschaffenburg

Thilo Kämmerer

Trade Union Secretary on
the Executive Board of IG Metall Frankfurt

Klaus-Peter Müller

Spokesman for the Executive Board of Commerzbank AG

→ External offices:

Steigenberger Hotels AG

→ External offices:

KfW Kreditanstalt für Wiederaufbau
(Member of the Management Board)
Liquiditäts-Konsortialbank GmbH
(Member of the Management Board)
Assicurazioni Generali S. p. A. (Member of the Management Board)
Parker Hannifin Corporation (Member of the Board of Directors)

→ Group offices:

Commerzbank International S. A., Luxembourg
(Chairman of the Management Board)
Commerzbank (Schweiz) AG
(Chairman of the Management Board)

Kay Pietsch

Chairman of the Works Council,
STILL GmbH, Hamburg

Professor Dr. Jürgen Strube

Chairman of the Supervisory Board of BASF Aktiengesellschaft

→ External offices:

Allianz Lebensversicherungs-AG
BASF Aktiengesellschaft (Chairman)
Bayerische Motorenwerke AG
Bertelsmann AG (Deputy Chairman)
Commerzbank AG
Fuchs Petrolub AG (Chairman)
Hapag-Lloyd AG

Wilfried Woller

Member of the Executive Board,
responsible for management sector 5
of IG Bergbau, Chemie, Energie

→ External offices:

Deutsche Steinkohle AG

→ External offices:

Wohnungsbaugesellschaft Glückauf mbH (until December 31, 2005)
RAG Trading GmbH (Advisory Board)

Frank Zukauski

Manager of the Cylinder Center of Competence, STILL GmbH

→ Membership of other German supervisory boards.

→ Membership of comparable German and foreign boards.

Members of the Executive Board

In addition to their individual management functions within the Group and Group companies, members of the Executive Board of Linde AG are members of the following German supervisory boards and comparable German and foreign boards:

Professor Dr. Wolfgang Reitzle

President and Chief Executive Officer

- External offices:
 - Allianz Lebensversicherungs-AG
 - Deutsche Telekom AG
- Group offices:
 - STILL GmbH (Chairman)

Dr. Aldo Belloni

Member of the Executive Board

Dr. Peter Diesch

Member of the Executive Board

Hubertus Krossa

Member of the Executive Board

- External offices:
 - Bauknecht Hausgeräte GmbH
- Group offices:
 - STILL GmbH

→ Membership of other German supervisory boards.

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