Interim Report

January to September 2005

Linde Group

Linde Financial Highlights in € million

The figures in brackets exclude Refrigeration and amortization of goodwill

		January to September 2005	2004	2004 (excl.)	Change	Change (excl.)	Year 2004
Share							
Closing price	€	61.42	46.40		32.4%		46.06
Period high	€	63.48	47.63		33.3%		49.10
Period low	€	47.73	40.50		17.9%		40.50
Market capitalization		7,358	5,534		33.0%		5,496
Per share							
Earnings	€	2.60	1.22		113.1%		2.23
Cash flow from operating activities	€	6.95	6.18		12.5%		10.47
Number of shares	(in 000s)	119,804	119,262		n/a		119,327
Group							
Sales		6,833	6,903	(6,337)	−1.0%	(7.8%)	9,421
Incoming orders		7,903	7,382	(6,663)	7.1%	(18.6%)	9,637
EBITA		590	498	(502)	18.5%	(17.5%)	777
Earnings before taxes on income (EBT)		496	291	(396)	70.4%	(25.3%)	510
Net income		311	146	(254)	113.0%	(22.4%)	266
EBITA margin		8.6%	7.2%	(7.9%)	n/a	n/a	8.2%
Capital expenditure (excluding financial assets)		798	713		11.9%		987
Cash flow from operating activities		833	737		13.0%		1,249
Equity		4,420	4,012		10.2%		4,081
Total assets		12,145	12,045		0.8%		11,591
Number of employees (at the end of the period)		42,440	47,622	(41,380)	−10.9%	(2.6%)	41,383

Linde increases its earning power and refines its forecast

- Sales* up 7.8 percent to €6.833 billion

- Operating profit* up 17.5 percent to €590 million

- Outlook for 2005:
  - increase in sales
  - improvement in earnings of at least 10 percent based on comparable prior year figures

* excluding Refrigeration

General economic environment

The global economy is continuing on a clear growth course, although the rate of expansion slowed somewhat as the year progressed. Despite the rapid increase in oil prices, the world economy is proving to be extremely robust. Meanwhile, the growth differential between America and Asia on the one hand and Europe on the other is not becoming any smaller. The United States and China are still the main driving forces behind the global upturn, while the economy in the eurozone continues to show no real signs of dynamism.

In the next few months, the impetus for the expansion of the global economy will continue to come from the US and China. Meanwhile, the year 2005 will see only moderate growth in the eurozone. Exports will remain the principal pillar of the German economy, although they cannot compensate to any great extent for its sustained weakness.

Group

The business trends described below are based on prior year figures adjusted for the disposal of the Refrigeration business segment and for the amortization of goodwill. The prior year figures for the Group and for the business segments have been restated to take account of revised accounting regulations and the change in the disclosure of the financial result from long-term contracts.

In the first nine months of 2005, the Linde Group achieved sales growth of 7.8 percent to €6.833 billion (2004: €6.337 billion). While sales in Germany rose by 3.9 percent to €1.398 billion (2004: €1.346 billion), sales outside Germany increased by 8.9 percent to €5.435 billion (2004: €4.991 billion). Incoming orders of €7.903 billion (2004: €6.663 billion) increased by 18.6 percent, also significantly exceeding the figure for the same period in 2004.

Operating profit (EBITA) improved by 17.5 percent based on comparable prior year figures to €590 million (2004: €502 million). Earnings before taxes on income increased by 25.3 percent to €496 million (2004: €396 million). Net income rose 22.4 percent to €311 million (2004: €254 million). Therefore, there was a 22.1 percent increase in earnings per share to €2.60 (2004: €2.13).

Outlook

Given these overall positive business trends, Linde has been able to refine its whole-year forecast. Based on comparable prior year figures, i.e. excluding Refrigeration and the release of a provision to income, the company expects that at Group level sales growth will result in an increase in earnings of at least 10 percent.

Effect of Refrigeration and the amortization of goodwill on prior year in € million

January to September 2004	Group income statement	Refrigeration (Loss)	Amortization of goodwill (other business segments)	Group income statement, comparable figures
EBITA	498	4	–	502
Amortization of goodwill	–99	3	96	–
Financial result	–108	2	–	–106
EBT	291	9	96	396
Taxes on income	–145	3	–	–142
Net income	**146**	**12**	**96**	**254**

Group incoming orders and sales in € million

	January to September		
	2005	2004 excluding Refrigeration	Change
Incoming orders	7,903	6,663	18.6%
Germany	1,458	1,414	3.1%
Foreign	6,445	5,249	22.8%
Sales	6,833	6,337	7.8%
Germany	1,398	1,346	3.9%
Rest of Europe	3,555	3,447	3.1%
America	1,199	989	21.2%
Asia	469	366	28.1%
Africa/Pacific	212	189	12.2%
Foreign total	5,435	4,991	8.9%

Gas and Engineering

The Gas and Engineering business segment achieved a 9.4 percent increase in sales in the nine months to September 2005 to €4.240 billion (2004: €3.876 billion). Operating profit (EBITA) rose 12.9 percent to €552 million (2004: €489 million). Incoming orders at €5.130 billion (2004: €4.075 billion) also showed a significant increase of 25.9 percent over the same period in the previous year.

Gas and Engineering in € million

	3rd quarter			January to September		
	2005	2004	Change	2005	2004	Change
Sales	1,477	1,377	7.3%	4,240	3,876	9.4%
EBITA	196	179	9.5%	552	489	12.9%
EBITA margin	13.3%	13.0%	–	13.0%	12.6%	–

Linde Gas

Sales in the Linde Gas division in the first nine months of the year increased by 10.8 percent to €3.278 billion (2004: €2.958 billion). During the same period, operating profit (EBITA) rose by 11.9 percent to €519 million (2004: €464 million). Based on comparable prior year figures, i.e. excluding the effects of exchange rate movements, changes in the price of natural gas and companies included in the consolidation for the first time, sales showed an increase of 6.5 percent.

As anticipated, all the product segments contributed to the growth in sales. While sales in the bulk business rose 8.8 percent to €910 million (2004: €836 million), the cylinder business saw a 4.5 percent increase in sales to €1.231 billion (2004: €1.178 billion). The on-site and Healthcare segments once again achieved double-digit growth rates in sales. The on-site business grew by 21.2 percent to €716 million (2004: €591 million), while sales in the Healthcare segment rose 12.4 percent to €526 million (2004: €468 million).

Sales in Europe increased by 7.3 percent to €2.251 billion (2004: €2.097 billion). All the regions again showed an increase in sales. Linde continued to strengthen its leading market position in Eastern Europe by bringing on stream an air separation plant and a hydrogen plant for the Hungarian chemical group BorsodChem, and a further air separation plant for the Czech steel company Sokolovska. In Western Europe too, a hydrogen plant was brought on stream for the chemical company Cognis in France.

Sales in North America increased by 11.5 percent from €593 million in 2004 to €661 million in 2005. After adjusting for the effects of exchange rate movements, sales rose 14.6 percent. All the product segments saw sales growth, with the on-site business in particular achieving an above-average rate of growth.

Our South American business continued to show positive trends. Sales in the first nine months of the year increased by 18.3 percent to €239 million (2004: €202 million). All the segments achieved double-digit growth, with the greatest increase in sales being seen in the bulk and on-site businesses.

Once again, there was a significant rise in sales in the Asia/Pacific region from €65 million in 2004 to €127 million in 2005. The growth was due in part to our increased presence in Singapore, Malaysia and Thailand.

Against a background of positive business trends in the first nine months of the year and continuing market growth, the Linde Gas division continues to anticipate that sales and operating profit (EBITA) for the year 2005 will be up on the previous year.

Linde Gas in € million

	3rd quarter			January to September		
	2005	2004	Change	2005	2004	Change
Sales	1,127	1,014	11.1%	3,278	2,958	10.8%
EBITA	180	166	8.4%	519	464	11.9%
EBITA margin	16.0%	16.4%	–	15.8%	15.7%	–

Linde Engineering

The positive performance of the Linde Engineering division has continued into the third quarter. Sales in the first nine months of 2005 increased by 9.8 percent to €1.136 billion (2004: €1.035 billion). Incoming orders showed a significant rise of 62.8 percent from €1.230 billion in 2004 to €2.002 billion in 2005. Linde Engineering also achieved a substantial 52.8 percent increase in operating profit (EBITA) to €55 million (2004: €36 million).

With incoming orders of over €1 billion, the third quarter was very successful for Linde Engineering. The order book at the end of September 2005 stood at a record level of around €3 billion.

The main focus of our business activities continued to be the Middle East. In Saudi Arabia, Linde Engineering was awarded contracts for three ethylene plants with a total value of €800 million. Linde has also been awarded the contract for the construction of the biggest ethylene plant in China to date, further evidence of Linde’s leading market position in that country.

The outlook for the Linde Engineering division continues to be positive. Linde expects medium-term growth rates of between 6 and 8 percent per annum for all the product segments. The region with the highest demand for air separation plants and ethylene plants continues to be the Middle East. Whereas the emphasis remains on the United States and Russia for synthesis gas plants, the greatest demand for natural gas plants is in the Middle East and Norway.

Given the positive business trends and the market conditions described above, Linde is increasing its forecast for the Linde Engineering division for the whole year 2005 and anticipates that sales will be above those of the previous year and that there will be a significant improvement in operating profit.

Linde Engineering in € million

	3rd quarter			January to September		
	2005	2004	Change	2005	2004	Change
Sales	411	408	0.7%	1,136	1,035	9.8%
Incoming orders	1,100	343	220.7%	2,002	1,230	62.8%
EBITA	22	18	22.2%	55	36	52.8%
EBITA margin	5.4%	4.4%	–	4.8%	3.5%	–

Material Handling

There have not been any significant changes in market conditions in the Material Handling business segment in the course of the year. Worldwide demand for industrial trucks has risen overall, without achieving the same growth momentum as in the previous year. The greatest impetus continued to come from North America, Asia (especially China) and Eastern Europe. Demand in Western Europe on the other hand remained virtually static.

In this market environment, Linde managed to continue its upward trend and increased sales in the nine months to September 2005 by 5.5 percent to €2.545 billion (2004: €2.413 billion). Incoming orders rose 7.7 percent to €2.724 billion (2004: €2.529 billion). A look at earnings trends shows that the measures taken to achieve sustainable increases in efficiency and profitability are taking effect. Operating profit (EBITA) in the Material Handling business segment showed a 14.7 percent improvement over the previous year to €125 million (2004: €109 million).

While the TRIM optimization program is to be phased out as planned at the end of the year, our new Growth and Operational Excellence (GO) initiative launched this year has started to see its first significant results.

The works agreements concluded in the third quarter for the German sites producing the Linde and STILL brands have created many of the conditions necessary to achieve sustainable increases in flexibility and cost efficiency at those works. The agreements will take effect gradually and will generate total annual cost savings in the high double-digit millions. They will therefore be an important milestone in achieving our target return on capital of 16 percent in the year 2007.

The launch of a second brand in the Chinese growth market has been successful. In the next few months, the company will pursue a rigorous strategy of expanding its distribution and dealer network for this second brand in China, so that it may have an even greater share of the growth momentum in this region.

Sustainable, profitable growth is based on products which are technological leaders in their field. Therefore, the Material Handling business segment continues to set great store by innovation. At CEMAT 2005, the trade fair for intralogistics, all three Group brands presented their new forklift trucks and warehouse equipment, confirming their technological leadership.

In the fourth quarter, Linde does not anticipate any major changes in market conditions. North America and Asia, especially China, will continue to be the engines of growth in the world market. In Europe, the situation is also not expected to change. While there will be only moderate growth in Western European markets, there will be a double-digit rise in demand for industrial trucks in Eastern Europe in the next few months.

With market conditions and its competitive position virtually unchanged, Linde confirms its forecast for the Material Handling business segment and continues to anticipate an increase in sales and a significant improvement in earnings.

Material Handling in € million

	3rd quarter			January to September		
	2005	2004	Change	2005	2004	Change
Sales	877	822	6.7%	2,545	2,413	5.5%
Incoming orders	895	798	12.2%	2,724	2,529	7.7%
EBITA	50	44	13.6%	125	109	14.7%
EBITA margin	5.7%	5.4%	–	4.9%	4.5%	–

Employees

Since December 31, 2004, the number of employees in the Linde Group has risen by 1,057 to 42,440. Of these, 14,839 were employed in Germany and 27,601 outside Germany. The increase in the number of employees was due both to companies which were new to the Group and to the continuing global expansion of sales and service activities in all business segments.

Personnel costs, excluding the prior year costs for Refrigeration, increased by €76 million to €1.608 billion (2004: €1.532 billion).

Number of employees

	Sept. 30, 2005	Dec. 31, 2004	Change
Group	42,440	41,383	1,057
Domestic	14,839	14,667	172
Foreign	27,601	26,716	885
Gas and Engineering	22,280	21,787	493
Material Handling	19,404	18,878	526
Corporate	756	718	38

Finance

Cash flow from operating activities at September 30, 2005 was €833 million, compared with €737 million in the same period in the previous year. This represents an increase of 13 percent. Cash flow from investing activities at September 30, 2005 was €600 million, which was €28 million more than in the corresponding period in the previous year. €39 million was spent on acquisitions and other financial assets, including the purchase of a majority interest in Linde Nippon Sanso GmbH & Co. KG by the Linde Gas division.

The amount invested in tangible fixed assets and intangible assets was €599 million, as against €484 million in the previous year. Proceeds on the disposal of fixed assets amounted to €39 million.

The higher cash flow from operating activities and the small increase in capital expenditure compared with the previous year led to an increase in free cash flow in the reporting period compared with the prior year period of €68 million to €233 million.

Total assets have increased since December 31, 2004 by €554 million. The rise is due mainly to the increase in tangible fixed assets of €323 million and the increase in inventories of €226 million. Together with the rise caused by exchange rate movements and companies included in the consolidation for the first time, the main reasons for the increases are the high delivery rate traditionally experienced in the Material Handling business segment in the fourth quarter and the good project situation in the Linde Engineering division. In that division, payments on account to our suppliers, which are matched by payments on account from our customers, result in an increase in inventories. The equity figure rose by €339 million to €4.420 billion. The main components of this increase were net income of €311 million, positive exchange rate movements of €144 million and a decrease in equity resulting from the dividend payment of €149 million. The equity ratio benefited as a result and was 36 percent at September 30, 2005, compared with 35 percent at December 31, 2004. Gearing improved accordingly from 48 percent in 2004 to 44 percent at September 30, 2005.

Group income statement in € million

	3rd quarter		January to September		Year 2004
	2005	2004	2005	2004	
Sales	2,369	2,465	6,833	6,903	9,421
Discontinued operation	–	246	–	578	578
Cost of sales	1,618	1,713	4,656	4,772	6,539
Gross profit on sales	751	752	2,177	2,131	2,882
Marketing and selling expenses	341	335	979	986	1,314
Research and development costs	42	39	138	134	177
Administration expenses	173	192	521	548	731
Other operating income less other operating expenses	23	31	51	35	117
Amortization of goodwill	–	35	–	99	141
Operating profit (EBIT)	218	182	590	399	636
Discontinued operation	–	22	–	–7	6
Financial result	–30	–39	–94	–108	–126
Earnings before taxes on income (EBT)	188	143	496	291	510
Discontinued operation	–	21	–	–9	4
Taxes on income	68	68	179	145	239
Earnings after taxes on income	120	75	317	146	271
Minority interests	–2	–	–6	–	–5
Net income	**118**	**75**	**311**	**146**	**266**
Discontinued operation	–	18	–	–12	–
Earnings per share in €	0.98	0.62	2.60	1.22	2.23
Earnings per share in € – fully diluted	0.93	0.64	2.48	1.23	2.18

Group balance sheet in € million

	Sept. 30, 2005	Dec. 31, 2004
Assets		
Goodwill	2,825	2,788
Other intangible assets	288	277
Tangible assets	4,057	3,814
Investments in associates	145	139
Other financial assets	84	83
Leased assets	599	574
Fixed assets	**7,998**	**7,675**
Receivables from financial services	123	132
Trade receivables	8	45
Other receivables and other assets	15	21
Deferred tax assets	125	123
Other non-current assets	**271**	**321**
Inventories	1,168	942
Receivables from financial services	74	82
Trade receivables	1,498	1,409
Other receivables and other assets	550	560
Securities	5	3
Cash and cash equivalents	535	564
Prepaid expenses and deferred charges	46	35
Current assets	**3,876**	**3,595**
Total assets	**12,145**	**11,591**

Group balance sheet in € million

Equity and liabilities	Sept. 30, 2005	Dec. 31, 2004
Capital subscribed	307	305
Capital reserve	2,702	2,680
Retained earnings	1,426	1,266
Cumulative changes in equity not recognized through the income statement	–63	–208
Total equity excluding minority interests	**4,372**	**4,043**
Minority interests	48	38
Total equity	**4,420**	**4,081**
Provisions for pensions and similar obligations	852	840
Other non-current provisions	195	177
Deferred tax liabilities	330	294
Financial debt	2,028	2,230
Liabilities from financial services	348	349
Trade payables	4	6
Other non-current liabilities	58	56
Deferred income	71	76
Non-current liabilities and deferred income	**3,886**	**4,028**
Other current provisions	1,285	1,107
Financial debt	438	305
Liabilities from financial services	153	174
Trade payables	1,218	1,194
Other current liabilities	608	575
Deferred income	137	127
Current liabilities and deferred income	**3,839**	**3,482**
Total equity and liabilities	**12,145**	**11,591**

Statement of changes in Group equity in € million

	Capital subscribed	Capital reserve	Retained earnings	Cumulative changes in equity not recognized through the income statement: Currency translation differences	Remeasurement of securities at fair value	Derivative financial instruments	Total equity excluding minority interests	Minority interests	Total equity
As at Jan. 1, 2004 (figures originally published)	**305**	**2,595**	**1,144**	**−183**	**–**	**–**	**3,861**	**35**	**3,896**
Adjustments arising from first-time application of IFRS 2	–	9	−9	–	–	– –	–	–	–
As at Jan. 1, 2004 (restated)	**305**	**2,604**	**1,135**	**−183**	**–**	**–**	**3,861**	**35**	**3,896**
Dividend payments	–	–	−135	–	–		−135	–	−135
Change in currency translation differences	–	–	–	45	–	–	45	–	45
Financial instruments	–	–	–	–	–	–	-	–	–
Net income (restated)	–		146	–	–		146	–	146
Amount from the placement of the convertible bond		67				–	67	–	67
Other changes (restated)	–	7	−3	–	–	–	4	−1	3
As at Sept. 30, 2004 (restated)	**305**	**2,678**	**1,143**	**−138**	**–**		**3,988**	**34**	**4,022**
						−3			
As at Jan. 1, 2005	**305**	**2,680**	**1,266**	**−205**	**–**	–	**4,043**	**38**	**4,081**
Dividend payments	–	–	−149	–	–		−149	−3	−152
Change in currency translation differences	–	–	–	144	–	– 1	144	1	145
Financial instruments	–	–	–	–	–	–	1	–	1
Net income	–	–	311	–	–		311	6	317
Changes due to share option scheme	2	22				–	24	–	24
Other changes	–	–	−2	–	–	−2	−2	6	4
As at Sept. 30, 2005	**307**	**2,702**	**1,426**	**−61**	**–**		**4,372**	**48**	**4,420**

For information on the adjustments, see the explanatory comments on the share option scheme.

Group cash flow statement in € million

	January to September		Year 2004
	2005	2004	
Net income	311	146	266
Amortization and depreciation of fixed assets	582	664	902
Changes in assets and liabilities, adjusted for the effects of changes in Group structure	69	54	309
Change in leased assets	–142	–127	–176
Other items	13	–	–52
Cash flow from operating activities	**833**	**737**	**1,249**
Discontinued operation	–	–6	–6
Payments for tangible and intangible assets	–599	–484	–734
Payments for financial assets and investments in consolidated companies	–39	–125	–133
Proceeds on disposal of fixed assets and consolidated companies	39	37	207
Net cash from changes in securities held as current assets	–1	–	–84
Cash flow from investing activities	**–600**	**–572**	**–744**
Discontinued operation	–	–13	–13
Dividend payment	–149	–136	–137
Repayment of financial liabilities	–130	–241	–362*
Cash flow from financing activities	**–279**	**–377**	**–499**
Discontinued operation	–	85	86
Net cash inflow/outflow	**–46**	**–212**	**6**
Opening balance of cash and cash equivalents	564	557	557
Changes in cash and cash equivalents due to effects of currency translation and changes in Group structure	16	10	1
Closing balance of cash and cash equivalents	**534**	**355**	**564**

* includes issue of employee shares

Activities in € million

	3rd quarter 2005	2004	Change	January to September 2005	2004	Change	Year 2004
Gas and Engineering							
Incoming orders	2,150	1,293	66.3%	5,130	4,075	25.9%	5,394
Sales	1,477	1,377	7.3%	4,240	3,876	9.4%	5,406
EBITDA	304	281	8.2%	873	799	9.3%	1,103
EBITA	196	179	9.5%	552	489	12.9%	681
EBT	178	133	33.8%	489	347	40.9%	471
Linde Gas							
Incoming orders	1,124	1,003	12.1%	3,279	2,959	10.8%	4,007
Sales	1,127	1,014	11.1%	3,278	2,958	10.8%	4,003
EBITDA	286	266	7.5%	835	768	8.7%	1,054
EBITA	180	166	8.4%	519	464	11.9%	638
EBT	162	120	35.0%	453	319	42.0%	423
Linde Engineering							
Incoming orders	1,100	343	220.7%	2,002	1,230	62.8%	1,525
Sales	411	408	0.7%	1,136	1,035	9.8%	1,581
EBITDA	25	20	25.0%	66	46	43.5%	82
EBITA	22	18	22.2%	55	36	52.8%	68
EBT	24	19	26.3%	60	40	50.0%	74
Material Handling							
Incoming orders	895	798	12.2%	2,724	2,529	7.7%	3,442
Sales	877	822	6.7%	2,545	2,413	5.5%	3,372
EBITDA	128	118	8.5%	366	335	9.3%	485
EBITA	50	44	13.6%	125	109	14.7%	189
EBT	39	30	30.0%	97	73	32.9%	132
Refrigeration (Discontinued operation)							
Incoming orders	–	267	–	–	733	–	733
Sales	–	246	–	–	578	–	578
EBITDA	–	27	–	–	10	–	24
EBITA	–	24	–	–	–4	–	9
EBT	–	21	–	–	–9	–	4
Group							
Incoming orders	3,063	2,386	28.4%	7,903	7,382	7.1%	9,637
Sales	2,369	2,465	-3.9%	6,833	6,903	–1.0%	9,421
EBITDA	411	402	2.2%	1,172	1,063	10.3%	1,532
EBITA	218	217	0.5%	590	498	18.5%	777
EBT	188	143	31.5%	496	291	70.4%	510

Additional comments:

1. General accounting and valuation policies

The unaudited interim report of Linde AG at September 30, 2005 has been drawn up in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), London, where these became operative on or before September 30, 2005. The term IFRS also includes International Accounting Standards (IAS) where these are still effective. All mandatory interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), for the fiscal year 2005 were also applied.

Linde AG has used the same accounting and measurement policies to draw up the interim report as those used to prepare the Group financial statements for the year ended December 31, 2004, with the exception of the following changes. Linde AG has applied IFRS 2 “Share-based Payment” with effect from January 1, 2005. Further details about this are given in the section on the share option scheme.

IFRS 3 “Business Combinations” and related versions of IAS 36 “Impairment of Assets” and IAS 38 “Intangible Assets” (both revised in 2004) were applied in the 2004 Group financial statements to companies acquired after March 31, 2004. For companies acquired before March 31, 2004, the application of the above standards is mandatory from January 1, 2005. As a result, there will be no more scheduled amortization of goodwill from 2005 onwards. Goodwill will now be assessed for impairment annually. In the first nine months of fiscal 2004, scheduled amortization of goodwill was €99 million.

In addition to the standards mentioned above, the following new or revised standards and interpretations issued by IASB and IFRIC became effective on January 1, 2005. However, these either had no material effect on the net assets, financial position and results of operations of the Linde Group or were not relevant to the Group financial statements.
– IFRS 4 “Insurance Contracts”
– IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”
– IFRIC 1 “Changes in Existing Decommissioning, Restoration and Similar Liabilities”
– IFRIC 2 “Members’ Shares in Co-operative Entities and Similar Instruments”.

2. Changes in Group structure

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

The Linde Group comprises the following companies:

	As at Dec. 31, 2004	Additions	Disposals	As at Sept. 30, 2005
Consolidated subsidiaries	272	25	5	292
of which within Germany	30	7	2	35
of which outside Germany	242	18	3	257
Subsidiaries reported at acquisition cost	61	4	16	49
of which within Germany	16	1	6	11
of which outside Germany	45	3	10	38
Companies accounted for using the equity method	20	13	1	32
of which within Germany	4	3	–	7
of which outside Germany	16	10	1	25

3. Foreign currency translation

The financial statements of companies outside the European Currency Union are translated in accordance with the functional currency concept. Linde applies the closing rate method to all its companies.

The following main exchange rates have been used:

Exchange rate €1 =

	ISO code	Mid-rate at balance sheet date		Average rate	
		Sept. 30, 2005	Sept. 30, 2004	Sept. 30, 2005	Sept. 30, 2004
Czech Republic	CZK	29.510000	31.630000	29.924404	32.138420
Great Britain	GBP	0.682400	0.685900	0.685104	0.673178
Sweden	SEK	9.324000	9.071000	9.218501	9.163726
Switzerland	CHF	1.555300	1.553300	1.548562	1.547402
USA	USD	1.204900	1.233800	1.262828	1.225598

4. Share option scheme

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

The 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 option conditions provide for a qualifying period for the share options of two years from the 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. 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. In accounting for options, it is assumed that the option entitlements will be fulfilled by the issue of shares.

According to IFRS 2 "Share-based Payment", the total value of share options granted to management must be determined at the issue date using an option pricing model. The total value of the share options calculated at the issue date must then be allocated as a personnel expense over the period in which the company receives service in return from the employee. This period will generally be the same as the agreed qualifying period. The other side of the entry is made directly in equity. IFRS 2 was applied for the first time in fiscal 2005. The figures for the corresponding prior year period have been restated in accordance with IFRS 2.55.

The calculation of the expense is based on the fair value of the options issued, using the Black-Scholes option pricing model.

Movements in options included in the Linde Management Incentive Program were as follows:

Options

	Originally issued	Dec. 31, 2004	Exercised in 2005	Expired in 2005	Sept. 30, 2005
1st tranche (2002)	1,000,000	965,300	2,000	1,900	961,400
2nd tranche (2003)	1,017,600	995,700	474,572	1,100	520,028
3rd tranche (2004)	1,004,500	1,001,500	–	9,600	991,900
4th tranche (2005)	1,105,700	–	–	–	1,105,700
Total	**4,127,800**	**2,962,500**	**476,572**	**12,600**	**3,579,028**

The exercise of 476,572 options during the reporting period resulted in an increase in capital subscribed of €2 million and in the capital reserve of €17 million.

Recognizing the expense in the income statement has the following effect on earnings:

Options

	Value of the options €*	Dec. 31, 2002 € million	Dec. 31, 2003 € million	Sept. 30, 2004 € million	Dec. 31, 2004 € million	Sept. 30, 2005 € million
1st tranche (2002)	9.84	2	5	3	2	–
2nd tranche (2003)	7.16	–	2	3	4	1
3rd tranche (2004)	7.92	–	–	1	2	3
4th tranche (2005)	6.92	–	–	–	–	1
Total		2	7	7	8	5

* At the issue date

5. Reconciliation of prior year figures

The explanatory comments on the results of operations describe the effect of the disposal of the Refrigeration business segment and the amortization of goodwill in 2004. In view of the change in accounting standards, the prior year figures have been adjusted as follows:

Group income statement in € million

	January to Sept. 2004	Year 2004
Operating profit (EBIT) before restatement	394	644
Adjustment to financial result from long-term contracts	12	–
Change in accounting regulations (IFRS 2)	–7	–8
Operating profit (EBIT), restated	399	636
Adjustment to financial result from long-term contracts	–12	–
Financial result, restated	–108	–126
Earnings before taxes on income (EBT), restated	291	510

The adjustments were made in Administration expenses and Other operating income as well as in the Financial result.

6. Earnings per share

in € million / Shares in thousands	January to September 2005	January to September 2004	Year 2004
Net income	311	146	266
Plus: Increase in profit due to dilutive effect of convertible bond	10	6	8
Profit after adjusting for dilutive effects	321	152	274
Weighted average number of shares outstanding	119,445	119,262	119,273
Effect of dilutive subscription rights	217	147	182
Effect of dilutive convertible bond	9,738	3,975	6,429
Weighted average number of shares outstanding – fully diluted	129,400	123,384	125,884
Earnings per share in €	**2.60**	**1.22**	**2.23**
Earnings per share in € – fully diluted	**2.48**	**1.23**	**2.18**

7. Other information

As a result of the good liquidity position of the Linde Group, scheduled repayments of €123 million were made during the reporting period in respect of seven bonds.

8. Significant events

There were no significant events during the period.

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Contact Information

Linde AG
Abraham-Lincoln-Strasse 21
65189 Wiesbaden
Germany
Phone +49.611.770-0
Fax +49.611.770-269
www.linde.com

Communications
Phone +49.611.770-489
Fax +49.611.770-447
E-mail info@linde.com

Investor Relations
Phone +49.611.770-128
Fax +49.611.770-603
E-mail investorrelations@linde.com

This report is available in both German and English and can also be downloaded from our website at *www.linde.com.*

Further copies of the report and additional information about the Linde Group can be obtained from us free of charge.

Financial Calender

Shareholders' Meeting 2006
May 4, 2006, 10.00 am
International Congress Center, Munich

Shareholders' Meeting 2007
June 5, 2007, 10.00 am
International Congress Center, Munich

Investor Relations Calendar

November 10-11, 2005
Scandinavia Roadshow

November 16, 2005
UBS Investor Conference
London

November 17, 2005
WestLB Germany Conference
Frankfurt

November 21, 2005
Belgium Roadshow

January 10-11, 2006
Dresdner Kleinwort Wasserstein German Corporate Conference
New York

January 12-13, 2006
USA Roadshow

January 16, 2006
Cheuvreux German Corporate Conference
Kronberg

March 31, 2006
Lehman Brothers Chemical Conference
Barcelona

May 31, 2006
Deutsche Bank German Corporate Conference
Frankfurt

September 28, 2006
HypoVereinsbank German Investment Conference
Munich

Linde AG
Abraham-Lincoln-Strasse 21
65189 Wiesbaden
Germany

Phone +49.611.770-0
Fax +49.611.770-269
www.linde.com