2005

Facts and Figures. The Linde Financial Report.

LeadIng.

Linde

2005

Linde Financial Highlights

in € million		2005	2004[1]	Change
Share				
Closing price	€	65.77	46.06	42.8 %
Year high	€	66.42	49.10	35.3 %
Year low	€	47.73	40.50	17.9 %
Market capitalization		7,883	5,496	43.4 %
Per share				
Earnings	€	4.19	3.19	31.3 %
Dividend	€	1.40	1.25	12.0 %
Cash flow from operating activities	€	12.00	10.52	14.1 %
Number of shares (in 000s)		119,864	119,327	0.5 %
Group				
Sales		9,501	8,856	7.3 %
Incoming orders		11,008	8,917	23.4 %
EBITA		913	774	18.0 %
Earnings before taxes on income (EBT)		789	622	26.8 %
Net income after minority interests		501	380	31.8 %
Return on capital employed (ROCE)		12.5 %	10.8 %	n/a
EBITA margin		9.6 %	8.7 %	n/a
Capital expenditure (excluding financial assets)		851	718	18.5 %
Cash flow from operating activities		1,435	1,255	14.3 %
Equity		4,413	3,946	11.8 %
Total assets		**12,526**	**11,635**	**7.7 %**
Number of employees at December 31		42,229	41,383	2.0 %

[1] Excluding Refrigeration and amortization of goodwill as well as adjustments arising from amendments to accounting standards.

Business segments 2005

in € million	Sales	Incoming Orders	EBITA	Capital expenditure[2]	Number of employees
Gas and Engineering	5,831	7,179	783	635	22,191
Linde Gas	4,438	4,455	721	658	17,783
Linde Engineering	1,623	2,913	89	23	4,408
Material Handling	3,628	3,787	223	191	19,323

[2] Excluding financial assets.

Group profile

Linde Group

Linde is an international technology group which has a leading market position in both its business segments, Gas and Engineering and Material Handling. We achieved sales in fiscal 2005 of €9.501 billion with around 42,000 employees worldwide. Our strategy, which is geared towards earnings-based growth, focuses on the expansion of our international business with forward-looking products and services. We are concentrating not only on Germany and Europe, our core markets, but also on continuing to improve our position in the fast-growing regions of Asia, the United States and Eastern Europe.

Gas and Engineering

In the Gas and Engineering business segment, we have bundled our activities into two areas, industrial and medical gases and plant construction. Both these areas benefit from mutual exchanges of competence and expertise on ambitious projects in all regions of the world. An example of this is our on-site business, where Linde Gas and Linde Engineering work together to supply major industrial customers with industrial gases from plants installed directly on the customer's own site.

The Linde Gas division is one of the leading suppliers of industrial gases in the world. We are also focusing on expanding our fast-growing Healthcare segment, our medical and therapeutic gases business. Moreover, we are a world leader in the development of environmentally-friendly hydrogen technology.

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

Material Handling

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

The Linde Financial Report 2005. Facts and Figures.

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Executive Board

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

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

Dr. Aldo Belloni
Born in 1950
Doctorate in Engineering Science (Dr.-Ing.)
Gas and Engineering business segment
Member of the Executive Board since 2000

Hubertus Krossa
Born in 1947
Degree in Business (Dipl.-Kaufmann)
Material Handling business segment
Member of the Executive Board since 2000

Letter to shareholders

Ladies and Gentlemen,

We can be satisfied with the 2005 fiscal year, where our objective was to exceed the main prior year performance indicators. This we have fully achieved in a generally positive economic environment. Group sales rose by 7.3 percent to €9.5 billion and incoming orders increased by 23.4 percent to around €11 billion. Operating profit (EBITA) rose 18 percent in 2005 to €913 million. This means that we significantly exceeded our forecast increase in earnings of at least 10 percent. The net income for the year for Linde AG shareholders improved by around 32 percent to €501 million. Return on capital employed (ROCE) – the most important indicator of our value-based management – was 12.5 percent for the 2005 fiscal year, which was also above the target figure of 10 percent.

We want our shareholders to benefit from these excellent results. The Executive Board and the Supervisory Board will therefore propose to the Shareholders' Meeting to be held on May 4, 2006 that the dividend be increased from €1.25 to €1.40 per share. In the course of the year, the capital market increasingly reflected our good performance. In 2005, a year that was better than average for shares worldwide and in which the German share index DAX finished 27 percent higher than in the previous year, Linde shares were one of the top performers, with a price rise of 42.8 percent.

This trend demonstrates that, with our rigorous strategy of sustainable, profitable growth, we are well on our way. This is even more impressive because we have not achieved significant improvements in efficiency by making drastic job cuts. On the contrary, we have streamlined our structures only where this was sensible and necessary, while at the same time strengthening those areas in which we see the potential for further profitable growth, for example by expanding our sales and service activities. The bottom line is that the number of employees in our Group rose by 846 in comparison with December 31, 2004 to 42,229.

It has proved to be the right decision to continue to drive forward our internationalism, especially as the eurozone and Germany in particular have been trying in the past year to gain access to the major growth markets in the United States, Asia and Eastern Europe, but not yet succeeding. We have, however, been very supportive of Germany as a location. Against the general trend, we increased our capital expenditure in Germany in 2005 by around 20 percent to €284 million. In the current fiscal year, we intend to increase this amount by about 50 percent.

We began the new year with a healthy degree of self-confidence and anticipate that sales and operating profit for 2006 at Group level will once again exceed the prior year figures. We want to continue to improve our earning power in both business segments, Gas and Engineering and Material Handling, based on the ongoing application of our efficiency-improvement programs. In the Linde Gas division, we will continue to expand our activities in the growth regions of Asia and Eastern Europe and to focus on strengthening the Healthcare segment, our medical and therapeutic gases segment. In addition, we will set ambitious target returns.

In Linde Gas, we intend to increase the return on capital from the current figure of 11.8 percent to 13 percent by the fiscal year 2008. In Linde Engineering, we are looking to continue the dynamic growth of the past few years, although in the current year we do not expect to equal the record level of incoming orders

of around €3 billion achieved in 2005. Although the order position is still very good, especially in the natural gas, ethylene and hydrogen plant segments, our objective is to increase both sales and earnings.

In our Material Handling business segment, we will continue to apply those measures designed to identify potential for growth and to improve our process and cost structures. In the past year, we have made good progress here, for example with the launch of the second brand in China and the introduction of works agreements at the German sites of our Linde and STILL brands. We have therefore laid the foundations to ensure that we achieve our target return on capital of 16 percent in Material Handling on schedule in 2007. In fiscal 2005, this figure was 13.1 percent.

Ladies and gentlemen, in the past year, Linde has become more efficient and effective. This self-confidence led us to make an informal, friendly bid for the British gases company BOC in January 2006. The two companies complement each other both in terms of their regional focus and the main constituents of their respective product ranges, making them an outstanding strategic match. The business combination would produce one of the leading companies in the world in the gases industry.

Irrespective of whether the bid is successful, we have continued to optimize our internal structures, processes and operations and are therefore better-placed to meet the future challenges of global competition.

However, we cannot rest on our laurels. We need to continue to work hard at making improvements in all areas. If we appreciate this, we will be able to exploit existing opportunities and successfully implement our strategy of sustainable earnings-based growth. As a company which operates throughout the world, we do not intend to lose sight of our responsibility to society as a whole. In line with the corporate responsibility strategy we adopted in 2005, our basic values and guidelines for responsible behavior towards our shareholders, our business partners, our employees, society and the environment will be incorporated in our strategic management decisions to an even greater extent in future. We want to deserve the epithet "Lead-Ing.", and to be, in every respect, an outstanding and exemplary technology company.

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

Supervisory Board

(As at December 31, 2005)

Members of the Supervisory Board

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

Hans-Dieter Katte [1]
Deputy Chairman
Chairman of the Works Council,
Linde Engineering Division,
Linde AG, Höllriegelskreuth

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

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

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

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

Siegried Friebel [1]
Chairperson of the Works Council of
Linde-KCA-Dresden GmbH

Gerhard Full
Former Chairman of the Executive Board
of Linde AG

Gernot Hahl [1]
Chairman of the Works Council,
Linde Gas Division, Linde AG, Worms

Joachim Hartig [1]
Chairman of the Works Council,
Linde Material Handling Division,
Linde AG, Aschaffenburg

Thilo Kämmerer [1]
Trade Union Secretary on the
Executive Board of IG Metall Frankfurt

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

Kay Pietsch [1]
Chairman of the Works Council,
Still GmbH, Hamburg

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

Wilfried Woller [1]
Member of the Managerial Board responsi-
ble for management sector 5, IG Bergbau,
Chemie, Energie

Frank Zukauski [1]
Director, Center of Competence Cylinder,
STILL GmbH

[1] Employees' representative.

Supervisory Board committees

Standing Committee:
Dr. Manfred Schneider (Chairman)
Hans-Dieter Katte [1]
Michael Diekmann
Gerhard Full
Joachim Hartig [1]

Audit Committee:
Dr. Karl-Hermann Baumann (Chairman)
Gerhard Full
Joachim Hartig [1]
Hans-Dieter Katte [1]
Dr. Manfred Schneider

Mediation Committee in accordance with
§ 27(3) German Codetermination Law:
Dr. Manfred Schneider (Chairman)
Hans-Dieter Katte [1]
Michael Diekmann
Joachim Hartig [1]

Memberships of other German supervisory boards and of comparable German and foreign boards are shown on pages 147–149.

Report of the Supervisory Board

Dear shareholders,

During the fiscal year 2005, the Supervisory Board has been involved in detailed reviews of the company's situation and prospects. We have carried out our duties in accordance with legal provisions, company statutes and company bylaws. These duties involve advising the Executive Board on the running of the company and monitoring executive management. The Executive Board provided us with regular, comprehensive and up-to-date personal and written reports at our meetings on the state of the business as well as the economic situation of the company and its subsidiaries. The Supervisory Board was involved in the all major decisions of the company. The Chairman of the Supervisory Board was also kept up to date on the business situation, significant transactions and decisions taken by the Executive Board. The Chairmen of the Supervisory and Executive Boards shared information and ideas with one another throughout the year and held regular consultations on the Group's strategic direction and its risk management.

Meetings of the Supervisory Board

Four meetings of the Supervisory Board took place in 2005. The average attendance rate at each meeting was over 95 percent. All the members of the Supervisory Board attended at least half the meetings. No conflicts of interest arose during the year.

In our meetings, in addition to reviewing current business developments, we also dealt with the risk position and those individual transactions of fundamental importance for which the Executive Board requires our approval. After a thorough review and detailed discussions about each of the proposals of the Executive Board, the Supervisory Board granted all necessary approvals in its meetings. In addition, a decision relating to the exercise of shares in accordance with § 32 of the German Codetermination Law (MitbestG) was effected by fax.

At our meeting to approve the financial statements in March, we generally concern ourselves with the annual and consolidated financial statements, the Report of the Supervisory Board and the Corporate Governance Report by the Executive Board and the Supervisory Board, and approve the agenda for the Shareholders' Meeting, including the proposed resolutions. This was also the case in 2005 and 2006.

At the meeting immediately before the Shareholders' Meeting, the Executive Board presented a report on the current situation of the Group.

In September 2005, the deliberations of the Supervisory Board focused on the strategic direction of the company, the extent to which the strategy had been adopted, the Executive Board's plans to develop the business portfolio, the measures being taken by the Executive Board to increase the profitability of operations and the outlook for the Group and its individual divisions.

At our meetings in March and September, we also had in-depth discussions about the challenges and opportunities facing certain areas of the Linde Group based on detailed reports from the Executive Board. The focus here was on the Linde Engineering division and the Material Handling business segment.

A frequent subject for discussion at our meetings was increasingly difficult international competition in the various divisions. We also discussed on several occasions with the Executive Board the importance of the North American and Asia/Pacific growth markets and the resulting challenges for the Linde Group and its divisions.

In November 2005, the Executive Board presented us with a preview of the 2005 financial statements, the budget for the 2006 fiscal year and the medium-term corporate plan, including financial, capital expenditure and personnel plans. The Executive Board gave us detailed explanations and supplied reasons where there were discrepancies between corporate targets and actual performance. We approved the 2006 capital expenditure program of the Linde Group.

Corporate governance and declaration of compliance

We continually monitor the implementation of the provisions of the German Corporate Governance Code. During the year, we dealt in particular with the revised version of the Code dated June 2, 2005. In this connection, we also amended the procedural rules for the Supervisory Board.

In summer 2005, the Supervisory Board reviewed the efficiency of its work using a detailed questionnaire. At our meeting in September, we processed the results of this review and the potential action points, and made commitments to improve the effectiveness of our future work.

On March 3, 2006, the Executive Board and Supervisory Board issued an updated 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 (www.linde.com). Linde AG complies and will in future comply with the recommendations of the German Corporate Governance Code except that no individualized figures are disclosed for compensation paid to members of the Executive and Supervisory Boards. Further information on corporate governance in Linde is given in the joint report of the Executive Board and Supervisory Board on the following pages.

Committees and committee meetings

The Supervisory Board has set up three committees. The Chairman of the Supervisory Board is chairman of all the committees except the audit committee. The current composition of the committees can be found on page 009.

The Supervisory Board's standing committee held two meetings. It makes decisions on behalf of the Supervisory Board, for example about employment, pension and other agreements with members of the Executive Board and prepares the appointment and removal of members of the Executive Board for the Supervisory Board. It dealt mainly with matters relating to the Executive Board, such as the amount and structure of remuneration payable to the Executive Board and determined those components of the remuneration of the Executive Board that were based on bonuses or shares. It also prepared the efficiency review of the work of the Supervisory Board and discussed the restructuring of the remuneration payable to the Supervisory Board. The standing committee passed a written resolution about an Executive Board member taking on a secondary occupation. In addition, a resolution was passed in connection with the share option scheme in telephone proceedings.

The audit committee held four meetings in 2005. In the presence of the auditors, the President of the Executive Board and the Chief Financial Officer, it discussed the annual financial statements of Linde AG and the Group financial statements, the management reports, the proposed appropriation of profits and the audit reports, including the reports on the key audit issues. Its other main tasks were to discuss the interim reports, to prepare the proposal of the Supervisory Board on the appointment of the auditors at the Shareholders' Meeting, to issue the audit mandate to the auditors, to determine the key audit issues, to agree the audit fees and to monitor the independence of the auditors. The audit committee also adopted rules on the awarding of assignments to the auditors for services not related to the audit. Moreover, the audit committee obtained information about the recording and monitoring of risk in the company.

On April 1, 2005, the Chairman of the Supervisory Board, Dr. Manfred Schneider, resigned from his chairmanship of the audit committee with a view to the further development of corporate governance in the Group. In his place, the audit committee elected Dr. Karl-Hermann Baumann as its chairman. As a former long-standing Chief Financial Officer and Chairman of the Supervisory Board of Siemens AG, he has particular knowledge about the application of international accounting standards and internal control procedures.

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

The committee chairmen reported in detail about the work of their committees at the plenary meeting following their own meetings.

Financial statements

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG), Berlin and Frankfurt am Main, audited the annual financial statements of Linde AG and the Group financial statements for the year ended December 31, 2005, as well as the management reports for Linde AG and the Linde Group in accordance with the principles set out in the German Commercial Code (HGB) and, in the case of the Group financial statements, in supplementary compliance with International Standards on Auditing (ISA). The auditors have given unqualified audit opinions on the above statements. The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The auditors have confirmed that the Group financial statements and the Group management report meet the requirements for exemption from preparing these documents set out in § 315a (1) HGB. KPMG also confirmed that the risk management system complies with legal requirements. No risks that might adversely affect the viability of the company as a going concern were identified.

The key audit issues in fiscal 2005 were the review, particularly in the Linde Engineering division, of revenue recognition (accounting, project development and project management), the recognition and measurement of risks in current assets, and the effect on net income and control of the implementation of cost-reduction and efficiency-improvement measures. The documents relating to the financial statements and the audit reports were issued to all members of the Supervisory Board in time. They were the subject of intense discussions at the meeting of the audit committee on February 22, 2006, and at the Supervisory Board meeting on the annual results on March 3, 2006. The auditors took part in these discussions. The auditors presented the main results of their audit and were available to provide supplementary information and to answer questions. After receiving the results of the preliminary review by the audit committee and conducting our own examination of the financial statements and related documents presented by the Executive Board and auditors, we find no grounds for objection. We concur with the results of KPMG's audit. We hereby approve and adopt the financial statements of Linde AG and the Linde Group for the year ended December 31, 2005 as drawn up by the Executive Board; the annual financial statements of Linde AG are hereby final. We also approve the Executive Board's proposal for the appropriation of profits.

Membership of the Supervisory Board and Executive Board

During the fiscal year, there were no changes to the composition of the Supervisory Board or the Executive Board.

The Supervisory Board would like to thank the Executive Board and all Linde employees for their high level of personal commitment and the success they have achieved in their work in 2005.

Wiesbaden, March 3, 2006
For the Supervisory Board

Dr. Manfred Schneider
Chairman

Corporate Governance Report

Corporate governance ensures responsible corporate management and supervision and the achievement of sustainable value added. It creates transparency, thereby earning the trust of our national and international investors, our business partners, our employees and the general public.

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.

Detailed descriptions of corporate governance in Linde and the functions and duties of the executive bodies have been given in the 2002 and 2003 annual reports and on the Internet (www.linde.com). Information about the activities of the Supervisory Board and its committees and about the cooperation between the Supervisory and Executive Boards in 2005 is given in the Report of the Supervisory Board on pages 010–013. We confine ourselves here to corporate governance developments during the fiscal year.

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 017 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. The individual emoluments paid to the members of the Supervisory Board can be derived from the bylaws and the information given in the remuneration report on pages 019–020. 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 any of 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 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 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 018–020 of this annual report and forms part of the Group 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 the 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 within (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 members of the Supervisory Board has been and will be 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 for the compensation paid to members of the Executive Board 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 also forms part of the Group 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 Group 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 § 315 (2) of the revised German Commercial Code (HGB), so that there is no need for additional disclosure in the Notes to the Group financial statements.

Remuneration of the Executive Board

The amount and structure 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, see glossary) 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 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 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 Group financial statements on page 124–126.

Pension commitments

There are pension commitments in respect of the members of the Executive Board. The pension is based on a particular 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 for 2005

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	%	2004	%
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: €4,915,540). In the annual financial statements of Linde AG, provisions have been made of €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: €2,713,059).

A provision of €34,504,903 (2004: €32,579,626) has been made in the Group financial statements for current pensions and future pension benefits in respect of former members of the Executive Board and their dependants. In the financial statements of Linde AG, a provision of €34,504,903 (2004: €25,401,353 in accordance with § 6a of the German Income Tax Law [EstG]) was made.

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 for 2005

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

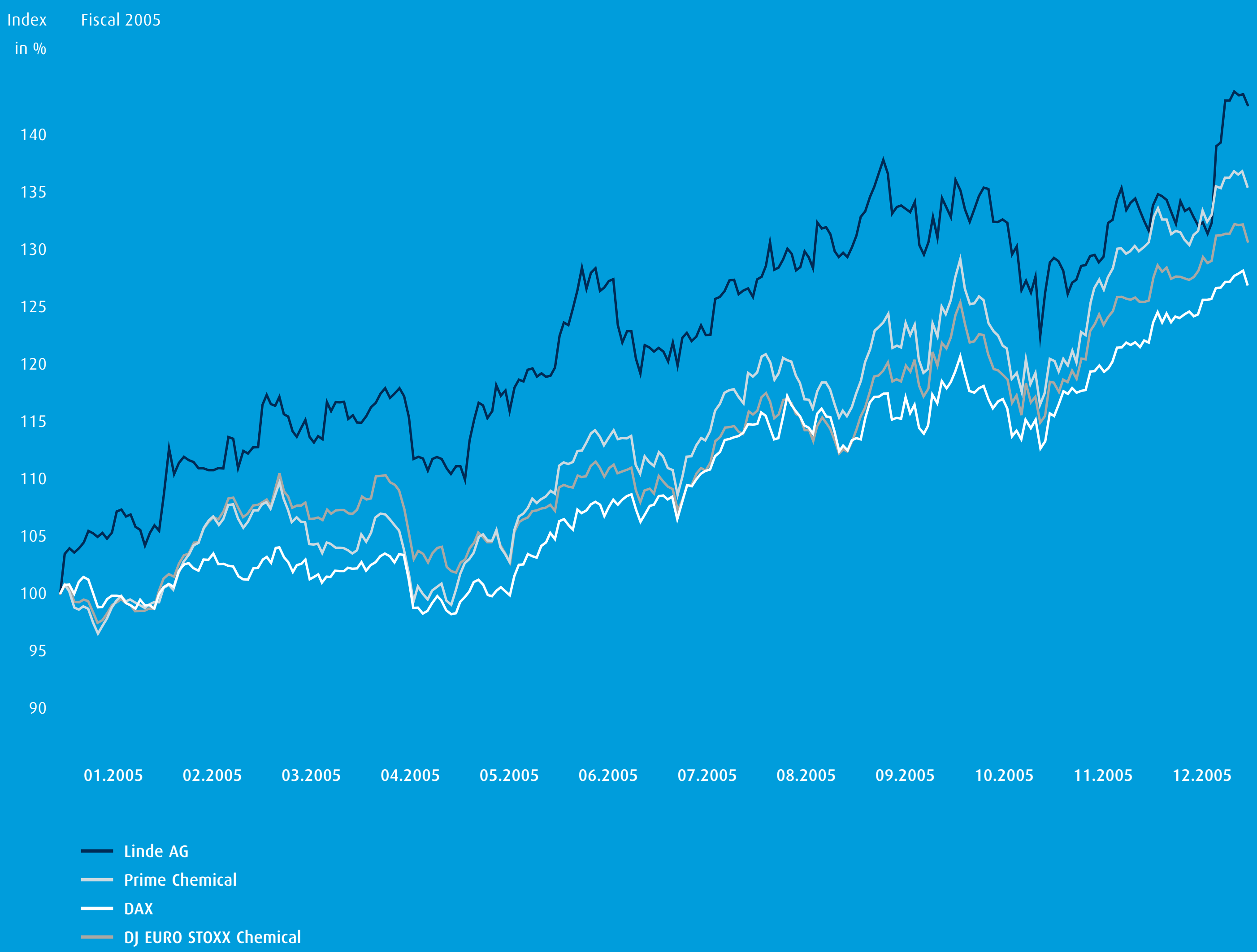
In fiscal 2005, no loans or advances were made to members of the Supervisory Board.

* including VAT

Linde Shares

Linde shares performed ahead of expectations in 2005. The shares increased in value by 42.8 percent to a closing price at year-end of €65.77 per share, significantly exceeding the very good performance of the DAX.

Linde shares: Performance in 2005 (indexed)



Outstanding performance of DAX in 2005

After a quiet start to the year, the German share index DAX began an upward trend at the end of April, with the result that it stood at 5408.26 points at the year-end, a 27.1 percent increase over the previous year. The DAX fell to its lowest point for 2005 of 4178.10 on April 28 and reached its highest point of 5458.58 on December 29. This means that the German share index is in the top group of leading indices in the world, ahead of the two other major European markets, Paris and London. Apart from the hope of a new level of political dynamism following the elections to the German Bundestag, corporate results also contributed to the upward trend. The increase in sales figures continued to be underpinned by solid export demand. Thanks to lasting improvements in cost structures in the past few years, it has been possible to achieve economies of scale. The strong dynamism of the stock markets is based on a healthy recovery in corporate profits.

Linde shares exceed DAX and the chemical indices

Linde shares significantly exceeded the very good performance of the DAX, increasing in value during the year by more than 42.8 percent. Our shares showed a steady upward trend from their lowest price for the year of €47.73 on January 3, 2005 to their highest price for the year of €66.42 on December 27, 2005. As a result, Linde shares were one of the top ten securities in the DAX in 2005. Linde shares also performed very positively when compared to the industry-specific chemical indices in Germany (Prime Chemical, +35.5 percent) and Europe (Dow Jones Eurostoxx Chemicals, +34.6 percent).

Linde performance in comparison with the most important indices*

	2005	Weighting
Linde (including dividend)	+ 45.9 %	–
Linde (excluding dividend)	+ 42.8 %	–
DAX	+ 27.1 %	0.94 %
Prime Chemical	+ 35.5 %	7.61 %
DJ EURO STOXX	+ 26.8 %	0.18 %
DJ EURO STOXX Chemical	+ 34.6 %	4.74 %
FTSE Eurofirst 300	+ 26.5 %	0.11 %
FTSE E300 Chemical	+ 33.3 %	4.46 %
MSCI Euro	+ 25.5 %	0.23 %

* At December 31, 2005.

Capital market based figures

		2005	2004
Shares with dividend entitlement for the fiscal year	No.	119,864,046[2]	119,327,374
Closing price at year-end	€	65.77	46.06
Year high	€	66.42	49.10
Year low	€	47.73	40.50
Total dividend Linde AG	€ million	168	149
Market capitalization[1]	€ million	7,883	5,496
Average weekly volume	No.	2,310,000	2,454,000
Volatility[1] (200 days)	%	18.95	19.69
Information per share			
Cash dividend	€	1.40	1.25
Dividend yield	%	2.1	2.7
Operating cash flow	€	12.00	10.52
Earnings[3]	€	4.19	3.19

1 As at December 31.

2 Exercise of purchase options under the share option scheme.

3 2004 excluding Linde Refrigeration and the amortization of goodwill.

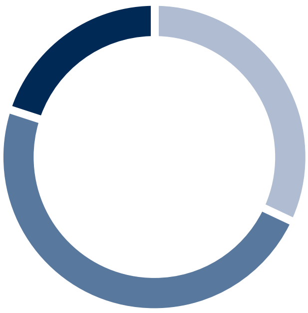
Holdings of major shareholders remain unchanged

The holdings of our major shareholders, Allianz AG (11 percent), Deutsche Bank AG (10 percent) and Commerzbank AG (10 percent), remained nearly unchanged during the fiscal year.

Based on our annual shareholder identification survey conducted as at the balance sheet date, December 31, 2005, the proportion of institutional investors was identical to the prior year figure of around 49 percent. 20 percent of the shares were owned by private investors.

Shareholder structure

Private investors (20 %)
Institutional investors (49 %)
Major shareholders (31 %)



Institutional investors – Holdings by region

Germany (29 %)
UK (20 %)
France (9 %)
North America (31 %)
Others (11 %)

In 2005, the largest proportion of our institutional investors came from Germany and North America (around 30 percent each). Whereas the percentage of shares held in the UK declined slightly to 20 percent, there was a significant increase in interest from French investors, who held around 9 percent of the shares at the year-end. This means that the global shareholder structure of Linde continues to be very balanced.

Dividend payment

Due to the positive trends in business performance in the year 2005, the Executive Board and Supervisory Board of Linde AG will propose at the Shareholders' Meeting to be held on May 4, 2006 payment of a dividend of €1.40 per share, which is €0.15 higher than in the previous year. This gives a dividend payout ratio of 34 percent, based on the net income for the year after minority interests.

Shareholders will therefore achieve a dividend yield of 2.1 percent based on the year-end close.

Resolutions of the Shareholders' Meeting on June 8, 2005

Subject to approval by the Supervisory Board, the Executive Board of Linde AG was authorized to acquire 10 percent of share capital in own shares by November 30, 2006.

It was also resolved at the Shareholders' Meeting to approve the revised arrangements for the remuneration of the Supervisory Board and to agree the necessary amendment to the bylaws.

Investor relations activities

In 2005, we again stepped up contact with private and institutional investors. In numerous meetings and teleconferences and at road shows and investors' conferences, we explained and discussed in all the major international financial centers the current situation of the Group and Linde's strategic goals. The traditionally close contact with our home market in Germany was further strengthened as a result. We have increased our presence in the English-speaking financial markets, in order to provide North American and British investors with more information about Linde shares. We have also sought to make direct contact with our investor base in the leading financial centers of France, Italy, Scandinavia and the Benelux countries. We were also able to use trade fairs and investors' conferences on particular themes to sell Linde and its products in the financial market. The response of the international capital markets was very positive.

With the publication for the first time of the Linde Fact Book, we offer all our shareholders and other interested parties in the market a summary of the facts and figures relating to the Linde Group.

All current information about Linde shares is to be found on our website www.linde.com in the Investor Relations section. You can obtain information or answers to your questions by ringing our hotline on +49 (0) 611 770-128. You are also welcome to send us your questions on-line at investorrelations@linde.com.

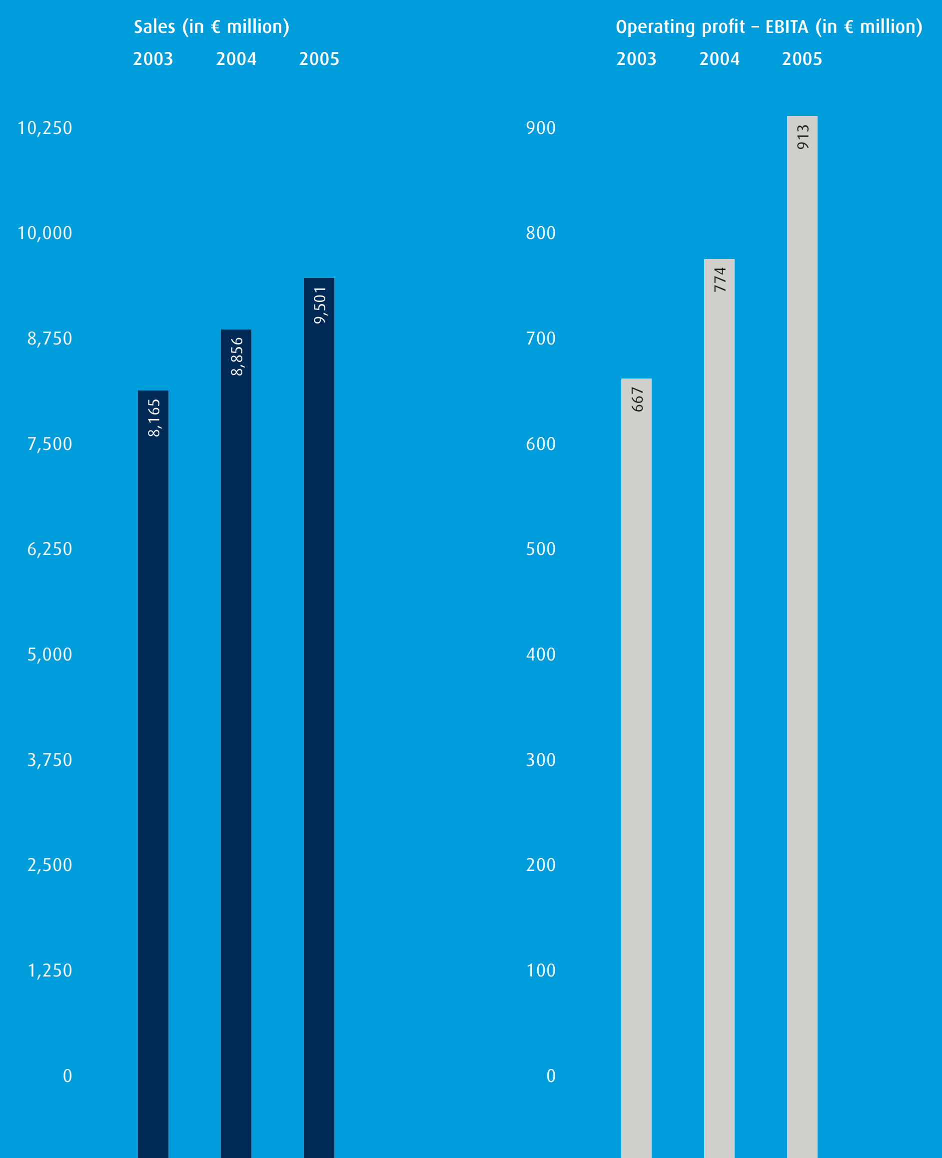
Linde share information

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

Group Management Report

During the year 2005, we have benefited from a generally positive economic environment and achieved a 7.3 percent increase in sales to €9.501 billion (2004: €8.856 billion). Group operating profit (EBITA) improved by 18.0 percent in 2005 to €913 million (2004: €774 million).

Group sales and Group EBITA



Value-based management

The Linde Group pursues a strategy of sustainable earnings-based growth and aims to achieve a steady increase in corporate value. To make an accurate assessment of the success of this strategy and to ensure that we monitor it, we have defined return on capital employed (ROCE) as the key target for our value-based management.

In the Linde Group, earnings before taxes on income plus interest charges and the interest costs for pension provisions are divided by the average capital invested. In the individual business segments and divisions, operating profit (EBITA) plus the interest costs for pension provisions is divided by the average capital invested. The return on capital employed showed positive trends in 2005 in both business segments.

ROCE by business segment

	2005	2004
Gas and Engineering	14.5 %	12.8 %
Linde Gas	11.8 %	10.9 %
Linde Engineering	20.4 %	16.7 %
Material Handling	13.1 %	12.3 %
Group	12.5 %	10.8 %

Macroeconomic environment

Global economy

The world economy expanded rapidly in 2005, despite high prices for crude oil and raw materials. Negative effects were offset by low interest rates in the capital markets, monetary policy which was geared towards expansion and the favorable results of operations in companies.

Despite overall positive signs, economic trends in the various regions were very different. Most of the growth in the world economy in 2005 was again generated by the United States, with the American economy expanding at a rate of 3.5 percent. Exports increased substantially, while imports rose at a slower rate than in the previous year. However, for the first time in two years, the import surplus in the US did not increase. The hurricanes off the coast of Florida, which caused great damage in 2005, have not had a lasting effect on economic growth.

The second major driving force behind the global economy is China. The economy there expanded at a rate of over 9 percent, once again approaching double-digit growth, but the first signs of a slowdown have started to appear. Various administrative measures contributed towards cooling the overheated investment climate.

In Japan, there was an economic upturn after a temporary lull in economic growth.

The oil-producing countries had substantial current account surpluses in 2005.

The eurozone once again failed to gain access to the global growth centers in 2005. Business momentum here remained weak, with economic growth of 1.3 percent. A crucial factor was the increase in oil prices, which had a significant adverse effect on demand from private households. However, the mood in industry started to improve somewhat, due to a higher level of incoming orders and the depreciation of the euro. Fresh impetus was also created by EU enlargement.

Exports to oil-producing countries increased in the course of the year, as their purchasing power improved significantly, due to a considerable increase in revenue from oil sales.

German economy

The economic recovery in Germany continued to proceed at a snail's pace in 2005. One of the main reasons was the high price of crude oil and the associated increase in energy prices.

Private consumption showed little movement, given the decline in general purchasing power. In Germany, the biggest headache continued to be the sluggish domestic economy. Economic growth stood at a mere 0.9 percent.

Exports on the other hand reached new record levels. In particular, the German economy benefited from the continuing improvement in its competitiveness compared with the rest of the eurozone. Almost half of German exports were to the eurozone. However, these positive trends did not lead to any significant upturn in the labor market, which remains under pressure.

The increase in investment has only had a moderate impact, due to a poor outlook for domestic sales. Here too, only strong exports ensured positive trends.

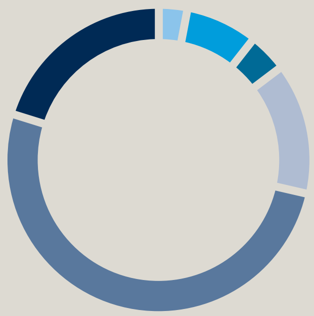
Linde Group

In the description of business trends below, the prior year figures have been restated to comply changes in accounting policies (restated). To ensure a meaningful comparison between the figures for 2005 and 2004, we have also adjusted the prior year figures to reflect the sale of the Refrigeration business segment and the fact that goodwill is no longer amortized (restated and comparable).

Following a good business performance in 2004, we benefited during 2005 from a generally positive economic environment, achieving a 7.3 percent increase in sales to €9.501 billion (2004: €8.856 billion). After adjusting for exchange rate effects, this represented a rise of 6.3 percent. Sales in Germany grew 4.6 percent to €1.922 billion (2004: €1.837 billion), while sales outside Germany rose by 8.0 percent to €7.579 billion (2004: €7.019 billion). Incoming orders also showed a significant improvement of 23.4 percent from €8.917 billion to €11.008 billion.

Sales: Analysis by region

- Germany 20.2 % (2004: 20.7 %)
- South America 4.1 % (2004: 3.6 %)
- Other Europe 51.2 % (2004: 55.0 %)
- Asia 7.6 % (2004: 5.7 %)
- North America 13.9 % (2004: 11.8 %)
- Australia/Africa 3.0 % (2004: 3.2 %)



Results of operations

Group operating profit (EBITA) improved greatly in fiscal 2005, increasing by 18.0 percent to €913 million (2004: €774 million). One reason for this positive trend was the success of our current programs to improve efficiency and enhance our earning power.

Earnings before taxes on income (EBT) went up from €622 million to €789 million.

The EBITA return on sales was 9.6 percent (2004: 8.7 percent).

Return on capital employed (ROCE) stood at 12.5 percent in 2005 (2004: 10.8 percent).

The net income for the year after minority interests increased from €380 million to €501 million.

Earnings per share rose from €3.19 to €4.19.

After deducting the figure for the cost of sales, the Linde Group made a gross profit of €3.018 billion in fiscal 2005, which is shown in the income statement prepared using the cost of sales method.

Other operating income fell by 7.5 percent to €209 million (2004: €226 million). Other operating expenses also declined from €130 million to €106 million.

As in the previous year, earnings were not affected by any special items in 2005.

The financial result, a loss of €124 million, was the same as in 2004.

The income tax rate fell from 38 percent in 2004 to 35 percent in 2005.

Results of operations

	2005		2004*	
	in € million	in %	in € million	in %
Sales	9,501	100.0	8,856	100.0
Cost of sales	6,483	68.2	6,091	68.8
Gross profit on sales	3,018	31.8	2,765	31.2
Marketing and selling expenses	1,322	13.9	1,237	14.0
Research and development costs	174	1.9	166	1.9
Administration expenses	712	7.5	684	7.7
Other operating income	209	2.2	226	2.6
Other operating expenses	106	1.1	130	1.5
EBITA	913	9.6	774	8.7
Goodwill impairment losses	–	–	28	0.3
Financial result	–124	–1.3	–124	–1.4
Earnings before taxes on income (EBT)	789	8.3	622	7.0
Taxes on income	279	2.9	237	2.7
Earnings after taxes on income	510	5.4	385	4.3
Minority interests	–9	–0.1	–5	0.0
Net income after minority interests	**501**	**5.3**	**380**	**4.3**

* Restated and comparable.

Sales and EBITA by business segment

	2005		2004*	
in € million	Sales	EBITA	Sales	EBITA
Gas and Engineering	5,831	783	5,406	682
Linde Gas	4,438	721	4,003	639
Linde Engineering	1,623	89	1,581	68
Material Handling	3,628	223	3,372	194
Corporate	42	–93	78	–102
Group	**9,501**	**913**	**8,856**	**774**

* Restated and comparable.

Gas and Engineering

Gas and Engineering: Significant increase in sales

The Gas and Engineering business segment benefited in 2005 from a good performance in both its divisions, Linde Gas and Linde Engineering. Sales rose 7.9 percent to €5.831 billion (2004: €5.406 billion). Incoming orders increased significantly by 33 percent to €7.179 billion. Operating profit (EBITA) of €783 million was well above the prior year figure of €682 million.

Gas and Engineering

in € million	2005	2004*
Sales	5,831	5,406
Incoming orders	7,179	5,394
ROCE	14.5 %	12.8 %
Number of employees	22,191	21,787

* Restated and comparable.

Linde Gas: Positive business trends

The Linde Gas division achieved sales of €4.438 billion in fiscal 2005, 10.9 percent higher than in the prior year. After adjusting for exchange rate effects, the increase was 9.0 percent. Operating profit (EBITA) rose by 12.8 percent to €721 million (2004: €639 million). Return on capital employed (ROCE) was 11.8 percent for the fiscal year 2005. The GAP (Growth and Performance) optimization program launched during the year also contributed to these positive business trends. Under this program, we will be making continual improvements to our structures and operations, reducing costs still further and identifying and exploiting new opportunities for growth.

Linde Gas

in € million	2005	2004*
Sales	4,438	4,003
EBITA	721	639
ROCE	11.8 %	10.9 %
Capital expenditure (excluding financial assets)	658	528
Number of employees	17,783	17,570

* Restated and comparable.

Sales in Europe in 2005 increased by 6.5 percent to €3.025 billion (2004: €2.841 billion). Our business in Eastern Europe performed particularly well. We continued to develop our leading market position in this area.

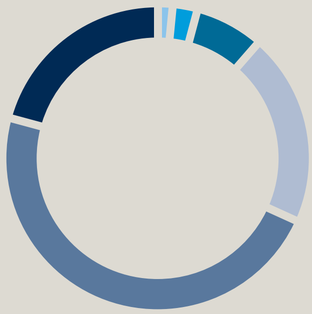
In the past year, we have also seen positive business trends in North America. Sales increased by 14.3 percent to €904 million (2004: €791 million). After adjusting for exchange rate effects, the rise in sales was 13.6 percent. Our North American on-site business in particular achieved above-average growth, with a 50 percent increase in sales.

Sales in South America rose 21.4 percent to €329 million (2004: €271 million). All the product segments achieved an increase in sales. Our bulk business showed particularly dynamic growth.

In Asia, sales more than doubled from €55 million to €117 million. This good performance was underpinned by our stronger presence in Singapore, Malaysia and Thailand.

Linde Gas: Sales by region

Germany 20.8 % (2004: 22.1 %)
Other Europe 47.4 % (2004: 48.8 %)
North America 20.4 % (2004: 19.8 %)
South America 7.4 % (2004: 6.8 %)
Asia 2.6 % (2004: 1.4 %)
Australia/Africa 1.4 % (2004: 1.1 %)



On-site: Leading position in Eastern Europe strengthened

In the past year, the on-site business, where we supply industrial gases to the customer from plants situated directly on the user's site, was one of the most important growth areas worldwide for the Linde Gas division. In 2005, we again achieved double-digit growth in sales, which increased by 23.0 percent to €1.010 billion from €821 million in 2004. In this segment, we benefit particularly from the close cooperation between the Linde Gas and Linde Engineering divisions.

We were able to continue to strengthen our position in the on-site market especially in Eastern Europe as a result of various projects. For example, we entered into a contract to supply a steelworks for the Russian Maksi Group in Berezovsky (Sverdlovsk region) with oxygen, nitrogen and argon. The long-term contract covers the construction of a new air separation plant, which will use its liquid capacity to supply the regional market. The capital outlay is more than €25 million.

In the third quarter of 2005, we brought on stream a second plant in the Hungarian town of Kazincbarzika to supply our customer BorsodChem RT with hydrogen and carbon monoxide. Moreover, we constructed a new air separation plant in this location. This means that Kazincbarzika now boasts the largest industrial gases production plant in Hungary, with capital outlay of over €50 million. Our main customer BorsodChem RT is the leading Eastern European producer of isocyanates, which are used as an intermediate product in the manufacture of polyurethane (see glossary).

We also built the biggest air separation plant in the Czech Republic in Vřesová for over €60 million to supply oxygen to our customer Sokolovská Uhelná. The company uses the oxygen for the partial oxidation of lignite. Electric current is produced based on Clean Coal Technology, a process which is much more environmentally friendly than the direct burning of lignite.

Around 180 kilometers north-west of Bucharest in Romania, we built an air separation plant, which provides the chemical company Oltchim SA with oxygen and nitrogen under a long-term supply contract. Oltchim SA uses the gases to manufacture the base materials for polyvinylchloride production (see glossary).

Our Western European business also continued to develop positively. We entered into a ten-year supply agreement with our customer Total to provide oxygen to a refinery in the French town of La Mede. We are also currently in the process of building a new air separation plant for the company in Germany at the Leuna site, which will replace two older plants in 2007. The capital outlay is more than €20 million.

We brought on stream an unmanned, fully-automated, new-generation steam reformer (see glossary) for the production of hydrogen for the chemical company Cognis France s.a. at its site in Boussens near Toulouse. Cognis uses the hydrogen to produce primary oleochemical products such as fatty acids, glycerin, fatty acid methyl esters and fatty alcohols.

In the past few years, we have continued to reinforce our market position as a supplier of gases to the cellulose industry. Linde Gas has moved forward in this area by supplying customers in Sweden, Finland, Slovakia and Germany with gases under the ECOVAR® concept. This trend continued during the reporting year with orders for the cellulose industry in Chile. The basis of the ECOVAR® concept is the cost-effective production of gases in customized on-site production plants in conjunction with an on-site storage tank. We are expanding our business activities in the South American cellulose market as a result of a supply agreement with our Chilean customer CMPC. The contract includes the construction of a new air separation plant in Nacimiento, Santa Fe, and the relocation of an existing oxygen plant to Laja. The capital outlay is almost €10 million. Production is scheduled to start in October 2006.

Our on-site business is becoming increasingly important due to ECOVAR®/REBOX® plants, in which the established ECOVAR® supply concept is combined with innovative REBOX® oxyfuel technology for metallurgy (see glossary). This process reduces the operating time for steel production without having to enlarge the production plant, due to the increased capacity of the annealing furnaces. It also reduces emissions and therefore greatly benefits the environment. In the United States, we have attracted new customers, North American Forgemasters (NAF) and Scott Forge, for this technology.

In order to meet the rising demand for hydrogen from our customers in the growth market in Asia, we intend to increase our supply capacity at the Xiamen site in China with a new hydrogen plant, which will replace the existing small plant from the middle of 2006.

We will also be building two CRYOSS® 1250 plants to supply nitrogen to Bayer Polymers Shanghai. These should come on stream in May 2006. By constructing new plants, we are strengthening our commitment to the Chinese gases market.

Cylinder and bulk: Position reinforced

Sales in the bulk business increased by 8.4 percent to €1.215 billion (2004: €1.121 billion), while sales in the cylinder business rose 4.8 percent to €1.644 billion (2004: €1.568 billion).

Within these product segments, the specialty gas business is becoming increasingly important. Our business has expanded as a result of several major orders and capital projects. Linde Gas has, for example, built the first specialty gas plant in China for the electronics industry in Suzhou High Tech Park, 70 kilometers west of Shanghai. The plant is one of the most modern of its kind in the world. Its customers will include wafer, LCD and LED manufacturers and other companies in the optoelectronic industry from China, Taiwan and Korea, as well as Singapore, Japan, Malaysia and Australia. The plant will be completed in March 2006.

We have also constructed a new specialty gases production plant near Stockholm. The computerized plant can produce high-purity gases for use in pharmaceutical production, biotechnology and the petrochemical industry.

At the beginning of 2005, we entered into a joint venture with Nippon Sanso. Under this joint venture, we supply specialty gases to European customers in the semi-conductor, solar cell and optoelectronic industries. In order to meet the rising demand from our customers in this segment, in September 2005 we started building a new semi-conductor production center in Unterschleissheim in Germany. The plant is scheduled for completion in Summer 2006.

Our noble gases business is also continuing to grow. In Algeria, we are currently constructing a helium liquefaction plant. With this new plant, we intend to supply even more helium to the market for magnetic resonance tomography and to offer our customers relevant additional services. During 2005, we signed a ten-year contract with Siemens Mindit Magnetic Resonance Ltd in Shenzhen in China. Our customer uses the helium supplied to cool magnetic coils down to −269°C, to make them superconductive. As a result, electricity can flow with no resistance and a very strong magnetic field can be created.

In 2005, we built a new helium filling plant in Dunaújváros in Hungary to enable us to provide better supplies of helium in the future to the Eastern European market. Until now, the gas has had to be exported from Germany to Eastern Europe.

Linde Gas: Sales by product segment

in € million	2005	2004	Change
Bulk	1,215	1,121	8.4 %
Cylinder	1,644	1,568	4.8 %
On-site	1,010	821	23.0 %
Healthcare	711	634	12.1 %
Total (consolidated)	**4,438**	**4,003**	**10.9 %**

The Swedish subsidiary of Linde Engineering, CRYO AB, has launched onto the market an important innovation in the transportation of liquefied helium. With the development of Helicon, a special helium container with a capacity of 38,000 liters, we are no longer dependent on what was previously the only supplier in the world of such containers. Moreover, this development will enable us in future to offer our customers a complete helium supply package, including flexible, efficient transport.

In 2005, we also took account of the growing business in liquefied hydrogen. Until now, we have supplied our customers from Germany's only industrial liquefaction plant in Ingolstadt. To expand our supply capacity, we are now building Germany's second hydrogen liquefaction plant at the chemical site Leuna. The project, which requires a capital outlay of over €20 million, will be completed by the middle of 2007, right next to the hydrogen production plants also operated by Linde.

Healthcare: Further approvals for INOmax®

In the Healthcare segment, i.e. the medical gases business, double-digit growth in sales was once again achieved, with sales increasing in the course of the year by 12.1 percent to €711 million (2004: €634 million).

Linde's healthcare activities are grouped together in the Linde Gas Therapeutics business unit. This business unit includes the following segments: Institutional (which supplies medical and therapeutic gases and equipment to hospitals), Respiratory Homecare (which provides care for patients in their own homes) and INO Therapeutics (which treats term and near-term neonates for respiratory failure).

In the Respiratory Homecare segment, we achieved a significant increase in sales of 22.8 percent to €178 million (2004: €145 million) because of acquisitions.

Sales of products in the INO Therapeutics segment rose during the reporting period by 12.7 percent to €115 million (2004: €102 million). Part of this increase was due to INOmax® being approved as a pharmaceutical in Canada, Argentina, Chile and Uruguay. The product is already on the market in the United States, the European Union and Switzerland. We are currently researching potential new applications for INOmax®.

We are also conducting clinical trials on the new pharmaceutical iCO. The product has now reached Clinical Phase I, when safety tests will be conducted, and will then be tested for use in preventing the rejection of transplanted organs.

We achieved an 8.0 percent increase in sales in the Institutional segment to €418 million (2004: €387 million).

Linde Gas: Healthcare segment

in € million	2005	2004
Sales		
Institutional	418	387
Homecare	178	145
INO	115	102
Total	**711**	**634**
Capital expenditure (excluding financial assets)	65	67
Number of employees	2,410	2,272

Linde Engineering: A record level of incoming orders

During the fiscal year, our Linde Engineering division continued to give an impressive performance, especially in terms of operating profit and incoming orders. Sales increased by 2.7 percent to around €1.623 billion (2004: €1.581 billion). Linde Engineering achieved a significant 30.9 percent rise in operating profit (EBITA) to €89 million (2004: €68 million). Our return on operating capital (ROCE) for the fiscal year 2005 was 20.4 percent. Incoming orders reached a new record level of €2.913 billion (2004: €1.525 billion). This positive trend was partly due to the increase in the number and size of contracts for olefin and air separation plants. Orders on hand also grew rapidly, increasing by 65 percent to €3.305 billion (2005: €2.003 billion).

Linde Engineering

in € million	2005	2004*
Sales	1,623	1,581
Incoming orders	2,913	1,525
Order backlog	3,305	2,003
EBITA	89	68
ROCE	20.4 %	16.7 %
Capital expenditure (excluding financial assets)	23	13
Number of employees	4,408	4,217

* Restated and comparable.

We have expanded our engineering business into virtually all the important markets in the world. In 2005, only Europe as a whole was characterized by a difficult environment. Sales here declined from €968 million in 2004 to around €744 million in 2005. In Germany, however, we saw a good business performance. Sales here rose to €176 million (2004: €114 million). This increase was due above all to the invoicing of projects in the hydrogen and synthesis gas plant segment.

We have seen exceptionally positive business trends in the Middle East region. Due to the very good order book position for air separation, hydrogen and ethylene plants, we have achieved a 57.4 percent increase in sales to €170 million. Furthermore, in fiscal 2005 we were awarded major contracts in this region with a total value of €1.125 billion.

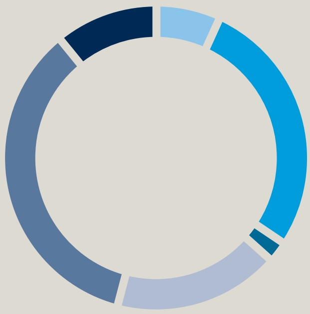
Fresh impetus also came from the Asia/Pacific region. Our sales here rose 45.4 percent to €455 million. We benefited not only from the good project situation for hydrogen and synthesis gas plants, but also in particular from the increasing demand for natural gas plants.

In North America, our sales improved from €139 million to €284 million, mainly as a result of very positive trends in hydrogen and synthesis gas plants.

In South America, our business also saw above-average growth. Due to a good order book position for air separation plants, we achieved sales here of €37 million (2004: €17 million).

Linde Engineering: Sales by region

Germany 10.9 % (2004: 7.2 %)
Other Europe 35.0 % (2004: 54.0 %)
North America 17.5 % (2004: 8.8 %)
South America 2.2 % (2004: 1.1 %)
Asia 27.6 % (2004: 19.7 %)
Australia/Africa 6.8 % (2004: 9.2 %)



Olefin plants: Positive climate for investment

Our business in olefin plants, which produce the petrochemical primary products ethylene and propylene, benefited in fiscal 2005 from the fact that the backlog of investment projects was finally being tackled and from the vastly improved investment climate associated with this. The mood of investors in 2004 had been dampened mainly as a result of political factors throughout the Middle East. Due to this unusual situation, the market potential for olefin plants more than quintupled in 2005 compared with the previous year. The increased financial muscle of some individual customers, as a result of the high prices of oil and gas, led to a spate of projects such as had not been seen for some time, with total contracts awarded of around €15 billion by 2006.

Linde Engineering has improved its market position in this segment, based on its own technologies, and therefore benefited to an even greater extent from the good market growth. In 2005, we have expanded our leading role in the construction and extension of olefin plants in Europe, the Middle East and China.

In Iran, for example, we are currently completing the largest ethylene plant in the world together with the local company Sazeh and Hyundai Engineering. The contract is for the construction of two plants with a total capacity of 2.4 million tonnes per annum and has a value of around €400 million.

In collaboration with Samsung Engineering Corporation Ltd, we were also awarded the first contract for a complete ethylene plant by a private consortium. The total value of the contract will be around €300 million.

In China, we are involved with local partners in the Dushanzi project, the largest ethylene plant in the country. The value of our contract for the entire project is around €110 million.

We are building a two train polyethylene plant which employs the gas phases process (see glossary) for the Eastern Petrochemical Company in Saudi Arabia. The total value of this contract is around €500 million. Polyethylene is one of the most important mass-produced plastics, with high demand growth especially in China and India. The Eastern Petrochemical Company is a consortium with participation from Japanese investors, which is led by the partly state-owned Saudi Basic Industrial Corp. (SABIC). The plant should come on stream in the first half of 2008.

Further impetus in the olefin plant segment came from the African region. Our South African customer Sasol awarded us the contract for the design, procurement and assembly of another octene plant, and for supervising the commissioning of the plant. The total value of the contract was around €170 million. The new plant should be handed over to Sasol at the end of April 2007.

We obtained two very important projects in Europe in 2005. BASF awarded us a contract to increase the capacity of a naphtha steam cracker (see glossary) built by Linde in the Belgian town of Antwerp. This will create one of the largest plants in the world of this type for liquid feedstock. The total value of the contract to Linde will be around €180 million. We will also supply BPP Gelsenkirchen with five cracking furnaces (see glossary) for the production of ethylene and replace some older ones. This contract is worth around €130 million.

Natural gas plants: Reinforcing our leading position

There have been positive trends in the natural gas plant business in the course of 2005, due to the high level of demand from downstream industries. The global market grew by 5 percent during the year. In this favorable environment, we have reinforced our position as a leading supplier of the whole technology chain.

In July 2005, we reached a milestone in the construction of the largest natural gas liquefaction plant in Europe off the coast of Norway. The processing plant, which forms the centerpiece of the plant and includes heat exchangers, refrigerant compressors and its own generating plant, was transported across the sea for 2,700 nautical miles from the Spanish shipyard in Cadiz to Hammerfest in Norway on schedule and installed there. The total contract value of the Hammerfest project for Linde over the whole project period will be over €800 million.

In Eastern Europe, we delivered eight coil-wound heat exchangers (see glossary) under a contract from Sakhalin Energy Investment Corp. for a two train LNG plant (see glossary) designed to use the shell process (see glossary) in Sakhalin in Russia. The total value of the contract was €49 million.

Hydrogen and synthesis gas plants: Good business performance in Asia

The rise in the global demand for fuel and the stricter legal requirements regarding the purity of fuels ensured that there was still a rapidly growing world market for plants which produce hydrogen, which are used to process heavy oil fractions and to desulfurize fuels. The good business performance was mainly in the Asian and US markets.

In 2005, we received an order from the biggest refinery operator in India, Reliance Industries, to build five hydrogen plants on the Jamnagar site. The value of the order is around €145 million. This will create in Jamnagar one of the largest production sites in the world for high-purity hydrogen.

We won an order from our customer BOC in the United States to build two hydrogen plants on the Lima and Salt Lake City sites. The total value of the order was around €37 million.

We have strengthened our Asian business with an order from a large Japanese gases producer to build a hydrogen liquefaction plant. The value of the order to Linde is €16 million. The subsidiary carrying out the work, Linde Kryotechnik AG, is one of the few companies in the world which can supply specialized plants to the growth market for liquefied hydrogen.

Another important order received by Linde Kryotechnik is to construct a hydrogen liquefaction plant for Linde Gas on the German chemical site, Leuna.

Positive trends were seen not only in our hydrogen plant business, but also in our synthesis gas product segment, particularly in Asia and in the United States.

We reinforced our US business once more with an order from BOC to build the largest cold-box (see glossary) in the world to extract carbon monoxide from synthesis gas. The total value of the order to Linde is around €11 million.

Air separation plants: Incoming orders at a record level

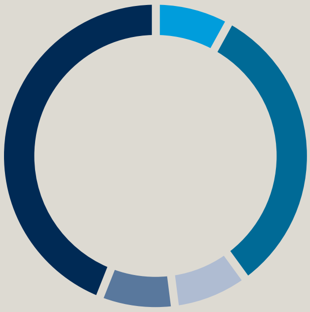
In our air separation plant business in 2005, we again achieved a record level of incoming orders (€940 million), following on from a very successful year in 2004, when incoming orders reached €483 million. This represents an increase of around 95 percent. This positive trend was due mainly to the high demand for oxygen in the rapidly-growing Chinese steel industry and the rising demand for air gases for petrochemical projects in the Middle East .

For SABIC, we are building three air separation plants for a total of more than €400 million. Already in 2004, we constructed the biggest air separation plant in the Middle East in Al Jubail, Saudi Arabia.

We have consolidated our position in the growth market of China during 2005. We are supplying an air separation plant to Baoshan Iron & Steel Co. for the expansion of the largest steelworks in China for around €30 million. We are also building two oxygen plants for China Shenhua Coal Liquefaction Corp., which is implementing one of the first major projects in China for the partial oxidation of coal (Coal to Liquid). The total value of the order is around €31 million. We were also able to expand our business in Russia by delivering air separation plants for the Lipezk steelworks and for the nickel smelter Norilsk Nickel.

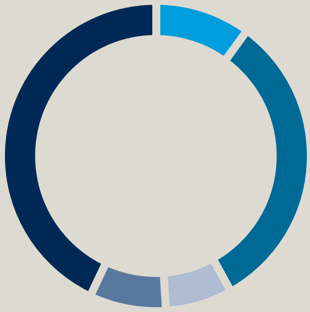
Linde Engineering: Incoming orders by plant type

- Olefin 44 % (2004: 28 %)
- Natural gas 8 % (2004: 13 %)
- Syngas 8 % (2004: 12 %)
- Air separation 32 % (2004: 32 %)
- Others 8 % (2004: 15 %)



Linde Engineering: Order backlog by plant type

- Olefin 43 % (2004: 27 %)
- Natural gas 8 % (2004: 19 %)
- Syngas 7 % (2004: 12 %)
- Air separation 32 % (2004: 27 %)
- Others 10 % (2004: 15 %)



Material Handling

Market conditions started to improve for our Material Handling business segment in fiscal 2004, so we were able to benefit from an increase in worldwide demand for industrial trucks in 2005. However, the growth rates in the three largest industrial truck markets in the world, Europe, Asia and North America, eased off in comparison with the previous year.

Against this industry background, our upward trend continued. Sales rose 7.6 percent to €3.628 billion (2004: €3.372 billion). This means that we have grown at a faster rate than the world market and were able to win additional market share.

Operating profit improved by 14.9 percent to €223 million (2004: €194 million), thanks to our measures to enhance efficiency and increase profitability. One of these measures was the GO (Growth and Operational Excellence) program, which replaced the TRIM.100 program on schedule in 2005. GO comprises a number of activities, which not only aim to improve cost structures on a continual basis, but also to open up new areas of growth.

To achieve sustainable increases in earnings, we are focusing in particular on improvements to core processes in the area of research and development and on greater efficiency in production, logistics and purchasing. Under the GO program, we have already achieved a significant result. At the German sites of our Linde and STILL brands, we have entered into works agreements with our employees, on the basis of which we will continue to improve our cost efficiency and enhance our earning power. The agreements will come into force gradually and will result in an annual improvement in earnings in the high double-digit millions. In return, we made a commitment to the employees to keep the current production sites and assured them that we would not set up any more production sites in Eastern Europe. These assurances are valid for a period of six years. The works agreement may be terminated if economic and operational conditions change significantly and for good.

The GO optimization program has contributed greatly to the improvement in the return on capital employed (ROCE). For fiscal 2005, the return on capital was 13.1 percent.

We successfully launched a second Material Handling brand in China under the name OM Pimespo, in order to strengthen our market position. With OM, we are broadening our local product range and will be able to offer quality products in a mid-range price segment. With the expansion of our distribution and dealer network in China, we intend to benefit even more from the above-average growth in the region.

Incoming orders in fiscal 2005 increased by 10 percent to €3.787 billion (2004: €3.442 billion). Orders in all the product groups were up in this period, especially for electric trucks, warehouse equipment and hydraulic systems.

Material Handling

in € million	2005	2004*
Sales	3,628	3,372
Incoming orders	3,787	3,442
EBITA	223	194
ROCE	13.1 %	12.3 %
Capital expenditure (excluding financial assets)	191	176
Number of employees	19,323	18,878

* Restated and comparable.

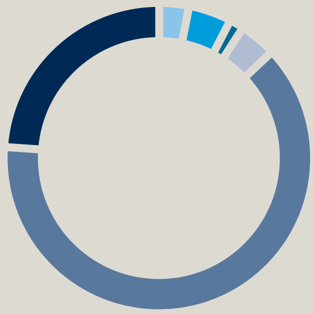
In Europe, our most important sales market, we achieved sales of €3.157 billion (2004: €2.970 billion). This consisted of above-average growth in Eastern Europe and only slight growth in the rest of Europe. Overall, the European market for industrial trucks increased by 3.9 percent in 2005.

Our business in North America performed well. Sales rose 28 percent to €143 million (2004: €112 million). Therefore, we grew faster than the market, which rose by 6.4 percent in the course of 2005.

In Asia, the market for industrial trucks grew by 7.8 percent. In this favorable environment, we achieved a 2.5 percent increase in sales to €162 million (2004: €158 million).

Material Handling: Sales by region

Germany 23.9 % (2004: 24.6 %)
Other Europe 63.1 % (2004: 63.5 %)
North America 3.9 % (2004: 3.3 %)
South America 1.5 % (2004: 1.1 %)
Asia 4.5 % (2004: 4.7 %)
Australia/Africa 3.1 % (2004: 2.8 %)



Improvement in market positions due to innovations

In future, we will continue with our tried and tested strategy of offering three different brands, Linde, STILL and OM. This means that we can provide our customers with specific solutions and that we can be very flexible in our reactions to the market.

We combined the traction segment of our Linde brand with all other component works in the Material Handling business segment in 2005 to form the Linde Hydraulics business unit, so as to bundle together more closely our competences in the area of traction electronics.

As in the past, innovative products continued to be the key in fiscal 2005 to improving our global leading market position in the Material Handling business segment. All three brands exhibited the most recent results of their development work at CEMAT in Hanover, the largest trade fair in the world for intralogistics (see glossary).

Linde: Leading position in warehouse technology

Our Linde brand continued to improve its leading position in 2005 in the warehouse technology segment with new products. With the R14X to R17X reach truck models, for example, we have developed a trend-setting concept, where a mobile fork carriage assumes both the fork reach and tilt functions. As a result, the new models have higher warehouse turnaround with reduced reach travel. Compared with conventional reach trucks, they achieve 15 percent higher productivity. The special mast, where the mast profiles are positioned far apart from each other, also ensures excellent visibility. Therefore, we are in a unique position in the market.

In addition, we expanded our marketing operations in Poland, Slovakia and the Czech Republic, laying the foundations for even greater participation in the strong market growth in Eastern Europe.

In China, we are continuing to apply our localization strategy, with products which are tailored to the precise requirements of the market. Therefore, we intend to expand the production program at our works in Xiamen in fiscal 2006 to include a new electric counterbalanced truck.

STILL: Technological leadership in electric trucks

Our STILL brand once again demonstrated its technological leadership in electric trucks in fiscal 2005. With the RX20 and RX60 electric trucks, STILL has developed a product family which not only features higher performance combined with lower energy consumption. The new concept of a lateral battery change also makes it possible for many functional improvements to be made.

In addition, with the EXU electric pallet truck, we have brought to the market a solution for particularly exacting requirements. With this, we will be able to strengthen our position, particularly in Europe. We have received our first order for the new series from a large food retail chain in France. The company has ordered more than 300 pieces of equipment, including models of the recently launched CS series order picker (see glossary), for its sales outlets in France. By 2006, we will have delivered a total of over 1,100 pieces of equipment to another French customer for Europe, of which 650 will be going to France alone.

Moreover, our position in the Eastern European growth market has improved with the establishment of a subsidiary in Moscow.

OM Pimespo: Strengthening our international presence

Our OM brand, where we offer quality products in the mid-price range, strengthened its position in 2005 in various international markets. The entry onto the Chinese market and the associated launch of a second Material Handling brand in addition to Linde went well. In the first twelve months, we completed local production of the XD-25/30 diesel forklift and established an efficient dealer network, and we have already received around 400 orders. Components manufactured in China are also being used for Europe. This will enable us to strengthen the competitive position of OM in Europe still further.

We have also strengthened OM's business in Eastern Europe, Africa and the Middle East by adopting various measures. We are currently restructuring our marketing operations in Eastern Europe and, as a result, we will benefit to a greater extent from the above-average market growth in this region. Our leading position in Italy in fiscal 2005 was confirmed by orders from major customers.

Material Handling: Analysis by brand

in € million	Linde		STILL		OM Pimespo	
	2005	2004	2005	2004	2005	2004
Sales[1]	2,346	2,153	1,197	1,115	252	239
Incoming orders[1]	2,469	2,212	1,219	1,123	273	243
Sales (in units)[1]	71,562	69,337	36,850	34,593	16,765	15,646
Number of employees	12,024	11,525	6,113	6,224	1,186	1,129

[1] Consolidated within the brands.

Net assets and financial position

The total assets of the Linde Group rose in 2005 by €891 million to €12.526 billion (2004: €11.635 billion), as a result of the expansion in Linde's business activities.

Non-current assets increased by €502 million to €8.566 billion (2004: €8.064 billion) after amortization, depreciation and disposals, mainly as a result of purchases of tangible fixed assets of €715 million.

Due to the good order book position in both business segments, inventories rose by €82 million to €1.024 billion (2004: €942 million). Current trade receivables increased by €155 million to €1.564 billion (2004: €1.409 billion).

Securities, cash and cash equivalents rose by €344 million to €911 million (2004: €567 million).

Equity increased by €467 million to €4.413 billion (2004: €3.946 billion), mainly as a result of the significant growth in net income. Based on total assets, this represents an equity ratio of 35.2 percent (2004: 33.9 percent).

Provisions stood at €2.598 billion, €295 million higher than the figure for the previous year. This was due mainly to increases in the provisions for warranty obligations and risks from transactions in course of completion.

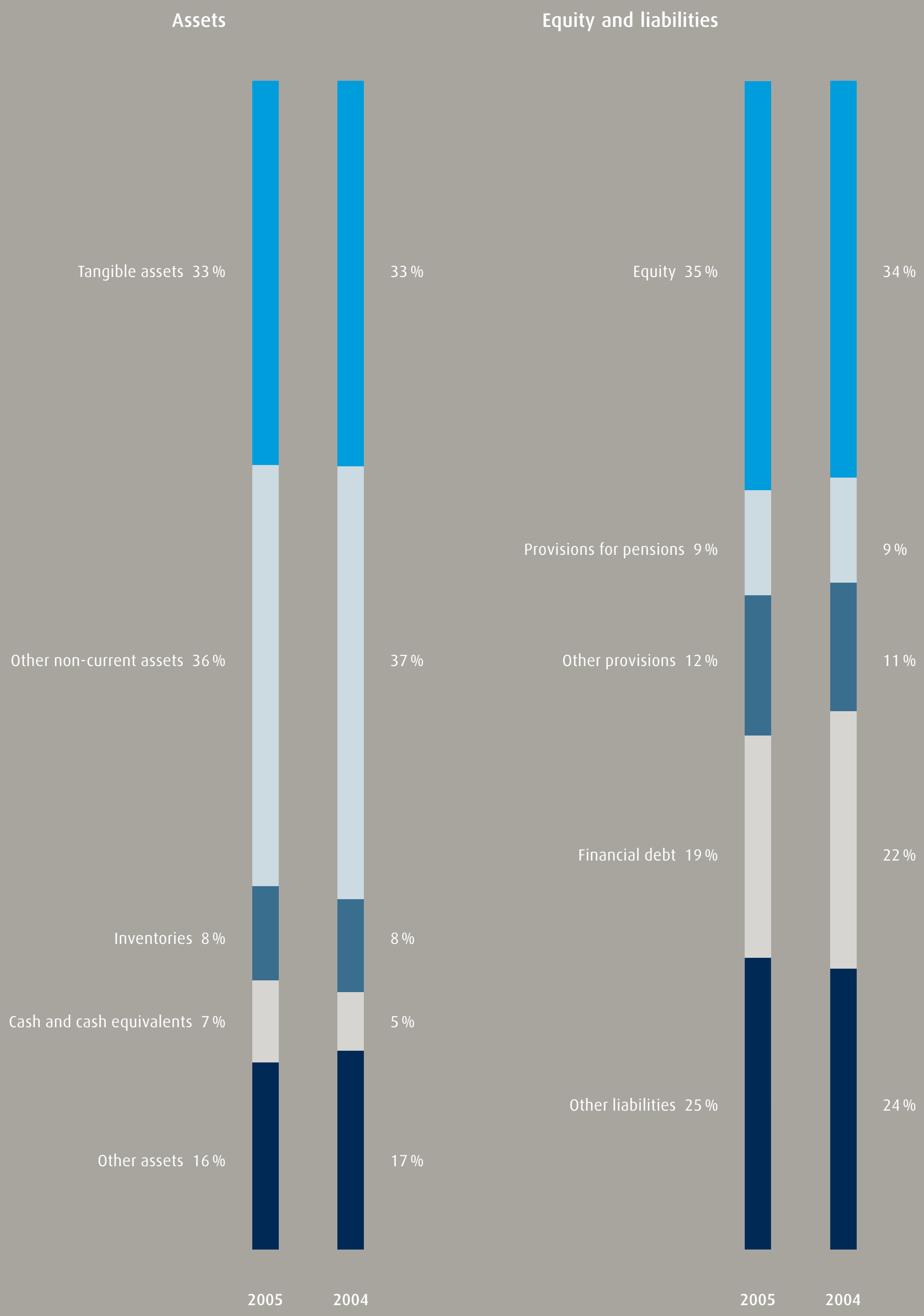
In fiscal 2005, we continued to reduce the Group's net financial debt, which fell by €463 million to €1.505 billion. This means that in the past four years we have managed to lower our net financial debt by around €2 billion.

Liabilities from financial services fell from €523 million to €511 million, while receivables from financial services amounted to €205 million (2004: €214 million).

Trade payables increased by €271 million to €1.471 billion.

Included in assets held for sale is an amount of €23 million and in liabilities an amount of €11 million relating to Linde Ladenbau GmbH & Co. KG, which was sold in December 2005. The legal transfer took place at the end of January 2006.

Balance sheet items as a percentage of total assets of €12.526 billion (2004: €11.635 billion)



Cash flow statement

Cash flow from operating activities in fiscal 2005 rose 14.3 percent to €1.435 billion (2004: €1.255 billion). Expressed as a percentage of sales, this gives a ratio of 15.1 percent (2004: 14.2 percent), once again a very good figure, due to the fact that net income in 2005 significantly exceeded that of the previous year.

Cash flow from investing activities increased by €92 million to €823 million. Expenditure on tangible and intangible fixed assets was €836 million.

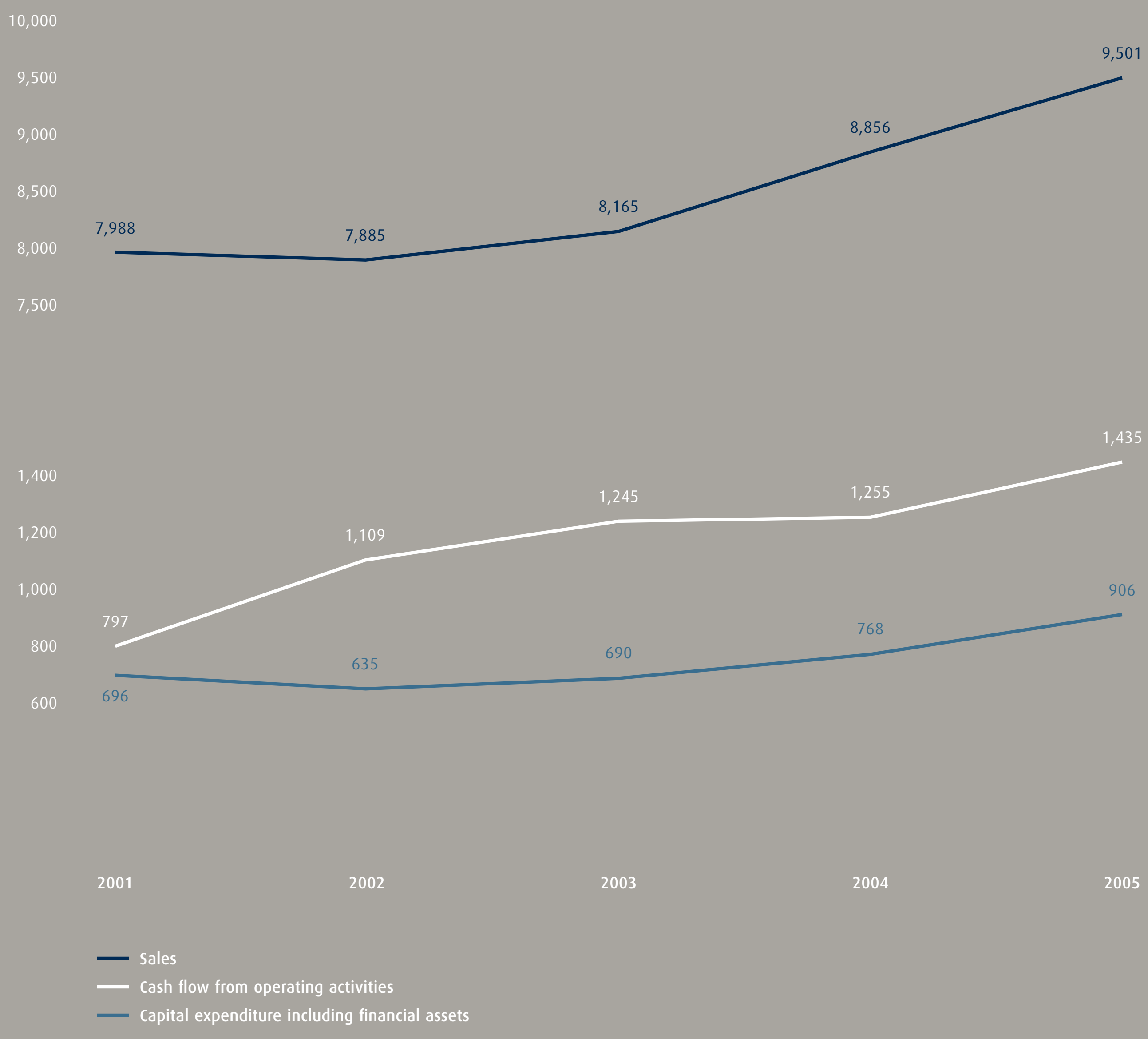
Taking into account dividend payments and other changes of €150 million, this left €462 million, of which €152 million was used to repay financial liabilities.

Cash flow statement (summary)

in € million	2005	2004*
Cash flow from operating activities	1,435	1,255
Cash flow from investing activities	–823	–731
Dividend payments to shareholders and minority interests	–150	–137
Issue of employee shares	19	2
Change in net cash flow	329	–61
Repayment of financial liabilities	–152	–450

* Restated and comparable.

Stable business model (in € million)



Financing and measures to safeguard liquidity

Again in 2005, the Linde Group was financed mainly by our Dutch finance company, Linde Finance B.V., and our Corporate Center. Centralized financing makes it possible for Group companies to act as a single customer on the capital markets and strengthens our negotiating position with the banks and other market participants.

The Group companies are financed either by the cash surpluses of other business units from cash pools (e.g. in Germany, the UK, France, Spain, Italy, Switzerland, Hungary, Australia and Scandinavia, as well as in the United States and the Benelux countries), or by Group loans from Linde Finance B.V. Occasionally, and to a limited extent, the Group treasury (see glossary) agrees credit facilities with local banks, to take account of particular legal, fiscal or other circumstances.

In 2005, there were no major financing activities at Group level. We did not raise any additional funds from our Debt Issuance Program (DIP, see glossary). From time to time, the Group used existing credit lines from banks to cover short-term requirements or for particular projects.

Under the DIP, which has a total volume of €5 billion, issues worth €2.139 billion in six different currencies were outstanding at the end of the year.

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

Issuer	Nominal amount	Coupon rate	Maturity date	CUSIP Reference No.
Linde Finance B. V.	€637 million	6.375 %	07-06-14	DE0002465952
Linde Finance B. V.	€100 million	5.750 %	08-06-05	DE0006858350
Linde Finance B. V.	€135 million	4.375 %	08-08-04	DE0008629429
Subordinated bond*				
Linde Finance B. V.	€400 million	6.000 %	Undated	XS0171231060
Convertible bond*				
Linde Finance B. V.	€550 million	1.25 %	09-05-05	DE000A0BBP11

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

Syndicated loan

The situation this year in the financial and capital markets was characterized by low interest rate margins. The terms and conditions attached to raising loans were particularly favorable to creditworthy borrowers. We exploited this situation and replaced our existing €1.8 billion syndicated credit line (see glossary) from an international banking consortium ahead of schedule, arranging a new credit line on substantially better terms and conditions. Despite a longer period of validity, the borrowing costs were significantly reduced compared with the existing credit line. The new credit line is available to Linde for a period of seven years.

The consortium, with aggregate lendings of €1.8 billion, comprises 26 international banks. The syndicated credit line is also a back-up for our Euro Commercial Paper Program (see glossary) worth €1 billion. Thanks to this measure, the Group has a very good liquidity reserve, a fact which has been confirmed by the international rating agencies.

Credit ratings

Since 1999, the creditworthiness of the Linde Group has been rated by the leading international rating agencies, Moody's and Standard & Poor's, and given in each case an "investment grade". The rating is an essential requirement for a successful and sustainable presence in the capital market. In 2005, both rating agencies raised the long-term outlook from "stable" to "positive outlook", thus taking account of the positive trends in the Group.

Current ratings

Rating agencies	Long-term rating	Outlook	Short-term rating	Outlook
Moody's	A3	Positive outlook	P-2	Positive outlook
Standard & Poor's	BBB+	Positive outlook	A-2	Stable

Capital expenditure

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

Capital expenditure in fiscal 2005 totaled €906 million (2004: €768 million). Relative to Group sales, the rate of investment in 2005 was 9.5 percent (2004: 8.7 percent). €851 million (2004: €718 million) was spent on tangible and intangible assets. €284 million of this related to Germany, a 20 percent increase over the previous year. Spending on financial assets during the year amounted to €55 million (2004: €50 million).

As in previous years, most capital expenditure (€635 million, excluding financial assets) was incurred to expand our fast-growing on-site business in the Gas and Engineering business segment (2004: €511 million). €191 million (2004: €176 million) was invested in the Material Handling business segment. The main objective here was to improve our manufacturing structure.

Capital expenditure by business segment (excluding financial assets)

in € million	2005	2004*
Gas and Engineering	635	511
Linde Gas	658	528
Linde Engineering	23	13
Material Handling	191	176
Corporate	25	31
Group	**851**	**718**

* Restated and comparable.

Capital expenditure by region (excluding financial assets)

	2005		2004*	
	in € million	in %	in € million	in %
Germany	284	33.4	236	32.9
Other Europe	381	44.8	375	52.2
North America	69	8.1	51	7.1
South America	81	9.5	29	4.1
Asia	25	2.9	21	2.9
Australia/Africa	11	1.3	6	0.8
	851	**100.0**	**718**	**100.0**

* Restated and comparable.

Leased assets Material Handling

The leased assets in the Material Handling business segment are mainly industrial trucks and warehouse equipment leased to our customers under lease agreements. Additions to leased assets totaled €274 million (2004: €252 million).

Purchasing

Group
As a manufacturing technology company, Linde spent around €4.4 billion in fiscal 2005 (2004: €4.0 billion) in a variety of procurement markets worldwide. During the reporting period, we focused on indirect materials and services in order to improve our purchasing activities. In both business segments, we review, compare and optimize contracts and agreements with individual suppliers and service-providers, including those for energy supplies. We have also set up centralized travel and fleet management systems, which bundle together the worldwide vehicle and travel requirements of the Linde Group. In the area of information technology, we pool our Group-wide requirements for hardware and software, consultancy and telecommunications, and enter into appropriate long-term agreements with international suppliers. This enables us to make considerable cost savings, whilst ensuring a professional service based on long-term supply contracts.

Linde Gas
Our Linde Gas division systematically analyzes the opportunities and risks arising from changes in the German and international procurement markets, particularly in Eastern Europe and Asia. Linde Gas manages the procurement of all the main groups of materials, such as energy, technical modules for on-site plants and for our cylinder business, as well as components for the Healthcare segment and IT systems, through a central purchasing organization at our Höllriegelskreuth site near Munich.

In Linde Gas, the procurement of electrical energy is of crucial importance, particularly in air separation and in the use of natural gas to operate steam reformers. The amount spent on purchases in Linde Gas, which is more than half the sales figure, included around 7.5 terra-watt hours of electrical energy and about 2.5 terra-watt hours of natural gas. As an energy-intensive enterprise, we are constantly keeping an eye on developments in the international energy markets.

To streamline our purchasing organization and processes, we drew up a central purchasing guideline in fiscal 2005 in conjunction with a stringent online release process, in order to increase transparency and improve our contract-awarding procedures. We have optimized our purchasing organization in South America in particular. As a result, this region earned a greater proportion of earnings in 2005 than in the previous year.

As well as making purchases in the traditional way through individual negotiations with suppliers, our buyers are increasingly participating in e-commerce, in the form of online requests for quotes and Internet auctions. Overall, Linde Gas conducted over 100 on-line auctions and issued more than 400 invitations to tender in 26 countries during the year.

Linde Engineering
In the Linde Engineering division, around 60 percent of sales involve the purchase of goods and services in kind, such as contracts for assembly. To optimize costs, we have relied for a number of years on a combination of long-term supply relationships and efficient new suppliers in the global markets. We are starting to attach particular importance to the procurement market in China, which we are currently using extensively for local projects.

As Linde Engineering has a very varied procurement portfolio, we have developed special purchasing strategies in this division. We always select our suppliers after conducting a detailed cost analysis and taking into account order processing costs, transport costs, installation costs and, where appropriate, the cost of guarantee commitments. When selecting contractors, we consider not only their competitiveness, financial soundness and quality awareness, but also the extent of their compliance with social and environmental standards.

Material Handling
In 2005, our Material Handling business segment continued to be affected by the consequences of the steep rise in the price of steel in fiscal 2004. An easing of the price in the second half of 2005 eventually led to short-term price-fixing.

Research and development

Group

In fiscal 2005, we invested a total of €174 million in research and development, exceeding the previous year's figure of €166 million. The total number of employees working in research and development at December 31, 2005 was 1,316 (2004: 1,257). Of these, 319 employees worked in the Linde Gas division, 98 in the Linde Engineering division and 899 in the Material Handling business segment. 829 employees worked in research and development in Germany.

Linde Gas

In 2005 in the Linde Gas division, we spent €60 million (2004: €56 million) on our research and development activities.

We signed a long-term cooperation agreement with Thyssen Krupp Stahl AG to develop and optimize Linde REBOX® technology in continuous annealing furnaces in hot dip galvanizing lines and other heat treatment plants for flat carbon steel. In this important market for us, we occupy a leading position, which we continue to underpin with the research cooperation of ThyssenKrupp. With REBOX®, it is possible to make significant improvements to the throughput of existing reheat furnaces and strip annealing lines in the steel industry. Linde offers REBOX® as a turnkey project. It not only improves throughput, but also lowers energy consumption and reduces the emissions of CO_2 and NO_X. Since 1990, Linde has equipped around 90 reheat furnaces and strip annealing lines with oxyfuel-fired REBOX®-solutions.

With the development of the gas mixture CRONIGON® 2He50, we have succeeded in making substantial improvements to the MAG robot-welding of visible seams. Using a mixture of argon, helium and CO_2, chrome-nickel steel can be worked particularly quickly, effectively and to a high grade. Moreover, our innovation makes it possible to increase quality and productivity. As the weld seams have a largely clean surface due to the use of CRONIGON®, there is no need for costly finishing. This means that the manufacturing time is shortened and the labor costs per component are reduced. The development of CRONIGON® 2He50 will underpin our leading position in the market for welding shielding gases.

In collaboration with ISK Iserlohner Kunststoff-Technologie, we have also developed an application for the selective cooling of hot spots in the production of certain structured plastic parts. The application we have developed represents an important process, which can be used in various areas of the production of injection-moulded plastic parts. Hot spots occur in components in the automobile industry and cannot be cooled down with water, as is done elsewhere. In our new process, therefore, we use CO_2. In 2005, we signed an initial know–how contract (see glossary) on CO_2 tempering with liquefied carbon dioxide with our customer Wilden from Wackersdorf, a global supplier to the automobile industry and to medical technology, and with LINPAC Materials Handling from Bad Salzuflen. Negotiations are currently taking place about know-how contracts and license agreements with other major manufacturers.

In the food sector, we have expanded our applications for dry ice cooling with ICEBITZZZ® dry ice products. In this connection, we entered into an exclusive agreement in 2005 with the global caterer DO & CO, which supplies international sports events, to provide ICEBITZZZ® pellets for various uses. The ICEBITZZZ® dry ice products consist of solid CO_2, which can be used in the form of blocks, discs, pellets or snow. In the highly-diversified market for dry ice products, we intend to strengthen our position based on this cooperation.

Linde Engineering

In our Linde Engineering division, we spent €18 million (2004: €16 million) on innovations and the development of technologies for all the main types of plant, especially for hydrogen, olefin and natural gas plants.

In cooperation with the national joint development OXYCOAL, led by RWTH Aachen, and the partners of the ENCAP (Enhanced Capture of CO_2) project, under the auspices of the European Union, we are working on improved processes to reduce global emissions of carbon dioxide (CO_2) in accordance with the Kyoto agreement. So that a power station produces virtually no CO_2 emissions, pure oxygen rather than air is used in the combustion processes taking place inside the power station, with the result that the carbon dioxide can be removed more easily. In addition to conventional cryogenic separation (see glossary), Linde is also developing new solutions, such as high-temperature processes to supply the necessary quantity of oxygen.

Another research objective in Linde Engineering is to reduce nitrogen oxide (NO_X) emissions in combustion processes. Together with a partner, we have developed and run successful tests on a burner which reduces NO_X emissions by up to 50 percent due to specialized burner design, skilled flow configuration and smooth temperature profiles. This type of burner will now be used in a commercial furnace installed and operated by Linde. This underpins our technological leadership in the important hydrogen plant segment.

Moreover, we are currently working with external partners to develop a new process, unique in the world, to remove nitric oxide (NO) traces from olefin-rich gases which have been derived from refinery processes, to use in the production of ethylene and propylene. The recycle of gases containing nitric oxide has until now been a safety issue. The new process is a basic requirement if such tail gases are to be made usable.

Material Handling

As in the previous year, most of our R & D expenditure was related to the Material Handling business segment, with costs of €96 million (2004: €94 million). The aim of all three brands (Linde, STILL and OM Pimespo) is to continue to improve their good market position by developing their own innovations. As in 2004, we have therefore concentrated on standardizing our development processes and benefited from the synergies between our three brands.

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. With the BR 386, our Linde brand is currently developing an electric truck with a load capacity of 1.2 to 2.0 tonnes. In the new model, which represents a significant innovation in the growth market of electric trucks, the battery change will be further improved. In conjunction with other innovative solutions, our customers will benefit from lower energy consumption and higher warehouse turnaround. In addition, Linde Hydraulics has developed a solution with the new AK20E compact axle, where the lift and traction control modules are integrated into the drive axle, thus assuring the efficiency of the 386. In addition, two electronically-controlled traction motors ensure the maneuverability of the electric trucks. The vehicle is due to be launched on the market in 2006.

Moreover, in 2005, our Linde brand extended the use of hydrostatic drive to large diesel forklifts with load capacities of 10.0 to 18.0 tonnes. This complements our portfolio in this important market, where we occupy a leading position. The introduction of the hydrostatic drive provides significant benefits in terms of warehouse turnaround, operator comfort and operating costs. We are also currently working on the development of a series of small diesel forklifts with a load capacity of 1.4 to 2.0 tonnes. The market launch of the 391 series is scheduled for the end of 2006.

Our STILL brand is currently developing an innovative system based on RFID technology (see glossary) for position recognition. This will give us a head start in the field of modern forklift management systems. The new technology complements existing tools such as warehouse management systems and forklift routing systems (LVS and SLS). It provides information about height, load, speed, hydraulic systems and other vehicle data, will mean that pallets can be tracked easily through the warehouse and will make pallet handling cycles much more efficient. The system will also improve the safety of the warehouse workers, because for example speed is automatically reduced in narrow gaps, as well as take the strain off the operator. In 2006, the technology will be tested under everyday conditions in cooperation with customers.

Our OM brand has expanded its product range with the XD40–50 and XD80–100 counterbalanced trucks. In the models in the XD40–50 series, the new FSC system (see glossary) is being used, which is effective at cushioning vibrations in the operator compartment.

The PTO engine, which was developed by Linde Hydraulics, represents a breakthrough in drive technology for mobile handling equipment. It has a drive-shaft, which delivers torque at both ends. The PTO engine can therefore be built directly into the drive train, so that the auxiliary gearbox which is required in a conventional drive concept is no longer needed. The advantages of the new technology are lower production costs, a significant reduction in noise and decreased fuel consumption. The PTO engine is particularly suitable for manufacturers of wheel loaders, telehoist load luggers, municipal vehicles and forestry machines.

Research and development

	Expenditure (in € million)		Number of employees	
	2005	2004*	2005	2004
Linde Gas	60	56	319	313
Linde Engineering	18	16	98	98
Material Handling	96	94	899	846
Group	**174**	**166**	**1,316**	**1,257**

* Restated and comparable.

In 2005, the Linde Group filed 289 new patent applications (2004: 216) for inventions. In total, the Linde Group was protected by 2,230 patents at December 31, 2005 (2004: 2,020).

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 are active 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 (see glossary), 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 (see glossary).

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 (see glossary)
- the linking up of global HSE (see glossary) activities, and
- the development of an HSE policy (see glossary) 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 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 we have successfully 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

As at December 31, 2005, Linde employed 42,229 people worldwide. That is 846 more than at the end of fiscal 2004. Of these, 14,593 were employees in Germany (2004: 14,667) and 27,636 outside Germany (2004: 26,716). In 2005, Group personnel costs were €2.133 billion (2004: €2.063 billion).

Employees by region

	2005	2004
Germany	14,593	14,667
Other Europe	18,174	17,799
North America	4,087	4,062
South America	2,171	2,044
Asia	2,613	2,287
Australia/Africa	591	524
Total	**42,229**	**41,383**

In the Linde Group, the proportion of part-time employees in 2005 was 2.5 percent (2004: 3.2 percent). The proportion of temporary employees was 3.6 percent (2004: 2.6 percent), while the rate of fluctuation in fiscal 2005 was 5.1 percent (2004: 4.1 percent). The proportion of female employees rose during the year to 18.3 percent (2004: 17.8 percent).

Employees by business segment

	2005	2004
Linde Gas and Engineering	22,191	21,787
Linde Gas	17,783	17,570
Linde Engineering	4,408	4,217
Material Handling	19,323	18,878
Corporate	715	718
Group	42,229	41,383

In the Linde Gas division, the number of employees increased during the year by 213 to 17,783. In the Linde Engineering division, there was a rise of 191 in the number of employees in 2005 to 4,408. The number of employees in the Material Handling business segment stood at 19,323 at the end of 2005 (2004: 18,878).

At Linde, we set great store by the professional development of our employees. In the past year, more than 61.3 percent (2004: 61.1 percent) of our employees took part in an average of 1.8 days (2004: 1.5 days) training in the Linde Group's professional development programs.

Group personnel figures

	2005	2004
Proportion of female employees	18.3	17.8
Proportion of temporary employees	3.6	2.6
Proportion of part-time employees	2.5	3.2
Fluctuation rate	5.1	4.1
Number of training days	1.8	1.5

Training

The proportion of trainees in the Linde Group worldwide stayed constant at 2.2 percent. The proportion of trainees in Germany was 4.5 percent. The number of our trainees in Germany was 677, similar to the prior year figure. In the Linde Gas division, the proportion of trainees was 3.3 percent and in the Linde Engineering division 3.2 percent. The proportion of trainees in the Material Handling business segment in fiscal 2005 was 5.8 percent.

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 the German state of 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.

Corporate suggestion scheme

The commitment of our employees to participate in the success of the company by contributing their innovative ideas was again in evidence in fiscal 2005. 1,295 suggestions for improvement were submitted in 2005 by our employees in Germany (2004: 1,345). The cost savings achieved, after deducting the costs of introducing the suggestions from the scheme, were around €1.5 million, almost 60 percent higher than in the previous year. The bonuses paid to our employees for their suggestions amounted to €600,000.

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.

With centralized management of the benefit programs in our foreign companies, we are driving forward the coordination of the existing systems, including investment policy.

In fiscal 2005, Linde spent a total of €123 million (2004: €110 million) on pensions and staff welfare costs, €71 million (2004: €66 million) of which related to costs incurred in Germany.

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.

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.

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 from the Internet at www.linde.com).

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 with entrepreneurial activity. We counter these risks by applying a comprehensive risk management system, which forms an integral part of our business processes and is a major element in 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 Group 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 Linde Group are set out below. These are not the only risks to which we are exposed. Risks of which we are not yet aware, or risks which we currently deem to be less significant, might have an adverse effect on the Linde Group in different circumstances.

Market risk

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

We try to reduce these procurement and price risks on the purchasing side by sourcing materials worldwide, entering into long-term supply contracts and constantly optimizing our portfolio of suppliers. 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 to 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 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 additional 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 the 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 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 in the Group. 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 (see glossary) per currency for the Linde Group is determined in each case. Furthermore, we regularly run value at risk (see glossary) scenarios on the net position. Hedging decisions are made according to the risk strategies of the Treasury committee. Forward exchange deals, currency swaps (see glossary) 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 interest 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 Group. 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 risks in fiscal 2005 which might endanger the continued existence of Linde AG and the Linde Group. Similarly, seen from today's position, no risks have been identified which could endanger the continued existence of the Group as a going concern in the future or which could have a significant adverse effect on the net assets, financial position and results of operations of the Group.

Events after the balance sheet date

Linde acquires Spectra Gases

In December 2005, Linde acquired the US specialty gases company Spectra Gases, Inc., Branchburg, New Jersey, from the founder's family, Alvin and Andy Dietz. Spectra Gases produces high-purity specialty gases and chemicals which are used in production and research and for the purposes of analysis. The company also produces specialty gas mixtures, e.g. for the semi-conductor industry and for laser therapy. The company has annual sales of around €50 million and 200 employees worldwide.

The transaction is subject to the approval of the relevant anti-trust authorities. If approval is given, Spectra Gases will become a fully-owned subsidiary of Linde Gas Inc. and part of the Linde Group from fiscal 2006.

Linde Ladenbau GmbH & Co. KG sold

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 Schlossrued in the Swiss canton of Aargau.

The legal transfer of Linde Ladenbau GmbH & Co. KG took place on January 27, 2006. On that date, the company was eliminated from the consolidation.

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 annual 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.

Dividends

The unappropriated profit for the year ended December 31, 2005 of Linde AG, the parent company of the Linde Group, in accordance with the German Commercial Code (HGB) was €168,058,354. The Executive Board proposes to the Supervisory Board that, at its meeting on March 3, 2006 to approve the annual financial statements, it recommends the proposal of a resolution to the Shareholders' Meeting on May 4, 2006 that the profits be appropriated as follows:

- by distributing a dividend of €1.40 (2004: €1.25) per share entitled to dividend, a total amount of €167,809,664, and
- by carrying forward an amount of €248,690.

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

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.

Industry sector outlook

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

Gases industry

We expect the industrial and medical gases business to continue to show positive trends across the world in the current fiscal year. The greatest impetus should continue to come from the Asian markets, while moderate rates of growth are expected in Europe and the United States.

Plant construction

In plant construction, we expect the good business performance to continue in fiscal 2006 in all the major product segments. Particularly in the area of natural gas liquefaction plants, we anticipate rising demand, due to users seeking an alternative to natural gas from Eastern Europe. We also expect higher growth rates for natural gas plants in the Middle East and in Norway. In the area of air separation and ethylene plants, we anticipate that the highest demand will be from the Middle East. Our focus for synthesis gas plants will be on the United States and Russia. We assume that the continuing expansion in steel production, especially in China, Brazil and India, will again create high demand for oxygen in the future. New sales markets will be opened up in the area of the extraction of synthesis gases from coal, natural gas, biomass or other carbonaceous substances.

Industrial truck industry

In the current fiscal year, we anticipate further significant market growth in industrial trucks, particularly in China. However, in the course of the year, we expect the rate of expansion to slow down slightly. In the United States, the growth rates will be slightly below the prior year figures, but still better than in Europe. In our Western

European core markets (Germany, France, Italy and Spain), we anticipate only moderate growth. In Eastern Europe, on the other hand, we expect an above-average increase in demand once again.

Outlook for the Linde Group

Given these macroeconomic trends and the industry sector outlook, we assume that the sales and earnings of the Linde Group will show positive trends in the current fiscal year and will exceed those of the previous year.

Linde Gas

Due to the positive performance of the on-site plant business and the Healthcare segment, and as a result of our GAP (Growth and Performance) optimization program, we again anticipate an increase in sales and earnings in the current year in our Linde Gas division. Our measures under the GAP program are focusing on the continuing expansion of our business activities in the growth markets of Eastern Europe and Asia and on developing new gases applications.

Linde Engineering

In most parts of the world, we expect the positive trends in plant construction to continue in fiscal 2006. We anticipate a further increase in sales and operating profit in the current year, due to a very promising current project situation, our technological leadership and our broad product range of natural gas, hydrogen and synthesis gas plants, as well as for plants for synthesis gas conditioning. In addition to the petrochemical and steel industries, the energy sector will gain in importance over the coming years. With forecast market growth of 6 to 8 percent per annum, we anticipate a rapid rise in demand for natural gas liquefaction plants in particular.

Material Handling

After a good year in 2005, we expect that the Material Handling business segment will achieve an increase in sales in the coming year and, based on our new GO (Growth and Operational Excellence) program to enhance efficiency and increase profitability, a significant improvement in earnings.

Capital expenditure

Capital expenditure in the Group (excluding financial assets) will rise slightly in fiscal 2006 to around €900 million (2005: €851 million). As a result of the consistently good order book position in the on-site business, we are planning to invest around €650 million in the Linde Gas division. In the Material Handling business segment, we will incur capital expenditure of about €200 million. We will virtually double our capital expenditure in Germany from the figure in fiscal 2005 of €284 million.

Dividends

We will continue to follow our earnings-oriented dividend policy. In the current year, we again propose to align the dividends with the change in operating profit.

Research and development

Innovations are crucial to sustainable business success for a technology group which seeks to occupy a leading position in all the business areas in which it is active. Therefore, we will be increasing our expenditure on research and development in fiscal 2006 from €174 million to around €190 million.

Most of the expenditure, around €110 million, relates to the Material Handling business segment. We will invest about €80 million in our R&D activities in the Gas and Engineering business segment to continue to strengthen our Healthcare growth segment and to enhance developments in the promising area of hydrogen technology.

Purchasing

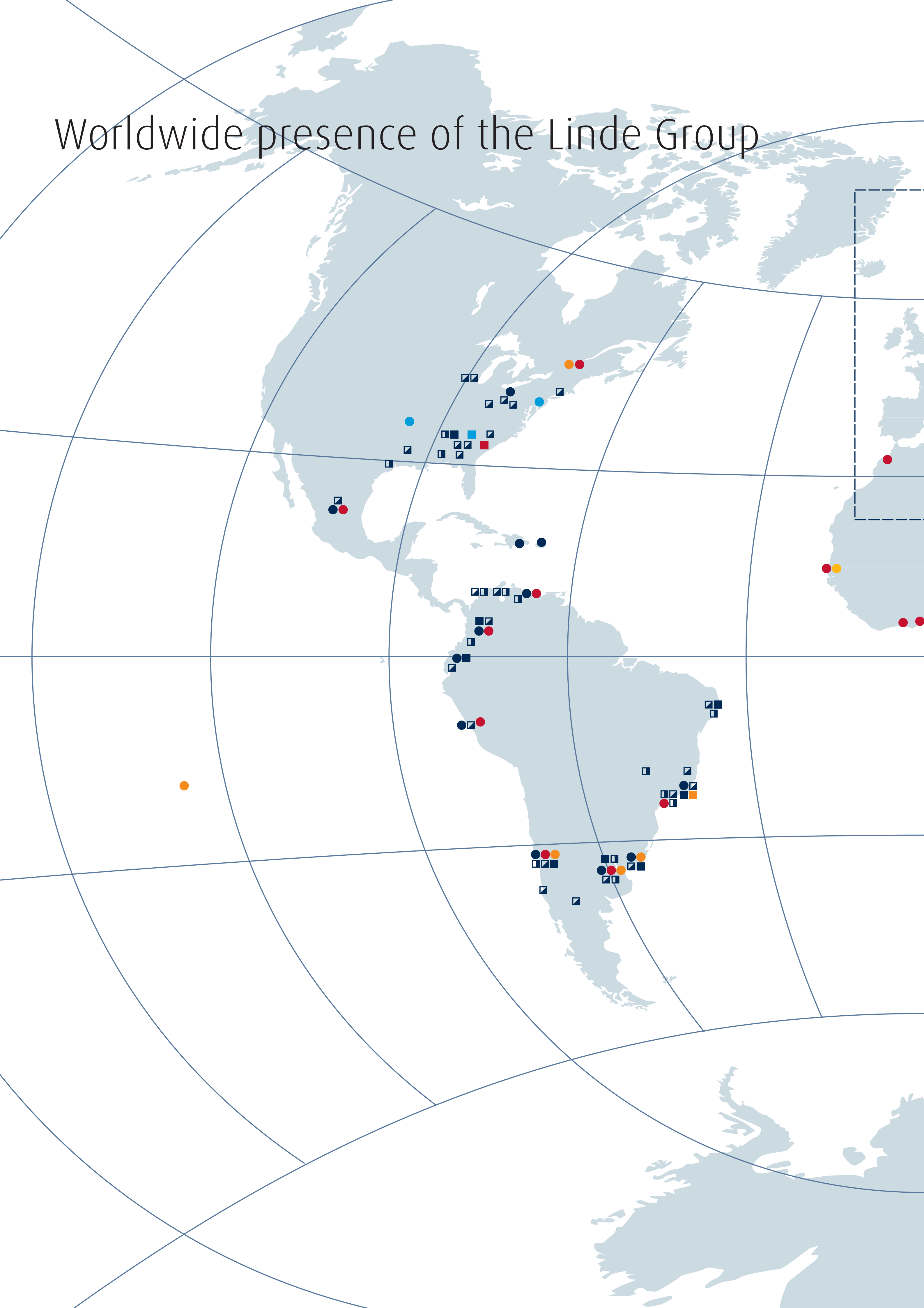
We currently see more opportunities than risks on the international procurement markets.

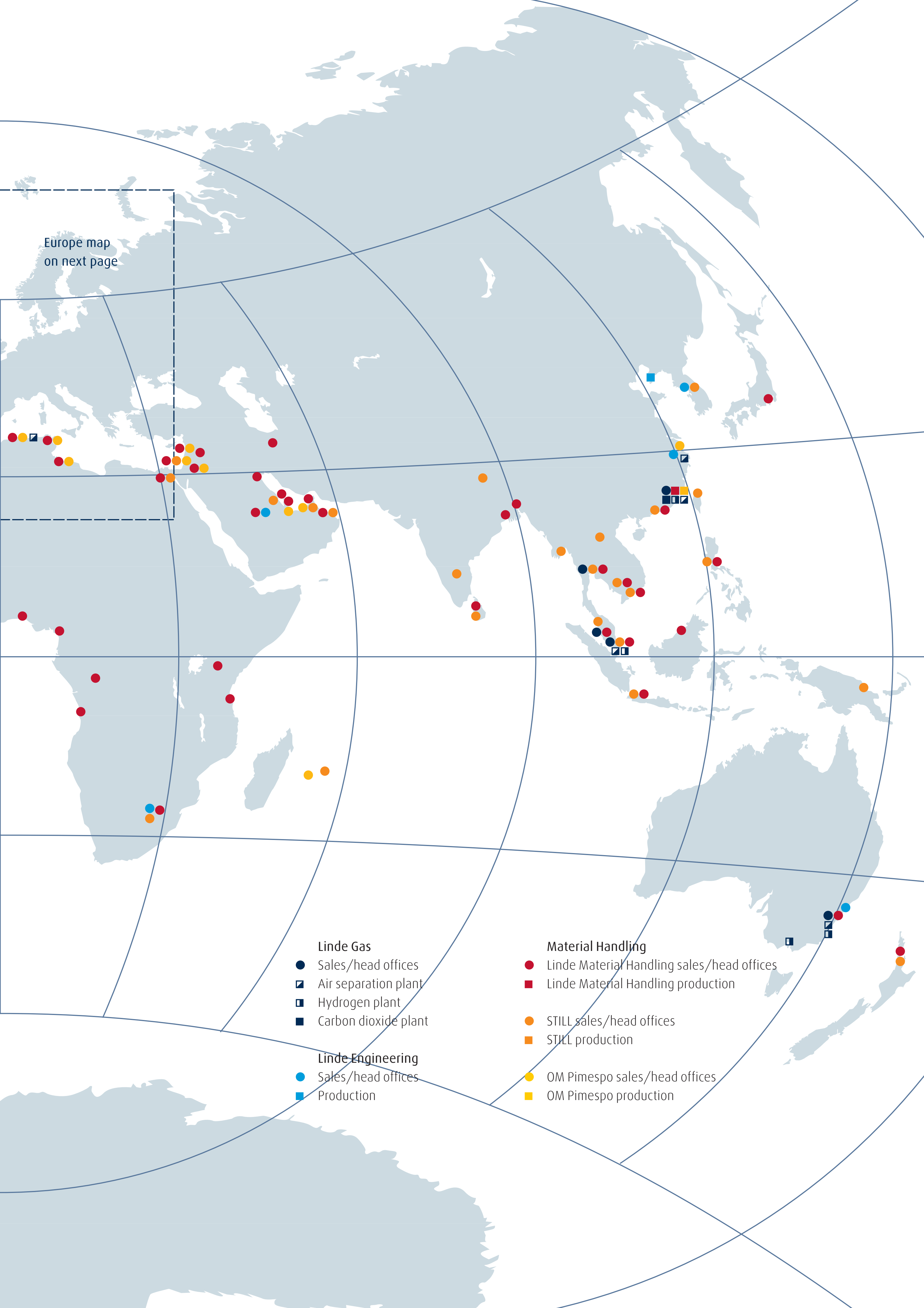
To counter high price fluctuations in the energy markets, we introduced at an early stage in Linde Gas an energy portfolio management scheme, specially designed to meet the requirements of this division, which enables us to exploit market opportunities more effectively and to reduce the risks of market volatility significantly. In addition, we have hedged against price increases in our energy requirements almost fully for 2006 and substantially for the following years.

In the Linde Engineering division, we anticipate that the trend towards higher prices will persist. We will counter this development by obtaining more information from the markets in the project development phase. For this, we will use our Global Procurement Network, a network of Linde Engineering suppliers which we established in 2004.

In the Material Handling business segment, we are not expecting any significant easing in the raw material markets in the medium term, nor do we anticipate lower steel prices. Therefore, we have entered into fixed-price agreements in this area for the longest periods possible. Using our own organizational unit, we also want increasingly to identify our own suppliers in low-wage economies.

Worldwide presence of the Linde Group





Europe map
on next page
Linde Gas
Sales/head offices
Air separation plant
Hydrogen plant
Carbon dioxide plant
Linde Engineering
Sales/head offices
Production
Material Handling
Linde Material Handling sales/head offices
Linde Material Handling production
STILL sales/head offices
STILL production
OM Pimespo sales/head offices
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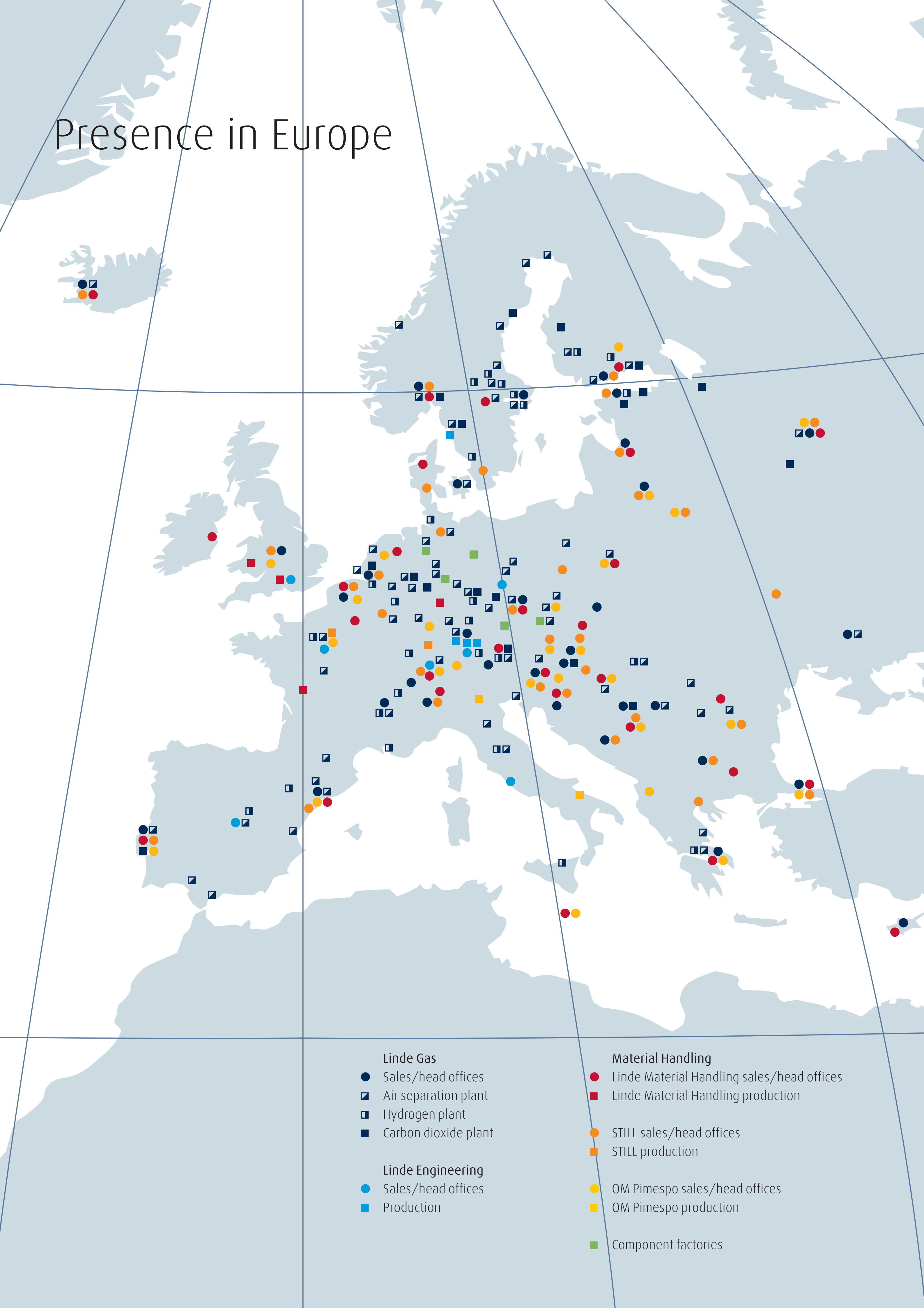
Presence in Europe



Group Financial Statements

Linde AG has prepared its Group financial statements for the year ended December 31, 2005 in accordance with International Financial Reporting Standards (IFRS). Some items in the balance sheet and income statement have been combined under one heading to improve the clarity of presentation. Such items are disclosed individually in the Notes. The prior year figures have been restated due to changes in accounting policies (restated). To increase the comparability of the figures for readers of the financial statements, the prior year figures have also been adjusted for the disposal of the Refrigeration business segment and the fact that goodwill is no longer amortized (restated & comparable).

Group income statement

in € million	Note	2005	Restated & comparable 2004[1]	Restated 2004[2]
Sales	[8]	9,501	8,856	9,421
Cost of sales	[9]	6,483	6,091	6,535
Gross profit on sales		**3,018**	**2,765**	**2,886**
Marketing and selling expenses		1,322	1,237	1,312
Research and development costs	[10]	174	166	177
Administration expenses		712	684	731
Other operating income	[11]	209	226	251
Other operating expenses	[11]	106	130	134
Amortization of goodwill		–	28	141
Operating profit (EBIT)		**913**	**746**	**642**
Interest income		75	84	85
Interest charges		–199	–211	–214
Net interest		**–124**	**–127**	**–129**
Income from associates		1	3	3
Other investment income		–1	–	–
Financial result	[12]	**–124**	**–124**	**–126**
Earnings before taxes on income		**789**	**622**	**516**
Taxes on income	[13]	279	237	241
Net income		**510**	**385**	**275**
Minority interests	[14]	–9	–5	–5
Net income after minority interests		**501**	**380**	**270**
Earnings per share in €	[15]	**4.19**	**3.19**	**2.27**
Earnings per share in € – fully diluted –	[15]	**3.96**	**3.09**	**2.21**

1 Additional voluntary disclosure; see Note [7].

2 Application of IAS 19.93A and IFRS 2; see Note [7].

Group balance sheet

in € million	Note	Dec. 31, 2005	Restated Dec. 31, 2004[1]
Assets			
Goodwill	[17]	2,823	2,788
Other intangible assets	[17]	313	277
Tangible assets	[18]	4,110	3,814
Investments in associates	[19]	159	139
Other financial assets	[19]	84	83
Leased assets	[20]	625	574
Receivables from financial services	[22]	125	132
Trade receivables	[22]	8	45
Other receivables and other assets	[22]	74	21
Deferred tax assets	[13]	245	191
Non-current assets		**8,566**	**8,064**
Inventories	[21]	1,024	942
Receivables from financial services	[22]	80	82
Trade receivables	[22]	1,564	1,409
Other receivables and other assets	[22]	325	536
Securities	[23]	5	3
Cash and cash equivalents	[24]	906	564
Prepaid expenses and deferred charges	[25]	33	35
Non-current assets held for sale and disposal groups	[26]	23	–
Current assets		**3,960**	**3,571**
Total assets		**12,526**	**11,635**

[1] Application of IAS 19.93A and IFRS 2; see Note [7].

Group balance sheet

in € million	Note	Dec. 31, 2005	Restated Dec. 31, 2004[1]
Equity and liabilities			
Capital subscribed		307	305
Conditionally authorized capital €114 million (2004: €65 million)			
Capital reserve		2,704	2,680
Retained earnings		1,622	1,270
Cumulative changes in equity not recognized through the income statement		–269	–347
Total equity excluding minority interests	[27]	**4,364**	**3,908**
Minority interests	[27]	49	38
Total equity	[27]	**4,413**	**3,946**
Provisions for pensions and similar obligations	[28]	1,122	1,019
Other non-current provisions	[29]	168	177
Deferred tax liabilities	[13]	340	294
Financial debt	[30]	1,997	2,230
Liabilities from financial services	[31]	338	349
Trade payables	[32]	4	6
Other non-current liabilities	[32]	92	56
Deferred income	[33]	69	76
Non-current liabilities		**4,130**	**4,207**
Other current provisions	[29]	1,308	1,107
Financial debt	[30]	419	305
Liabilities from financial services	[31]	173	174
Trade payables	[32]	1,467	1,194
Other current liabilities	[32]	481	575
Deferred income	[33]	124	127
Liabilities directly related to non-current assets held for sale	[34]	11	–
Current liabilities		**3,983**	**3,482**
Total equity and liabilities		**12,526**	**11,635**

[1] Application of IAS 19.93A and IFRS 2; see Note [7].

Statement of recognized income and expense in Group financial statements

in € million See Note [27]	2005	2004
Gain/loss on remeasurement of securities	–	–
Gain/loss on remeasurement at fair value of derivative financial instruments	–6	–3
Currency translation differences	158	–22
Change in actuarial gains/losses on pension provisions and effect of limitation on a defined benefit asset (IAS 19.58)	–73	–41
Other gains and losses recognized in equity	2	1
Gains and losses recognized directly in equity	**81**	**–65**
Net income	**510**	**275**
Total gains and losses recognized	**591**	**210**
of which due to:		
Linde AG shareholders	579	205
Other shareholders	12	5
Effects of changes in accounting policies:		
Linde AG shareholders	–	–107
Other shareholders	–	–

Group cash flow statement

in € million See Note [37]	2005	Restated & comparable 2004[1]	Restated 2004[2]
Net income after minority interests	501	380	270
Minority interests	9	5	5
Net income	**510**	**385**	**275**
Adjustments to net income to calculate cash flow from operating activities:			
Amortization of intangible assets/depreciation of tangible assets	591	593	721
Depreciation of leased assets	191	176	176
Write-down of financial assets	1	5	5
Profit/loss on disposal of fixed assets	−20	−52	−54
Profit/loss on equity method valuation	−1	−3	−3
Other non-cash items	20	8	8
Changes in assets and liabilities, adjusted for the effects of changes in Group structure:			
Change in inventories	−52	63	2
Change in trade receivables	−71	−96	−104
Change in leased assets	−209	−176	−176
Change in provisions	167	162	188
Change in trade payables	227	91	116
Change in other assets and liabilities	81	99	95
Cash flow from operating activities	**1,435**	**1,255**	**1,249**
Acquisitions of subsidiaries	−8	−94	−94
Payments for tangible and intangible assets	−836	−716	−734
Payments for financial assets	−55	−39	−39
Proceeds on disposal of subsidiaries (2004: proceeds on disposal of Refrigeration business segment)	2	134	134
Proceeds on disposal of tangible and intangible assets	59	44	49
Proceeds on disposal of financial assets	15	24	24
Payments for securities held as current assets	–	−84	−84
Cash flow from investing activities	**−823**	**−731**	**−744**

[1] Additional voluntary disclosure; see Note [7].

[2] Application of IAS 19.93A and IFRS 2; see Note [7].

Group cash flow statement

in € million See Note [37]	2005	Restated & comparable 2004[1]	Restated 2004[2]
Dividend payments to Linde AG shareholders and other shareholders	–150	–137	–137
Issue of employee shares	19	2	2
Cash outflows for the repayment of loans	–134	–445	–359
Change in liabilities from financial services	–18	–5	–5
Cash flow from financing activitites	**–283**	**–585**	**–499**
Net cash inflow/outflow	**329**	**–61**	**6**
Opening balance of cash and cash equivalents	**564**	**557**	**557**
Effect of changes in Group structure	2	73	6
Effects of currency translation	11	–5	–5
Closing balance of cash and cash equivalents	**906**	**564**	**564**
Additional information			
Income taxes paid	201	98	98
Interest paid	114	132	132
Interest received	39	54	54
Distributions/dividends received	1	–	–

[1] Additional voluntary disclosure; see Note [7].

[2] Application of IAS 19.93A and IFRS 2; see Note [7].

Segment information by activity

in € million See Note [38]	Gas and Engineering 2005	Gas and Engineering Restated & comparable 2004
Non-current assets (excluding tax receivables and deferred tax assets)	6,594	6,251
of which investments in associates accounted for under the equity method	46	36
Inventories	399	371
Other current assets (excluding tax receivables)	968	918
Securities, cash and cash equivalents	–	–
Segment assets	**7,961**	**7,540**
Non-current liabilities (excluding pension provisions and deferred tax liabilities)	177	103
Current liabilities (excluding tax liabilities)	1,896	1,585
Segment liabilities	**2,073**	**1,688**
Income tax liabilities offset against income tax claims	**–**	**–**
Capital employed including pension provisions	**5,582**	**5,511**
of which pension provisions	621	566
Sales to third parties	5,825	5,395
Sales to other segments	6	11
Segment sales	**5,831**	**5,406**
EBITDA	1,212	1,105
Amortization of intangible assets (excluding goodwill amortization), depreciation of tangible assets and leased assets	–429	–423
EBITA	783	682
Financial result	–92	–99
of which profit/loss from associates	–8	–3
EBTA	691	583
Goodwill impairment losses	–	–8
Earnings before taxes on income	**691**	**575**
Return on capital employed (ROCE) in %[1]	14.5	12.8
EBITA return on sales in %	13.4	12.6
Cash flow from operating activities[2]	1,213	990
Cash flow from investing activities	–632	–581
Free cash flow	581	409
Capital expenditure (excluding financial assets)	635	511
Number of employees at December 31[3]	22,191	21,787

[1] In the business segments and divisions, calculated as EBITA after adding back interest costs for the pension provisions in relation to average capital employed; for the Group, earnings before taxes on income after adding back interest costs for the pension provisions and interest charges in relation to average capital employed.

[2] In the Group and in the Material Handling business segment, the change in leased assets is included in cash flow from operating activities.

[3] The figure comprises active employees and trainees. Part-time employees are included pro-rata.

	Material Handling		Corporate		Group	
	2005	Restated & comparable 2004	2005	Restated & comparable 2004	2005	Restated & comparable 2004
	1,421	1,346	303	275	8,318	7,872
	101	95	12	8	159	139
	611	546	14	25	1,024	942
	773	673	178	291	1,919	1,882
	–	–	911	567	911	567
	2,805	**2,565**	**1,406**	**1,158**	**12,172**	**11,263**
	104	129	38	69	319	301
	829	712	369	352	3,094	2,649
	933	**841**	**407**	**421**	**3,413**	**2,950**
	–	**–**	**297**	**290**	**297**	**290**
	1,915	**1,747**	**965**	**765**	**8,462**	**8,023**
	453	410	48	43	1,122	1,019
	3,626	3,368	50	93	9,501	8,856
	2	4	−8	−15	–	–
	3,628	**3,372**	**42**	**78**	**9,501**	**8,856**
	545	490	−63	−81	1,694	1,514
	−322	−296	−30	−21	−781	−740
	223	194	−93	−102	913	774
	−32	−30	–	5	−124	−124
	5	3	4	3	1	3
	191	164	−93	−97	789	650
	–	−20	–	–	–	−28
	191	**144**	**−93**	**−97**	**789**	**622**
	13.1	12.3	–	–	12.5	10.8
	6.2	5.8	–	–	9.6	8.7
	248	268	−26	−3	1,435	1,255
	−178	−164	−13	14	−823	−731
	70	104	−39	11	612	524
	191	176	25	31	851	718
	19,323	18,878	715	718	42,229	41,383

Segment information by activity

in € million See Note [38]	Linde Gas 2005	Linde Gas Restated & comparable 2004	Linde Engineering 2005	Linde Engineering Restated & comparable 2004
Non-current assets (excluding tax receivables and deferred tax assets)	6,579	6,198	154	155
of which investments in associates accounted for under the equity method	49	39	–	–
Inventories	189	167	213	204
Other current assets (excluding tax receivables)	869	833	127	176
Securities, cash and cash equivalents	–	–	1,167	909
Segment assets	**7,637**	**7,198**	**1,661**	**1,444**
Non-current liabilities (excluding pension provisions and deferred tax liabilities)	126	73	51	31
Current liabilities (excluding tax liabilities)	795	740	1,141	937
Segment liabilities	**921**	**813**	**1,192**	**968**
Income tax liabilities offset against income tax claims	–	–	–	–
Capital employed including pension provisions	**6,376**	**6,044**	**498**	**475**
of which pension provisions	374	344	247	222
Sales to third parties	4,429	3,989	1,396	1,406
Sales to other segments	9	14	227	175
Segment sales	**4,438**	**4,003**	**1,623**	**1,581**
EBITDA	1,141	1,055	106	82
Amortization of intangible assets (excluding goodwill amortization), depreciation of tangible assets and leased assets	–420	–416	–17	–14
EBITA	721	639	89	68
Financial result	–98	–109	8	11
of which profit/loss from associates	–7	–	–	–
EBTA	623	530	97	79
Goodwill impairment losses	–	–8	–	–
Earnings before taxes on income	**623**	**522**	**97**	**79**
Return on capital employed (ROCE) in %[1]	11.8	10.9	20.4	16.7
EBITA return on sales in %	16.3	16.0	5.5	4.3
Cash flow from operating activities	940	779	318	241
Cash flow from investing activities	–655	–610	–22	–1
Free cash flow	285	169	296	240
Capital expenditure (excluding financial assets)	658	528	23	13
Number of employees at December 31[2]	17,783	17,570	4,408	4,217

[1] In the business segments and divisions, calculated as EBITA after adding back interest costs for the pension provisions in relation to average capital employed.

[2] The figure comprises active employees and trainees. Part-time employees are included pro-rata.

Segment information by region

in € million	2005	Restated & comparable 2004
Sales by location of customer		
Germany	1,922	1,837
Rest of Europe	4,861	4,867
North America	1,317	1,044
South America	388	319
Asia	725	507
Africa/Australia	288	282
	9,501	**8,856**
Capital expenditure (excluding financial assets) by location of company		
Germany	284	236
Rest of Europe	381	375
North America	69	51
South America	81	29
Asia	25	21
Africa/Australia	11	6
	851	**718**
Non-current segment assets (including tax) by location of company		
Germany	1,719	1,598
Rest of Europe	5,617	5,437
North America	619	556
South America	270	178
Asia	250	189
Africa/Australia	91	106
	8,566	**8,064**

Notes to the Group financial statements: General principles

[1] Basis of preparation

The consolidated financial statements of Linde AG for the year ended December 31, 2005 have been drawn up in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), London. The term IFRS also includes International Accounting Standards (IAS), where these are still effective, and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC).

The International Financial Reporting Standards applied by Linde AG must have been adopted by the European Commission, as set out in the EU Regulation dated July 19, 2002 (EC No. 1606/2002) and in § 315a of the German Commercial Code (HGB). For this reason, only those IFRS which have already been adopted have been applied in the consolidated financial statements for the year ended December 31, 2005. We have applied all the Standards which are in force and in addition those set out in Note [7] which have been applied early.

The Linde Group is an international technology group with two business segments, Gas and Engineering and Material Handling, which operates throughout the world.

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

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

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

[2] Principles of consolidation

Companies are consolidated using the purchase method, under which the carrying values of the assets and liabilities in the company being acquired are examined, especially those of the intangible assets, and under certain conditions are recognized or remeasured to their fair values. Any remaining positive balance between the cost of the investment in the subsidiary and the share of net assets acquired is allocated to one or more cash-generating units and recognized as goodwill. The cash-generating unit including the goodwill allocated to it is tested for impairment annually and any impairment losses are recognized. Goodwill which arose prior to January 1, 1995 totaling €169 million continues to be offset against reserves under the option set out in IAS 22, effective at that time. When companies are deconsolidated, the goodwill is recognized in the income statement.

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

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

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

[3] Acquisitions and sales

Acquisitions

The following major acquisitions were made during the year:

	Group holding in %	Acquisition cost in €000	Date first consolidated/ included
BARTHELEMY MANUTENTION SAS (France)	96.4	3,700	01/2005
S. A. S. Société Angoumoisine de Manutention (France)	51.0	4,312	02/2005
Lawvale Pty. Ltd. (Australia)	100.0	4,871	01/2005
Linde Nippon Sanso GmbH & Co. KG (Germany)	51.0	12,682	02/2005
Linde Nippon Sanso Verwaltungs-GmbH (Germany)	51.0	4,004	02/2005

The Material Handling business segment acquired 96.4 percent of the voting rights in the company BARTHELEMY MANUTENTION SAS, France. The company operates as a dealer and will strengthen sales and distribution in the Linde Material Handling division. In the segment report, the company has been allocated to the Material Handling segment.

The Material Handling business segment also acquired 51 percent of the voting rights in S.A.S. Société Angoumoisine de Manutention, France. The company operates mainly as a dealer and will strengthen sales and distribution in the STILL division. The company has been allocated to the Material Handling segment.

A positive difference of €5.0 million was recognized as goodwill arising on the acquisition of the fully-consolidated companies BARTHELEMY MANUTENTION SAS., France, S.A.S. Société Angoumoisine de Manutention, France, and Lawvale Pty. Ltd, Australia, based on an assessment of future earnings trends and the market position of the companies acquired.

The Linde Gas division acquired 100 percent of the voting rights in Lawvale Pty. Ltd, Australia. The company operates mainly as a dealer. In the segment report, the company has been allocated to the Linde Gas division. The companies acquired generated sales in fiscal 2005 of €35 million and earned net income after minority interests of €2 million.

The fair value of the assets and liabilities acquired in the fully-consolidated companies were as follows:

in € million	Group	Lawvale	Material Handling	BARTHELEMY	Angoumoisine
Non-current assets	13	2	11	8	3
Inventories	4	2	2	2	–
Current assets (excluding cash and cash equivalents)	9	1	8	5	3
Cash and cash equivalents	5	1	4	1	3
Non-current liabilities	–6	–1	–5	–4	–1
Current liabilities	–12	–	–12	–8	–4
Purchase price	**13**	**5**	**8**	**4**	**4**
Less cash and cash equivalents	–5	–1	–4	–1	–3
Cash outflow	**8**	**4**	**4**	**3**	**1**

During the year, the company also acquired 51 percent of the shares in Linde Nippon Sanso GmbH & Co. KG and in Linde Nippon Sanso Verwaltungs-GmbH, Germany, which have been included as associates in the Group financial statements in accordance with IAS 28. Linde Nippon Sanso Verwaltungs-GmbH holds 100 percent of the shares in Linde Nippon Sanso GmbH, Austria, 100 percent of the shares in Linde Nippon Sanso S.A.S., France, and 75 percent of the shares in Linde Nippon Sanso Ltd, Great Britain. The group is involved in the production and distribution of gases and products for the semi-conductor industry. In the course of the purchase price allocation, unrecognized intangible assets of €3.0 million and goodwill relating to the Linde Nippon Sanso sub-group of €6.8 million were identified, which have been included in the carrying value of the associate. In fiscal 2005, the share of the net loss from associates of €0.7 million has been recognized in the income statement.

Disposals

Effective October 13, 2005, Linde Medical Sensors AG, Basle, was sold at a price of €2.3 million. The company is involved in the research and development of non-invasive investigation methods for blood gases. A profit arose on disposal and removal of the company from the consolidation of €1.9 million.

[4] Scope of consolidation

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

Apart from acquisitions, the principal companies included in the consolidation for the first time are companies previously disclosed either as investments in affiliated companies at cost or as companies accounted for using the equity method.

The effects of changes in the Group structure resulted in the recognition of goodwill of €8.1 million in respect of Johann Eibl Home Care AG and of €2.9 million in respect of STILL STOCKA AB, Sweden. The recognition of the goodwill is based on an assessment of future earnings trends and the market position of the companies.

In addition, goodwill of €4.3 million was recognized as a result of asset deals realized in fiscal 2005, €2.4 million of which related to STILL GmbH and €1.9 million of which related to Linde Material Handling AB, Sweden.

Companies which are of minor significance in terms of the Linde Group's net assets, financial position and results of operations, because they are dormant or only engage in limited activities, have not been consolidated. Instead, they are reported in the Group financial statements at cost, as the fair value cannot be determined and other permitted valuation methods do not give reliable results. Non-consolidated subsidiaries in 2005 contributed 0.1 percent of Group sales (2004: 0.3 percent) and comprised around 0.8 percent of Group equity (2004: 0.3 percent).

The equity method is applied to joint ventures and companies in which Linde AG holds, either directly or indirectly, 20 percent or more of the voting rights and where it is able to exert significant influence on financial and operating policies. Companies in which Linde AG holds the majority of the voting rights, either directly or indirectly, but where it is unable to control the company due to substantial minority rights, are also accounted for using the equity method.

The equity method is not applied where the company is relatively insignificant to the Group's net assets, financial position and results of operations. These companies are reported in the Group financial statements at cost, as the fair value cannot be determined and other permitted valuation methods do not give reliable results.

The Linde Group comprises the following companies:

	As at Dec. 31, 2004	Additions	Disposals	As at Dec. 31, 2005
Consolidated subsidiaries	**272**	**23**	**21**	**274**
of which within Germany	30	7	2	35
of which outside Germany	242	16	19	239
Subsidiaries reported at acquisition cost	**61**	**16**	**22**	**55**
of which within Germany	16	3	9	10
of which outside Germany	45	13	13	45
Companies accounted for using the equity method	**20**	**14**	**1**	**33**
of which within Germany	4	4	–	8
of which outside Germany	16	10	1	25

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

Name	Location
Linde Gas Therapeutics GmbH & Co. KG	Unterschleißheim
Commercium Immobilien- und Beteiligungs-GmbH	Wiesbaden
Commercium Versicherungsvermittlung GmbH	Wiesbaden
Schrader Industriefahrzeuge GmbH & Co.	Essen
Hydromotive GmbH & Co. KG	Leuna
Linde Gas Produktionsgesellschaft mbH & Co. KG	Höllriegelskreuth
Linde Ladenbau GmbH & Co. KG	Bad Hersfeld
MATRA-WERKE GmbH	Frankfurt am Main
Selas-Linde GmbH	Höllriegelskreuth
STILL GmbH	Hamburg
STILL-WAGNER GmbH & Co. KG	Reutlingen
Tega-Technische Gase und Gasetechnik GmbH	Würzburg
Tega-Technische Gase und Gasetechnik GmbH & Co. KG	Hamburg
TV Kohlensäure Technik und Vertrieb GmbH + Co.	Höllriegelskreuth
Unterbichler GmbH & Co. KG	Munich
Werbung und Messebau GmbH	Wiesbaden

A list of the complete shareholdings of the Linde Group, the Group financial statements and the Group management report, as well as the Report of the Supervisory Board, are held in the Commercial Register of the Local Courts (Amtsgerichte) of Wiesbaden, Munich, Bad Hersfeld, Essen, Frankfurt/Main, Halle, Hamburg, Reutlingen and Würzburg. Significant Group companies are listed in Note [47].

[5] Foreign currency translation

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

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

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

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

For acquisitions prior to January 1, 2005, goodwill arising on the consolidation of foreign companies is translated at historical rates and reported at acquisition cost less any impairment losses recognized.

Goodwill and hidden reserves arising from the acquisition of companies on or after January 1, 2005 are reported in the relevant functional currency and translated at the closing rate on the balance sheet date.

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

During the year, translation differences of €4 million (2004: €1 million) were recognized in the income statement.

[6] Currencies

The following principal exchange rates have been used:

Exchange rate €1 =	ISO code	Mid-rate on balance sheet date		Annual average rate	
		Dec. 31, 2005	Dec. 31, 2004	2005	2004
Argentina	ARS	3.588800	4.051700	3.620423	3.668317
Australia	AUD	1.617400	1.748900	1.627720	1.690250
Brazil	BRL	2.768200	3.620600	3.000314	3.627917
China	CNY	9.553900	11.120600	10.185147	10.129861
Czech Republic	CZK	29.090000	30.390000	29.758953	31.876660
Denmark	DKK	7.460800	7.438500	7.452733	7.439795
Great Britain	GBP	0.687200	0.707100	0.683087	0.678756
Hungary	HUF	252.620000	245.775000	248.308231	251.658861
Malaysia	MYR	4.474300	5.019300	4.697524	4.696800
Mexico	MXN	12.590100	15.240000	13.438515	14.041336
Norway	NOK	7.983300	8.240000	8.006471	8.369871
Poland	PLN	3.844000	4.087700	3.911415	4.536923
Sweden	SEK	9.401600	9.020000	9.298144	9.125354
Switzerland	CHF	1.556700	1.543700	1.548299	1.543836
USA	USD	1.183900	1.364000	1.239135	1.243924

[7] Accounting policies

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

The financial statements of companies consolidated in the Linde Group have been prepared using uniform accounting policies in accordance with IAS 27 *Consolidated and Separate Financial Statements.*

Recently issued accounting standards

The IASB has revised numerous standards and issued many new ones in the course of its projects to develop IFRS and in its efforts to achieve convergence with US GAAP. These were applied in the Group financial statements from January 1, 2005 where they had been adopted by the European Commission. The relevant standards are as follows:

- → IFRS 2 *Share-based Payment,*
- → IFRS 3 *Business Combinations in conjunction with IAS 36 Impairment of Assets* and IAS 38 *Intangible Assets* (this standard had already been applied for companies acquired after March 31, 2004),

- IFRS 4 *Insurance Contracts,*
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations,*
- IFRS 6 *Exploration for and Evaluation of Mineral Resources,*
- Amendment to IAS 19 *Actuarial Gains and Losses, Group Plans and Disclosures,*
- Amendment to IAS 39 *Cash Flow Hedge Accounting of Forecast Intragroup Transactions,*
- Amendment to IAS 39 *The Fair Value Option,*
- Amendment to SIC-12 *Special Purpose Entities,*
- IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities,*
- IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments,*
- IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.*

In addition, the following standards were issued by the IASB or IFRIC in the course of fiscal 2005, but have not been applied in the Group financial statements for the year ended December 31, 2005, as they are not yet mandatory or have not yet been adopted by the European Commission:

- Amendment to IAS 1 *Capital Disclosures,*
- Amendment to IAS 39 and IFRS 4 *Financial Guarantee Contracts,*
- Amendment to IAS 21 *Net Investment in a Foreign Operation,*
- Amendment to IFRS 4 *Revised Guidance on Implementing IFRS 4,*
- IFRS 7 *Financial Instruments – Disclosures,*
- IFRIC 4 *Determining whether an Arrangement contains a Lease,*
- IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds,*
- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies.*

These standards will not be applied by Linde AG until fiscal 2006 or later. The impact on fiscal 2006 of these standards, with the exception of IFRIC 4, will not be significant overall.

The application of IFRIC 4 *Determining whether an Arrangement contains a Lease* from fiscal 2006 will result in certain technical equipment in the Linde Gas division being recognized as finance leases. This will lead to a shift from tangible assets to receivables from financial services and to a reclassification of part of the corresponding sales in the financial result.

Changes in accounting policies

In 2005, IAS 19 was amended in respect of the recognition of actuarial gains and losses relating to the measurement of pension provisions, allowing the option of recognizing actuarial gains and losses in equity, instead of using the corridor approach and recognizing actuarial gains and losses immediately in profit or loss. At December 31, 2005, Linde AG has made use of this option and will in future disclose pension provisions on the basis of the actual obligation (defined benefit obligation), instead of allocating actuarial gains and losses over the remaining service life of the employees if the gains or losses exceed the corridor of 10 percent of the obligations. The prior year figures in the balance sheet and income statement have been restated in accordance with IAS 19 to take account of the remeasurement of the pension provision, while the amounts included in the prior year figures which relate to the amortization of the actuarial gains and losses have been added back to functional costs. In accordance with IAS 12, deferred tax assets have been recognized in respect of the increase in the pension provision and recognized outside profit or loss in equity in the same way as the underlying transaction.

The prior year figures have also been restated as a result of the first-time application of IFRS 2 *Share-based Payment* (see Note [35]).

Comparability of prior year figures

Due to the sale of the Linde Refrigeration business segment and the fact that, in accordance with IFRS 3 and IAS 38, goodwill is no longer amortized, the prior year figures have been adjusted to achieve comparability. Where figures are both restated and comparable, this has been clearly marked in the Group financial statements.

The restatement of the prior year figures and the adjustments to ensure their comparability had the following effects on equity at December 31, 2004 and on net income after minority interests for fiscal 2004:

Group balance sheet

in € million	2004
Equity at December 31, 2004 – as reported	**4,081**
Changes as a result of IAS 19:	
Previously unrecognized actuarial gains/losses and cumulative effect of limitation on a defined benefit asset (IAS 19.58b)	−209
Change in net income due to changes in accounting standards	4
Deferred taxes	70
Changes as a result of IFRS 2:	
Adjustment to capital reserve due to share option scheme	8
Current expense from share options in fiscal 2004	−8
Equity at December 31, 2004 – restated	**3,946**

Group income statement

in € million	2004
Net income after minority interests – as reported	**274**
Changes as a result of IAS 19:	
Change in net income due to changes in accounting standards	6
Deferred tax expense	−2
Changes as a result of IFRS 2:	
Current expense from share options in the fiscal year	−8
Net income after minority interests – restated	**270**
Sale of Linde Refrigeration:	
Sales	565
Cost of sales	−444
Other income and expenses	−124
Elimination of scheduled amortization of goodwill:	
Scheduled amortization for the fiscal year	110
Scheduled amortization and impairment losses in the Linde Refrigeration business segment	3
Net income after minority interests – restated and comparable	**380**

Revenue recognition

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

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

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

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

Cost of sales

Cost of sales comprises the cost of goods and services sold and the cost of merchandise sold. It includes not only the cost of direct materials and direct manufacturing expenses, but also indirect costs including depreciation of production plant, amortization of certain intangible assets and inventory write-downs. Cost of sales also includes additions to the provisions for warranties and provisions for losses on orders. Warranty provisions are established for the estimated cost at the date of sale of that particular product, or are based on the stage of completion of the plant in the case of long-term contracts. Provisions for losses on orders are made in full in the reporting period in which the estimated total cost of the particular contract exceeds the expected revenue.

Research and development costs

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

Financial result

The financial result includes the interest charge on liabilities, which is calculated on the basis of the effective interest rate method, dividends, exchange gains and losses, interest income on receivables and profits and losses on financial instruments recognized in profit or loss.

Interest income is recognized in profit or loss on the basis of the effective interest rate method. Dividends are recognized in profit or loss when they have been declared. Finance income relating to finance leases is recognized using the effective interest rate method.

Intangible assets

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

Purchased and internally-generated intangible assets are stated at acquisition or production cost less accumulated amortization and any impairment losses. It is important to establish whether the intangible assets have finite or indefinite useful lives. If they have indefinite useful lives, they are not amortized, but are subject to an annual impairment test. Intangible assets with finite useful lives, on the other hand, are amortized over the life of the contract or over their estimated useful lives.

From January 1, 2005, goodwill is no longer amortized, but subject to an annual impairment test. According to IAS 36, goodwill is allocated to the smallest cash-generating unit and tested for impairment at this level by comparing discounted future expected cash flows with the carrying amount of the cash-generating unit. Any goodwill impairment losses are recognized in the income statement in operating profit (EBIT). In fiscal 2004, scheduled goodwill amortization amounted to €110 million.

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

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

Tangible assets

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

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

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

If significant events or market developments indicate an impairment in the value of the asset, Linde reviews the recoverability of the carrying amount of the asset (including capitalized development costs) by testing for impairment. The carrying amount of the asset is compared with the recoverable amount, which is defined as the higher of the asset’s net selling price and its value in use. To determine the recoverable amount on the basis of value in use, estimated future cash flows are discounted at a rate which reflects the risks specific to the asset. If the net book value of the asset exceeds the total discounted cash flows, an impairment loss is recognized. When estimating future cash flows, current and expected future inflows as well as segment-specific, technological, economic and general developments are taken into account. If the reason for an impairment loss recognized in prior years no longer exists, the carrying amount of the asset is increased to the carrying amount that would have been determined (i.e. acquisition/manufacturing cost net of amortization or depreciation) had no impairment loss been recognized. Real estate which is held as investment properties is immaterial.

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

Financial assets

Investments in non-consolidated affiliated and related companies disclosed under Financial assets are stated at cost, as fair value cannot be determined and other permitted valuation methods do not give reliable results. Associates are accounted for under the equity method at the appropriate proportion of their net assets plus any unamortized goodwill. Any changes in the appropriate proportion of net assets of the associate recognized in equity are also recognized in equity in the Group financial statements.

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

Inventories

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

Long-term construction contracts

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

The financial result from long-term construction contracts is shown in Other operating income at Group level. Interest which does not relate to long-term construction contracts is shown in the Financial result.

Receivables and other assets

Receivables and other assets are stated at face value or cost.

Allowances are made for identifiable risks. Non-interest-bearing or low-interest receivables due in more than one year are discounted.

Derivative financial instruments

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

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

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

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

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

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

For further information about risk management and about the impact on the balance sheet of derivative financial instruments, see Note [36].

Deferred taxes

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

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

Provisions for pensions and other obligations

The actuarial valuation of provisions for pensions is based on the projected unit credit method set out in IAS 19 *Employee Benefits* for defined benefit commitments. This method takes into account not only vested future benefits and known pensions at the balance sheet date, but also expected future increases in salaries and pensions. The calculation of the provisions is determined using actuarial reports based on biometric accounting principles. Actuarial gains and losses are directly recognized in equity.

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

Other provisions and provisions for insurance contracts

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

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

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

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

To cover insurance risks, which result mainly from general and business insurance, insurance contracts are entered into with an insurer outside the Group. The costs arising from these insurance contracts are recognized in functional costs.

In addition, Linde acts as a reinsurer in respect of some of the above-mentioned insurance contracts and is therefore exposed to certain insurance risks according to IFRS 4. By accepting these insurance risks, the company benefits from the lower loss ratio in the Linde Group compared with the industry average.

Insurance risks are recognized in accordance with IFRS 4 in the form of a provision for unsettled claims in the Group financial statements. The provision for payment obligations comprises claims which have arisen by the balance sheet date, but have not yet been settled. Provisions for claims which have been notified by the balance sheet date are based on estimates of the future costs of the claims including loss adjustment expenses. These are set up on an individual obligation basis. Provisions for claims incurred but not reported (IBNR) at the balance sheet date are set up to take account of the estimated cost of claims which have been incurred, but not yet reported by the insurer. Due to the fact that no information is available at that stage about the extent of these claims, estimates are made based on industry experience. The provision is calculated using actuarial and statistical models.

Financial debt and liabilities

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

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

Accounting for leases

Lease agreements are classified as finance leases if they transfer substantially all the risks and rewards incident to ownership of the leased asset to the lessee. All other leases are operating leases. Linde Group companies enter into lease agreements both as lessor and as lessee.

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

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

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

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

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

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

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

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

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

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

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

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

Assets held for sale and disposal groups

Non-current assets and disposal groups are disclosed separately in the balance sheet as held for sale, if they can be sold in their current state and the sale is probable. Under the "as held for sale" classification, the assets are measured at the lower of carrying amount and fair value less costs to sell. Liabilities directly related to assets held for sale are disclosed separately as held for sale in Equity and liabilities. For discontinued operations, additional disclosures are required in the Notes.

Discretionary decisions and estimates

The preparation of the Group financial statements in accordance with IFRS requires discretionary decisions and estimates for some items, which might have an effect on their recognition and measurement in the balance sheet and income statement. The actual amounts realized may differ from these estimates. Estimates are required in particular for

- the assessment of the need to recognize and the measurement of impairment losses relating to intangible assets, tangible assets and inventories,
- the recognition and measurement of pension obligations,
- the assessment of the recoverability of deferred tax assets.

An impairment test is carried out annually on goodwill at the level of the smallest cash-generating unit to which the goodwill has been allocated on the basis of our operational three-year plan, assuming growth rates specific to the division for the following period. Any changes in these key factors may possibly result in higher or lower impairment losses being recognized.

The obligation arising from defined benefit commitments is determined on the basis of actuarial parameters. An increase or decrease in the discount rate of 0.5 percent would lead to a reduction or increase in pension obligations of €142 million or €160 million respectively. This change in parameters would have no effect on earnings, as actuarial gains and losses are recognized directly in equity.

The recognition and the measurement of Other provisions are based on the assessment of the probability of an outflow of resources, and on past experience and circumstances known at the balance sheet date. The actual outflow of resources may therefore differ from the figure included in Other provisions.

Deferred tax assets are recognized on the basis of an assessment of their future recoverability, i.e. when there is sufficient tax income. The actual tax situation in future periods may differ from the assessment at the date the deferred tax assets are recognized.

Notes to the Group income statement

[8] Sales

Sales are analyzed by business segment in the segment information, which forms part of the supplementary information described in the IFRS Framework.

Sales are derived from the following activities:

in € million	2005	Restated & comparable 2004	Restated 2004
Revenue from the sale of products and services	8,364	7,745	8,310
Revenue from long-term construction contracts	1,137	1,111	1,111
Sales	**9,501**	**8,856**	**9,421**

[9] Cost of sales

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

[10] Research and development costs

Research and development costs comprise not only research costs and non-capitalized development costs, but also amortization of capitalized development costs of €46 million (2004: €38 million).

[11] Other operating income and expenses

Other operating income

in € million	2005	Restated & comparable 2004	Restated 2004
Profit on disposal of current and non-current assets	26	37	39
Ancillary revenue	15	18	19
Financial result from long-term contracts	18	15	15
Income from receivables written down	–	1	1
Exchange rate differences	52	64	66
Income from release of provisions	15	39	41
Miscellaneous operating income	83	52	70
Other operating income	209	226	251

Other operating expenses

in € million	2005	Restated & comparable 2004	Restated 2004
Expenses related to pre-retirement part-time work schemes	6	7	7
Loss on disposal of current and non-current assets	7	7	7
Exchange rate differences	63	68	70
Allowance for doubtful debts, payment shortfalls, write-downs on other assets	21	18	19
Miscellaneous operating expenses	9	30	31
Other operating expenses	**106**	**130**	**134**

[12] Financial result

in € million	2005	Restated & comparable 2004	Restated 2004
Interest and similar income	75	84	85
of which from affiliated companies €0 million (2004: €1 million)			
Interest and similar charges	−199	−211	−214
Net interest	**−124**	**−127**	**−129**
Income from associates	**1**	**3**	**3**
Income from investments	–	–	–
Income from profit transfer agreements	–	3	3
Expense from loss sharing agreements	–	−1	−1
Amortization of financial assets and securities held as current assets	−1	−2	−2
Other investment income	**−1**	**–**	**–**
Financial result	**−124**	**−124**	**−126**

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

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

[13] Taxes on income

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

in € million	2005	Restated 2004
Current tax expense and income	245	207
Tax expense and income relating to prior periods	6	20
Deferred taxes	28	14
Taxes on income	**279**	**241**

The income tax expense disclosed for the fiscal year 2005 of €279 million is €20 million lower than the expected income tax expense of €299 million, a theoretical figure arrived at by applying the German tax rate of 37.9 percent (2004: 38.4 percent) to Group earnings before taxes on income. Tax effects directly recognized in equity are shown in detail in Note [27].

The difference between the expected income tax expense and the figure disclosed is explained below:

in € million	2005	Restated 2004
Earnings before taxes on income	789	516
Income tax rate of Linde AG (including trade tax)	38 %	38 %
Expected income tax expense	**299**	**198**
Foreign tax rate differential	–61	–44
Non-tax-deductible amortization of goodwill	–	36
Reduction in tax due to tax-free income	–11	–40
Increase in tax due to non-tax-deductible expenses	39	39
Tax expense and income relating to prior periods	6	20
Effect of changes in tax rate	–5	7
Change in other permanent differences	–	15
Other	12	10
Income tax expense disclosed	**279**	**241**
Effective tax rate	35 %	47 %

Excluding the Refrigeration business segment, the tax rate in 2004 in respect of the tax expense of €237 million would have been 38.10 percent.

In fiscal 2005, the corporation tax rate was 25 percent (2004: 25 percent). Taking into account an average rate for trade earnings tax and the solidarity surcharge rate, this gives a tax rate of 37.9 percent (2004: 38.4 percent) for German companies. The reduction in the tax rate is due to the change in the average trade tax assessment rate.

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

No deferred tax is calculated in respect of retained profits in subsidiaries of €1.244 billion (2004: €1.458 billion), as the profits are indefinitely reinvested in these operations or are not subject to taxation.

Deferred tax assets and liabilities:

	2005		Restated 2004	
in € million	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets and tangible assets	91	583	98	545
Financial assets	17	7	9	18
Current assets	143	260	118	283
Provisions	295	43	262	52
Liabilities	264	49	290	67
Tax loss carryforwards and tax credits	112	–	152	–
Valuation allowance	−75	–	−67	–
Amounts offset	−602	−602	−671	−671
	245	**340**	**191**	**294**

Deferred tax assets in respect of provisions includes €113 million which relates to entries recognized directly in equity. The change in fiscal 2005 was €45 million. The carrying amount of deferred tax assets is reduced to the extent that it is no longer probable that the deferred tax asset will be utilized. A valuation allowance of €75 million (2004: €67 million) has therefore been recognized against the deferred tax assets to reduce the potential tax savings of €234 million (2004: €182 million), as it is not probable that the underlying tax loss carryforwards and tax credits of €209 million (2004: €171 million) and deductible temporary differences of €25 million (2004: €11 million) will be utilized. Of the total potential tax savings less the valuation allowance of €234 million (2004: €182 million), €75 million (2004: €64 million) may be carried forward for up to ten years and €132 million (2004: €118 million) may be carried forward for longer than ten years.

Tax loss carryforwards

in € million	2005	2004
May be carried forward for up to 10 years	85	94
May be carried forward for longer than 10 years	49	108
May be carried forward indefinitely	222	142
	356	**344**

[14] Minority interests

Included in Net income is the profit attributable to minority shareholders of €9 million (2004: €5 million).

[15] Earnings per share

in €000/Shares in thousands	2005	Restated & comparable 2004	Restated 2004
Net income after minority interests	500,861	380,042	270,200
Plus: increase in profit due to dilutive effect of convertible bond	13,197	8,497	8,497
Profit after adjusting for dilutive effects	514,058	388,539	278,697
Weighted average number of shares outstanding	119,564	119,273	119,273
Dilution as a result of the Linde Management Incentive Programme	358	178	178
Effect of dilutive convertible bond	9,738	6,429	6,429
Weighted average number of shares outstanding – fully diluted –	129,660	125,880	125,880
Earnings per share in €	**4.19**	**3.19**	**2.27**
Earnings per share in € – fully diluted –	**3.96**	**3.09**	**2.21**

In May 2004, the company issued a convertible bond with a nominal amount of €550 million. The dilutive effects of issuing future shares were taken into account in the calculation of earnings per share.

The Refrigeration business segment sold in 2004 did not have any dilutive effect on earnings per share in fiscal 2005 or in the previous year.

[16] Other information on the Group income statement

in € million	2005	Restated & comparable 2004	Restated 2004
Cost of raw materials, supplies, finished and unfinished goods, and merchandise	4,084	3,634	4,094
Cost of external services	350	394	444
Cost of materials	**4,434**	**4,028**	**4,583**
Wages and salaries	1,627	1,582	1,742
Social security contributions	383	371	405
Pension costs and personnel welfare costs	123	110	121
of which pension costs €122 million (2004: €109 million)			
Personnel costs	**2,133**	**2,063**	**2,268**

Notes to the Group balance sheet

[17] Goodwill/Intangible assets

Movements in the intangible assets of the Linde Group during the 2005 fiscal year and in the previous year were as follows:

Acquisition/Manufacturing cost in € million	Goodwill	Capitalized development costs	Other intangible assets	Total
At Jan. 1, 2004	**3,578**	**261**	**281**	**4,120**
Currency adjustments	–13	–	–1	–14
Changes in Group structure/acquisitions	9	–	–58	–49
Additions	2	49	80	131
Disposals	19	53	10	82
Transfers	–	–	4	4
At Dec. 31, 2004	**3,557**	**257**	**296**	**4,110**
First-time application of IFRS 3	–769	–	–	–769
At Jan. 1, 2005	**2,788**	**257**	**296**	**3,341**
Currency adjustments	7	1	5	13
Changes in Group structure/acquisitions	17	–	–	17
Additions	11	53	65	129
Disposals	–	–	12	12
Transfers	–	–	1	1
At Dec. 31, 2005	**2,823**	**311**	**355**	**3,489**

Accumulated amortization in € million	Goodwill	Capitalized development costs	Other intangible assets	Total
At Jan. 1, 2004	**686**	**149**	**141**	**976**
Currency adjustments	–11	–	–	–11
Changes in Group structure/acquisitions	–28	–	–29	–57
Amortization for the year	141	38	38	217
Disposals	19	52	9	80
At Dec. 31, 2004	**769**	**135**	**141**	**1,045**
First-time application of IFRS 3	–769	–	–	–769
At Jan. 1, 2005	**–**	**135**	**141**	**276**
Currency adjustments	–	–	3	3
Changes in Group structure/acquisitions	–	–	–	–
Amortization for the year	–	46	40	86
Disposals	–	–	12	12
At Dec. 31, 2005	**–**	**181**	**172**	**353**
Net book value at Dec. 31, 2005	**2,823**	**130**	**183**	**3,136**
Net book value at Dec. 31, 2004	**2,788**	**122**	**155**	**3,065**

The total figure for goodwill includes the amortized goodwill arising on the acquisition of the AGA Group at a net book value of €2.495 billion (2004: €2.495 billion).

Included in Other intangible assets of €313 million (2004: €277 million) are capitalized development costs in the Material Handling business segment of €130 million (2004: €122 million) and concessions, industrial property rights, licenses and other intangible assets of €183 million (2004: €155 million).

During the year, no impairment losses were recognized in respect of goodwill on the basis of the impairment tests performed. In 2004, goodwill impairment losses of €20 million were recognized in the Material Handling business segment, €8 million in the Linde Gas division and €1 million in Refrigeration, the discontinued operation.

The impairment losses are based on a revised estimate of the future results of operations of individual reporting units.

[18] Tangible assets

Movements in the tangible assets of the Linde Group during the 2005 fiscal year and in the previous year were as follows:

Acquisition/Manufacturing cost in € million	Land, land rights and buildings, including buildings on non-owned land	Technical equipment and machinery	Fixtures, furniture and equipment	Payments in advance and plants under construction	Total
At Jan. 1, 2004	**1,870**	**4,812**	**2,615**	**155**	**9,452**
Currency adjustments	−6	−31	−15	–	−52
Changes in Group structure/ acquisitions	−48	5	−76	−4	−123
Additions	47	197	165	188	597
Disposals	24	100	51	1	176
Transfers	17	58	18	−102	−9
At Dec. 31, 2004/Jan. 1, 2005	**1,856**	**4,941**	**2,656**	**236**	**9,689**
Currency adjustments	43	151	100	11	305
Changes in Group structure/ acquisitions	−3	−9	−1	1	−12
Additions	38	249	176	252	715
Disposals	27	47	86	5	165
Transfers	31	106	35	−200	−28
At Dec. 31, 2005	**1,938**	**5,391**	**2,880**	**295**	**10,504**

Accumulated depreciation in € million	Land, land rights and buildings, including buildings on non-owned land	Technical equipment and machinery	Fixtures, furniture and equipment	Payments in advance and plants under construction	Total
At Jan. 1, 2004	851	3,060	1,767	–	5,678
Currency adjustments	–4	–23	–11	–	–38
Changes in Group structure/ acquisitions	–13	–47	–63	–	–123
Depreciation for the year	57	259	187	1	504
Disposals	11	73	63	1	148
Transfers	–	–	2	–	2
At Dec. 31, 2004/Jan. 1, 2005	880	3,176	1,819	–	5,875
Currency adjustments	14	82	64	–	160
Changes in Group structure/ acquisitions	–2	–9	–1	1	–11
Depreciation for the year	59	266	180	–	505
Disposals	16	30	77	–	123
Transfers	3	–8	–6	–1	–12
At Dec. 31, 2005	938	3,477	1,979	–	6,394
Net book value at Dec. 31, 2005	1,000	1,914	901	295	4,110
Net book value at Dec. 31, 2004	976	1,765	837	236	3,814

Impairment losses of €10 million (2004: €0 million) were recognized during the year in respect of tangible assets.

The impairment losses are based on a revised estimate of the future results of operations of individual reporting units.

Borrowing costs for construction periods over one year of €1 million (2004: €7 million) were capitalized, based on an interest rate of 3.20 percent (2004: 4.60 percent).

The acquisition/manufacturing cost of tangible assets was reduced in the fiscal year by grants for air separation plants of €1 million (2004: €3 million).

Land and buildings of €35 million (2004: €38 million) were pledged as security.

[19] Investments in associates/Other financial assets

Movements in the financial assets of the Linde Group during the 2005 fiscal year and in the previous year were as follows:

Acquisition cost in € million	Investments in associates	Affiliated companies	Other investments	Non-current loans*	Total
At Jan. 1, 2004	152	49	25	20	246
Currency adjustments	–5	–	–	–	–5
Changes in Group structure/ acquisitions	–8	–28	–1	–	–37
Additions	4	41	3	2	50
Disposals	8	1	4	4	17
Transfers	14	–11	–3	–	–
At Dec. 31, 2004/Jan. 1, 2005	149	50	20	18	237
Currency adjustments	1	2	–	–	3
Changes in Group structure/ acquisitions	–	–15	–	–	–15
Additions	24	13	4	14	55
Disposals	8	1	3	10	22
Transfers	4	–	–4	–	–
At Dec. 31, 2005	170	49	17	22	258

* €10 million of the non-current loans relates to loans to associates.

Accumulated write-downs in € million	Investments in associates	Affiliated companies	Other investments	Non-current loans	Total
At Jan. 1, 2004	8	2	2	1	13
Currency adjustments	–	–	–	–	–
Changes in Group structure/ acquisitions	−1	−1	−1	–	−3
Write-ups	–	–	–	–	–
Write-downs	3	2	–	–	5
Transfers	–	–	–	–	–
At Dec. 31, 2004/Jan. 1, 2005	10	3	1	1	15
Currency adjustments	–	–	–	–	–
Changes in Group structure/ acquisitions	–	–	–	–	–
Write-ups	–	–	–	–	–
Write-downs	1	–	–	–	1
Disposals	–	1	–	–	1
Transfers	–	–	–	–	–
At Dec. 31, 2005	11	2	1	1	15
Net book value at Dec. 31, 2005	159	47	16	21	243
Net book value at Dec. 31, 2004	139	47	19	17	222

In fiscal 2005, impairment losses of €1 million were recognized in respect of investments in associates in the Linde Gas division. In 2004, impairment losses of €5 million were recognized, of which €4 million related to the Linde Gas division and €1 million to the Material Handling business segment.

The impairment losses are based on a revised estimate of the future results of operations of individual reporting units.

Major associates are listed in Note [47]. The associated companies included have combined assets of €1.454 billion (2004: €1.244 billion), liabilities of €1.003 billion (2004: €800 million), sales of €1.416 billion (2004: €1.223 billion) and net income for the year of €17 million (2004: €27 million).

Two associates had an unrealized loss in the fiscal year of €2 million (2004: €1 million), the amount of their negative equity. Accounting for these associates under the equity method was discontinued.

[20] Leased assets

Movements in the leased assets of the Linde Group during the 2005 fiscal year and in the previous year were as follows:

Acquisition/Manufacturing cost in € million	Leased assets
At Jan. 1, 2004	1,071
Currency adjustments	–2
Changes in Group structure/acquisitions	50
Additions	259
Disposals	245
Transfers	5
At Dec. 31, 2004/Jan. 1, 2005	1,138
Currency adjustments	20
Changes in Group structure/acquisitions	10
Additions	281
Disposals	212
Transfers	28
At Dec. 31, 2005	1,265

Accumulated depreciation in € million	Leased assets
At Jan. 1, 2004	520
Currency adjustments	–3
Changes in Group structure/acquisitions	23
Depreciation for the year	176
Disposals	150
Transfers	–2
At Dec. 31, 2004/Jan. 1, 2005	564
Currency adjustments	10
Changes in Group structure/acquisitions	5
Depreciation for the year	191
Disposals	142
Transfers	12
At Dec. 31, 2005	640
Net book value at Dec. 31, 2005	625
Net book value at Dec. 31, 2004	574

Of the additions, €274 million (2004: €252 million) relate to the Material Handling business segment and €7 million (2004: €7 million) to the other divisions.

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

in € million	Operating leases as lessor 2005	Operating leases as lessor 2004	Sales with guaranteed residual values 2005	Sales with guaranteed residual values 2004	Finance leases as lessee 2005	Finance leases as lessee 2004	Total 2005	Total 2004
Land and buildings	–	–	–	–	22	19	22	19
Industrial trucks	449	381	124	140	5	6	578	527
Technical equipment	9	5	–	–	3	5	12	10
Fixtures, furniture and equipment	–	–	–	–	13	18	13	18
	458	**386**	**124**	**140**	**43**	**48**	**625**	**574**

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

Leased assets held under operating leases include, on the one hand, assets leased to customers with a value of €242 million (2004: €183 million), financed principally using Linde's own resources. On the other hand, they include assets leased to customers with a value of €216 million (2004: €203 million), which were refinanced by sale and leaseback transactions with leasing companies.

Future minimum lease payments to be received from customers under non-cancelable operating leases amount to €385 million (2004: €281 million).

These are analyzed by due date as follows:

in € million	Dec. 31, 2005	Dec. 31, 2004
Future minimum lease payments to be received		
Due within one year	134	92
Due in one to five years	238	183
Due after more than five years	13	6
	385	**281**

Also included under this heading are items of equipment sold to leasing companies, but in respect of which Linde guarantees certain residual values.

Buildings, technical equipment, fixtures, furniture and other equipment held under finance leases are also disclosed here. The corresponding lease liabilities are reported under the heading Liabilities from financial services. The underlying leased assets in the fiscal year totaled €43 million (2004: €48 million); the corresponding depreciation charge was €12 million (2004: €13 million). The assets relate mainly to buildings leased by the STILL branches in Germany.

Contingent rents, mainly contingent on machine hours used, were recognized in income and were insignificant in the 2005 fiscal year.

[21] Inventories

in € million	Dec. 31, 2005	Dec. 31, 2004
Raw materials and supplies	195	181
Work in progress, goods and services	208	189
Finished goods	423	405
Merchandise	115	93
Payments in advance to suppliers	83	74
	1,024	942

Included in the total are inventories of €505 million (2004: €407 million) reported at their net realizable value. The write-down on the gross value was €96 million (2004: €97 million).

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

[22] Receivables and other assets

	Non-current		Current		Total	
in € million	2005	Restated 2004	2005	Restated 2004	2005	Restated 2004
Receivables from financial services	**125**	**132**	**80**	**82**	**205**	**214**
Receivables from percentage-of-completion contracts	–	–	28	72	28	72
Receivables from affiliated companies	–	–	4	6	4	6
Receivables from related companies	–	–	40	47	40	47
Other trade receivables	8	45	1,492	1,284	1,500	1,329
Trade receivables	**8**	**45**	**1,564**	**1,409**	**1,572**	**1,454**
Tax claims	3	1	106	180	109	181
Receivables from affiliated companies	–	–	3	10	3	10
Receivables from related companies	–	–	42	30	42	30
Miscellaneous receivables and assets	71	20	174	316	245	336
Other receivables and other assets	**74**	**21**	**325**	**536**	**399**	**557**

Receivables from financial services

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

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

in € million	Dec. 31, 2005	Dec. 31, 2004
Gross investment	**243**	**253**
Due within one year	94	97
Due within one to five years	145	154
Due in more than five years	4	2
Present value of minimum lease payments	**205**	**214**
Due within one year	80	82
Due within one to five years	122	130
Due in more than five years	3	2
Unearned finance income	**38**	**39**

Included in the gross investment are unguaranteed residual values accruing to the benefit of the lessor of €22 million (2004: €30 million).

The receivables include minimum lease payments relating to non-cancelable subleases of €220 million (2004: €223 million).

Contingent rents, mainly contingent on machine hours used, were recognized in income and were insignificant in the 2005 fiscal year.

Receivables from percentage of completion contracts

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

At the balance sheet date, costs incurred and profits recognized on long-term construction contracts amounted to €2.052 billion (2004: €2.029 billion), offset against advances received of €2.734 billion (2004: €2.452 billion), giving rise to receivables of €28 million (2004: €72 million) and liabilities of €710 million (2004: €495 million).

Customer retentions were immaterial.

Other receivables and other assets

Other receivables and other assets comprise mainly the fair values of derivative financial instruments of €67 million (2004: €130 million), interest accruals from swaps of €36 million (2004: €38 million) and tax refund claims of €109 million (2004: €181 million).

[23] Securities

Only available-for-sale securities of €5 million (2004: €3 million) are included under this heading.

[24] Cash and cash equivalents

Cash and cash equivalents of €906 million (2004: €564 million) comprise cash in hand, cash at banks and commercial papers. The cash at banks and commercial papers have a maturity of three months or less.

[25] Prepaid expenses and deferred charges

The whole amount is due within one year.

[26] Non-current assets held for sale and disposal groups

IFRS 5 has applied from January 1, 2005 for non-current assets held for sale and disposal groups. With a sale agreement dated December 20, 2005, all the conditions for an "as held for sale" classification have been met in respect of Linde Ladenbau GmbH & Co. KG, Bad Hersfeld. All the assets and liabilities of the company have been reclassified as a disposal group. The assets are shown below (see Note [34] for the reclassified liabilities).

in € million	Dec. 31, 2005
Intangible assets	–
Other non-current assets	4
Inventories	5
Cash and cash equivalents	–
Other current assets	14
Non-current assets held for sale and disposal groups	**23**

[27] Equity

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

Statement of changes in Group equity

in € million	Capital subscribed	Capital reserve	Retained earnings
At Jan. 1, 2004, as reported	**305**	**2,595**	**1,144**
Adjustments: First-time application of IFRS 2	–	9	–9
Adjustments: Change in accounting policy IAS 19	–	–	–
At Jan. 1, 2004, restated	**305**	**2,604**	**1,135**
Dividend payments[1]	–	–	–135
Change in currency translation differences	–	–	–
Financial instruments	–	–	–
Amount arising from the issue of convertible bond	–	67	–
Net income, restated	–	–	270
Changes as a result of share option scheme	–	8	–
Other changes	–	1	–
At Dec. 31, 2004/Jan. 1, 2005, restated	**305**	**2,680**	**1,270**
Dividend payments[1]	–	–	–149
Change in currency translation differences	–	–	–
Financial instruments	–	–	–
Amount arising from the issue of convertible bond	–	–	–
Net income	–	–	501
Changes as a result of share option scheme	2	24	–
Other changes	–	–	–
At Dec. 31, 2005	**307**	**2,704**	**1,622**

[1] See Note [40] on dividend per share.

Cumulative changes in equity not recognized through the income statement						
Currency translation differences	Remeasurement of securities at fair value	Derivative financial instruments	Actuarial gains/losses	Total equity excluding minority interests	Minority interests	Total equity
−183	–	–	–	3,861	35	3,896
–	–	–	–	–	–	–
–	–	–	−98	−98	–	−98
−183	–	–	−98	3,763	35	3,798
–	–	–	–	−135	−2	−137
−22	–	–	–	−22	–	−22
–	–	−3	–	−3	–	−3
–	–	–	–	67	–	67
–	–	–	–	270	5	275
–	–	–	–	8	–	8
–	–	–	−41	−40	–	−40
−205	–	−3	−139	3,908	38	3,946
–	–	–	–	−149	−1	−150
157	–	–	–	157	1	158
–	–	−6	–	−6	–	−6
–	–	–	–	–	–	–
–	–	–	–	501	9	510
–	–	–	–	26	–	26
–	–	–	−73	−73	2	−71
−48	–	−9	−212	4,364	49	4,413

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 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 until 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 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 until 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, or 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 to 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 €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 seven 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 Aktiengesellschaft, Frankfurt am Main, informed us in writing on October 21, 2005 in accordance with § 24 WpHG that, as the parent company of Atlas-Vermögensverwaltungs-Gesellschaft mit beschränkter Haftung, 61348 Bad Homburg v. d. Höhe, as a result of an intra-Group share transfer from Commerzbank Aktiengesellschaft, Kaiserstraße 16, 60311 Frankfurt am Main, to Atlas-Vermögensverwaltungs-Gesellschaft mit beschränkter Haftung 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 Aktiengesellschaft continues to hold 10.04 percent of the voting rights in Linde AG. These voting rights are attributable to Commerzbank Aktiengesellschaft in accordance with § 22(1), sentence 1, No. 1 WpHG.

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

Allianz Aktiengesellschaft, 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 Aktiengesellschaft, Königinstrasse 28, 80802 Munich, had not changed sufficiently to require notification.

In addition, Allianz Aktiengesellschaft, Munich, informed us in writing on November 22, 2005 in accordance with § 21 (1) 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 Aktiengesellschaft also notified us that the share of voting rights in Linde AG held by Allianz Aktiengesellschaft, 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) and 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 share 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 shares.

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.

Capital reserve

The capital reserve comprises the premiums arising on the issue of shares.

Retained earnings

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

Cumulative changes in equity not recognized through the income statement

This heading comprises the differences arising from the translation of the financial statements of foreign subsidiaries and the impact of the remeasurement of securities and derivative financial instruments after tax being accounted for in equity rather than being recognized in the income statement, as well as the effects of offsetting actuarial gains and losses on pension provisions after tax against equity.

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

	2005			2004		
in € million	Before tax	Tax effect	Net	Before tax	Tax effect	Net
Movement in currency translation differences	157	–	157	–22	–	–22
Movement in unrealized profits/losses from revaluation of securities at fair value						–
Movement in accumulated unrealized profits/losses	–	–	–	–	–	–
Realized profits/losses	–	–	–	–	–	–
Unrealized profits/losses on available-for-sale securities	–	–	–	–	–	–
Movement in unrealized profits/losses on derivative financial instruments						
Movement in accumulated unrealized profits/losses	–12	4	–8	–	–	–
Realized profits/losses	3	–1	2	–3	–	–3
Unrealized profits/losses on derivative financial instruments	–9	3	–6	–3	–	–3
Movement in actuarial gains/losses on pension provisions	–115	42	–73	–61	20	–41

Minority interests

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

in € million	Dec. 31, 2005	Dec. 31, 2004
Abelló Linde S. A., Barcelona	24	22
Linde Process Plant Company Ltd., Dalian	8	5
S. A. S. Société Angoumoisine de Manutention, Angoumoisine	4	–
Linde Engineering (Dalian) Co. Ltd., Dalian	3	–
Linde Carbonic (Shanghai) Company Ltd., Shanghai	3	3
Bretagne Manutention S. A., Pacé	3	3
Various other companies	4	5
	49	38

[28] Provisions for pensions and similar obligations

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

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

The provisions for similar obligations relate to bridging benefit payments in Germany and termination indemnities outside Germany. From 2005, these obligations have been shown in the reconciliation of the defined benefit obligation and therefore prior year figures have been adjusted.

Occupational pension schemes can be either defined contribution or defined benefit schemes. In the case of defined contribution plans, the company incurs no obligation other than the payment of contributions to an external pension fund. The total of all pension costs relating to defined contribution schemes in 2005 was €16 million (2004: €13 million).

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

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

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

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

In addition to assumptions about mortality and disability, the following assumptions are also relevant, depending on the economic situation in the particular country, so that for countries outside Germany weighted average figures based on the obligation are given:

	Germany		Rest of Europe		USA		Other countries	
	2005	2004	2005	2004	2005	2004	2005	2004
Discount rate	4.25 %	4.75 %	4.30 %	4.73 %	5.70 %	5.98 %	7.83 %	8.13 %
Expected return on plan assets	5.25 %	5.25 %	5.30 %	4.31 %	7.12 %	6.19 %	9.30 %	10.00 %
Growth in future benefits	2.50 %	2.50 %	3.25 %	3.23 %	3.81 %	4.00 %	2.30 %	3.28 %
Growth in pensions	1.50 %	1.25 %	1.94 %	1.93 %	3.00 %	3.00 %	3.14 %	2.84 %

The growth in future benefits comprises expected future increases in salaries, which are estimated annually, taking inflation and the economic situation into account. The actuarial present value of the pension obligations, calculated on the basis of the projected unit credit method, is reduced by the fair value of the plan assets where these are held in an externally financed pension fund. If the plan assets exceed the obligations from the pension commitments, an asset is disclosed in accordance with IAS 19 *Employee Benefits*. According to IAS 19.58, an asset may arise where a defined benefit plan has been overfunded only if Linde, under its obligation as employer, has the right to receive a refund of the contributions in cash or to reduce future contributions.

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

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

Actuarial gains and losses are recognized immediately in equity, which means that the provision for pensions is always reported at the actuarial present value of the obligation (defined benefit obligation; see Note [7]). At December 31, 2005, a total amount of – €212 million (2004: – €139 million), after deduction of deferred taxes, was recognized directly in equity.

Reconciliation of the defined benefit obligation and the plan assets:

	Germany		Rest of Europe		USA		Other countries		Total	
in € million	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets
At Jan. 1, 2004	**1,003**	**138**	**799**	**605**	**60**	**53**	**5**	**–**	**1,867**	**796**
Current service cost[1]	24	–	23	–	1	–	–	–	48	–
Interest cost	50	–	40	–	4	–	1	–	95	–
Expected return on plan assets	–	7	–	37	–	4	–	–	–	48
Employers' contributions	–	84	–	28	–	1	–	1	–	114
Employees' contributions	4	4	6	7	–	–	–	–	10	11
Actuarial gains/losses[1]	55	1	24	22	1	–4	–	–	80	19
Effects of changes in exchange rates	–	–	2	1	–5	–	–	–	–3	1
Pension payments made	–45	–	–31	–28	–2	–3	–1	–	–79	–31
Past service cost	–	–	–	–	–	–	–	–	–	–
Changes in Group structure/ other changes[1]	–60	–	4	–11	–	–	–	–	–56	–11
Plan curtailments	–	–	1	–	–	–	–	–	1	–
Plan settlements	–	–	–	–	–	–	–	–	–	–
At Dec. 31, 2004[1]	**1,031**	**234**	**868**	**661**	**59**	**51**	**5**	**1**	**1,963**	**947**
Current service cost	23	–	18	–	2	–	–	–	43	–
Interest cost	47	–	42	–	4	–	1	–	94	–
Expected return on plan assets	–	12	–	38	–	4	–	–	–	54
Employers' contributions	–	–	–	29	–	1	–	–	–	30
Employees' contributions	5	5	6	6	–	–	–	–	11	11
Actuarial gains/losses	118	16	50	38	3	2	–	–	171	56
Effects of changes in exchange rates	–	–	8	10	9	8	1	–	18	18
Pension payments made	–48	–	–34	–29	–2	–2	–1	–1	–85	–32
Past service cost	–	–	1	–	–	–	–	–	1	–
Changes in Group structure/ other changes	–5	–	–4	4	–	–	–	–	–9	4
Plan curtailments	–	–	1	–	–	–	–	–	1	–
Plan settlements	–	–	–	–	–	–	–	–	–	–
At Dec. 31, 2005	**1,171**	**267**	**956**	**757**	**75**	**64**	**6**	**–**	**2,208**	**1,088**

[1] Prior year figures restated.

Funding status of defined benefit pension obligations:[1]

in € million	Germany 2005	Germany Restated & comparable 2004	Rest of Europe 2005	Rest of Europe Restated & comparable 2004	USA 2005	USA Restated & comparable 2004	Other countries 2005	Other countries Restated & comparable 2004	Total 2005	Total Restated & comparable 2004
Actuarial present value of pension obligations (defined benefit obligation)	1,171	1,031	956	868	75	59	6	5	2,208	1,963
Of which unfunded pension obligations	633	797	121	110	–	–	5	4	759	911
Of which funded pension obligations	538	234	835	758	75	59	1	1	1,449	1,052
Fair value of plan assets	267	234	757	661	64	51	–	1	1,088	947
Net obligation	**904**	**797**	**199**	**207**	**11**	**8**	**6**	**4**	**1,120**	**1,016**
Past service cost	–	–	–	1	–	–	–	–	–	1
Balance sheet amount at Dec. 31	**904**	**797**	**199**	**208**	**11**	**8**	**6**	**4**	**1,120**	**1,017**
of which pension provision (+) or pension asset (–)	904 –	797 –	201 –2	210 –2	11 –	8 –	6 –	4 –	1,122 –2	1,019 –2

[1] Prior year figures restated.

Portfolio structure of plan assets:[1]

	Dec. 31, 2005	Restated & comparable Dec. 31, 2004
Shares	40 %	41 %
Fixed-interest securities	31 %	42 %
Real estate	3 %	4 %
Insurance	10 %	9 %
Other	16 %	4 %
	100 %	**100 %**

[1] Prior year figures restated.

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

in € million	Germany 2005	Germany Restated & comparable 2004	Rest of Europe 2005	Rest of Europe Restated & comparable 2004	USA 2005	USA Restated & comparable 2004	Other countries 2005	Other countries Restated & comparable 2004	Total 2005	Total Restated & comparable 2004
Current service cost[1]	23	24	18	23	2	1	–	–	43	48
Interest cost	47	50	42	40	4	4	1	1	94	95
Expected return on plan assets	-12	-7	-38	-37	-4	-4	–	–	-54	-48
Amortization of past service cost	–	–	1	–	–	–	–	–	1	–
Plan curtailments/settlements	–	–	-1	-1	–	–	–	–	-1	-1
	58	**67**	**22**	**25**	**2**	**1**	**1**	**1**	**83**	**94**

[1] Prior year figures restated.

Actual income on plan assets in external pension funds was €110 million (2004: €67 million). This meant that actual income was significantly higher than expected income on plan assets of €54 million (2004: €48 million).

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

[29] Other provisions and provisions for insurance contracts

in € million	Non-current 2005	Non-current 2004	Current 2005	Current 2004	Total 2005	Total 2004
Provisions for taxes	–	–	160	173	160	173
Obligations from delivery transactions	55	51	250	225	305	276
Warranty obligations and risks from transactions in course of completion	24	26	336	232	360	258
Obligations relating to personnel	57	52	351	323	408	375
Insurance obligations	–	–	3	–	3	–
Other obligations	32	48	208	154	240	202
Miscellaneous provisions	168	177	1,148	934	1,316	1,111
Total other provisions	**168**	**177**	**1,308**	**1,107**	**1,476**	**1,284**

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

The provisions for warranty obligations and risks from transactions in course of completion consist principally of provisions for anticipated losses on transactions in course of completion, for litigation and for guarantees and warranty obligations.

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

The provisions for insurance contracts comprises the insurance risks from reinsurance by the subsidiary LINDE-RE S. A., Luxembourg, which was consolidated for the first time on January 1, 2005.

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

in € million	Jan. 1, 2005	Changes in Group structure*	Utilization	Release	Addition	Dec. 31, 2005
Provisions for taxes	173	2	73	14	72	160
Obligations from delivery transactions	276	–5	260	22	316	305
Warranty obligations and risks from transactions in course of completion	258	–1	65	23	191	360
Obligations relating to personnel	375	27	226	11	243	408
Insurance obligations	–	4	–	2	1	3
Other obligations	202	–6	86	28	158	240
Miscellaneous provisions	1,111	19	637	86	909	1,316
Other provisions	1,284	21	710	100	981	1,476

* Including currency differences.

[30] Financial debt

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

	Non-current				Current		Total	
	Due in 1 to 5 years		Due in more than 5 years		Due within 1 year			
in € million	2005	2004	2005	2004	2005	2004	2005	2004
Subordinated bond	–	–	396	396	–	–	396	396
Convertible bond	500	487	–	–	–	–	500	487
Other bonds	1,035	1,302	–	–	209	137	1,244	1,439
Bank loans and overdrafts	64	45	2	–	210	168	276	213
	1,599	**1,834**	**398**	**396**	**419**	**305**	**2,416**	**2,535**

Of the bank loans and overdrafts, an amount of €4.5 million (2004: €8 million) is secured by mortgages. The weighted average interest rate for bank loans and overdrafts was 4.3 percent in 2005 (2004: 4.2 percent).

The bonds are analyzed as follows:

Fixed-interest bonds

Issuer	Nominal volume in relevant currency (ISO code)	€ million[1]	Average weighted residual term (in years)	Average weighted effective interest rate[2] in percent
Linde Finance B. V., Amsterdam	200 million CZK	7	0.21	6.2
Linde Finance B. V., Amsterdam	1,827 million EUR	1,804	3.54	4.8
Linde Finance B. V., Amsterdam	9,000 million JPY	65	1.17	0.9
Linde Finance B. V., Amsterdam	200 million PLN	53	0.1	12.8
Linde Finance B. V., Amsterdam	510 million SKK	14	2.1	8.0
		1,943		

Variable-interest bonds

Issuer	Nominal volume in relevant currency (ISO code)	€ million[1]	Average weighted residual term (in years)	Average weighted effective interest rate[2] in percent
Linde Finance B. V., Amsterdam	500 million CZK	17	2.5	2.9
Linde Finance B. V., Amsterdam	120 million EUR	120	2.49	3.2
Linde Finance B. V., Amsterdam	3,000 million JPY	22	0.49	0.4
Linde Finance B. V., Amsterdam	45 million USD	38	0.47	4.8
		197		

[1] Includes adjustments relating to hedging transactions.

[2] Effective interest rate in relevant currency.

The bonds issued by Linde Finance B.V. are classified as financial liabilities in accordance with IAS.

Of these, bonds with a value of €1.063 billion (2004: €1.197 billion) are in a fair value hedging relationship and bonds with a value of €38 million (2004: €33 million) are in a cash flow hedging relationship.

In May 2004, a convertible bond with a nominal value of €550 million was issued. It has a maturity period of five years and an interest rate of 1.25 percent. The conversion terms are described in Note [27] on equity.

Subordinated bond

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

In fiscal 2005, due to the good liquidity position of the Linde Group, a total of eight bonds with a nominal amount of €142 million were repaid on schedule and two bonds with a nominal amount of €40 million were unwound early.

[31] Liabilities from financial services

Liabilities from financial services comprise mainly obligations under finance leases of €410 million (2004: €411 million) from sale and leaseback transactions to refinance lease agreements with customers.

They also include guaranteed residuals of €48 million (2004: €54 million) given in the course of sales of leased equipment to leasing companies, where such guaranteed residual values exceed 10 percent of the fair value of the leased equipment.

Further obligations of €53 million (2004: €58 million) relating to the financing of the leased property have also been recognized by the Linde Group. These leased assets are recognized in the balance sheet due to the character of the lease agreement.

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

Liabilities from financial services

in € million	Dec. 31, 2005	Dec. 31, 2004
Total minimum lease payments (gross)	**556**	**594**
Due within one year	185	188
Due in one to five years	345	379
Due in more than five years	26	27
Present value of minimum lease payments	**511**	**523**
Due within one year	173	174
Due in one to five years	316	326
Due in more than five years	22	23
Finance charge included in the minimum lease payments	**45**	**71**

[32] Trade payables, Other liabilities

	Non-current		Current		Total	
in € million	2005	2004	2005	2004	2005	2004
Percentage of completion (PoC)	–	–	710	495	710	495
Other	4	6	757	699	761	705
Trade payables	**4**	**6**	**1,467**	**1,194**	**1,471**	**1,200**
Advance payments received from customers	19	5	55	81	74	86
Taxes	14	15	137	180	151	195
Social security	–	–	50	47	50	47
Liabilities due to affiliated companies	–	–	8	12	8	12
Liabilities due to related companies	–	–	1	4	1	4
Sundry liabilities	59*	36*	230	251	289	287
Other liabilities	**92**	**56**	**481**	**575**	**573**	**631**
	96	**62**	**1,948**	**1,769**	**2,044**	**1,831**

* Of which other liabilities of €33 million (2004: €15 million) due in more than 5 years.

Percentage of completion trade payables of €710 million (2005: €495 million) relate to advance payments received in construction contracts, where these exceed the state of completion of the contract.

Of the sundry liabilities, €30 million (2004: €30 million) are secured by mortgages.

[33] Deferred income

Deferred income comprises:

	Non-current		Current		Total	
in € million	2005	2004	2005	2004	2005	2004
Deferred income from leases	65	72	96	105	161	177
Other deferred income	4	4	28	22	32	26
	69	**76**	**124**	**127**	**193**	**203**

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

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

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

	Non-current		Current		Total	
in € million	2005	2004	2005	2004	2005	2004
Deferred income on sales with guaranteed residual values	48	53	55	65	103	118
Deferred income on sale and leaseback transactions	14	16	39	38	53	54
Miscellaneous	3	3	2	2	5	5
	65	**72**	**96**	**105**	**161**	**177**

[34] Liabilities directly related to non-current assets held for sale

In connection with the classification of Linde Ladenbau GmbH & Co. KG, Bad Hersfeld, as held for sale (see also Note [26]), the following categories of liabilities have been included under this heading:

in € million	Dec. 31, 2005
Provisions for pensions and similar obligations	4
Other provisions	4
Non-current liabilities	–
Current liabilities	3
Total liabilities directly related to non-current assets held for sale	**11**

Other information

[35] 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 the members of the Executive Board of Linde AG. Otherwise, the Executive Board, with the approval of the Supervisory Board, determines the number of options to be issued.

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

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

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

IFRS 2 was applied for the first time in fiscal 2005. The comparative figures have been restated in accordance with IFRS 2.55.

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

Option values

	Options originally issued						
	Executive Board	Other management	Total	Dec. 31, 2004	Exercised in 2005	Expired in 2005	Dec. 31, 2005
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.

The calculation of the expense is based on the fair value of the subscription rights issued, using the Black-Scholes option price model, and on the following measurement parameters:

Black-Scholes option price model

	1st tranche	2nd tranche	3rd tranche	4th tranche
Date of valuation	July 22, 2002	June 6, 2003	May 27, 2004	July 18, 2005
Exercise price (€)	59.86	35.34	50.87	67.84
Expected share volatility (%)	21	32	23	18
Risk-free interest rate (%)	4.76	3.20	4.11	3.04
Term to end of performance period (years)	7	7	7	7
Expected dividend yield (%)	2.27	3.72	2.76	2.15

The effect on earnings of the recognition of the expense in the income statement of the Linde Group was as follows:

Option rights

	Value of option rights €*	Dec. 31, 2002 € million	Dec. 31, 2003 € million	Dec. 31, 2004 € million	Dec. 31, 2005 € million
1st tranche (2002)	9,84	2	5	2	–
2nd tranche (2003)	7,16	–	2	4	1
3rd tranche (2004)	7,92	–	–	2	4
4th tranche (2005)	6,92	–	–	–	2
Total		**2**	**7**	**8**	**7**

* at issue date.

Given the change in accounting practice, the prior year figures were restated and the effects disclosed in Note [7].

[36] Derivative financial instruments

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

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

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

Currency risks

Linde generally enters into forward exchange 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. If forecasted transactions are to be hedged, the rules for cash flow hedges are generally applied.

The change in fair value of the derivatives is disclosed in Cumulative changes in equity not recognized through the income statement. In 2005, the positive fair values of derivatives recognized in equity amounted to €1 million (2004: €4 million) and the negative fair values to €26 million (2004: €2 million). The positive fair values of derivatives are recognized in income in the following fiscal year. The negative fair values of derivatives of €15 million (2004: €2 million) are transferred from equity to current earnings in one year and of €11million (2004: €0 million) in one to five years.

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

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

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

Interest rate risks

The Group is refinanced mainly through the issue of bonds and medium-term notes in various currencies. Linde hedges the exposure to the resulting future interest rate and currency risks by entering into appropriate interest rate and combined interest rate/currency swaps. These economic hedges are reflected in the balance sheet by applying the rules for hedge accounting. Where future cash flows of interest and capital are hedged, this gives rise to a cash flow hedge.

The change in fair value of these swaps is recognized directly in Cumulative changes in equity not recognized through the income statement and disclosed separately. In 2005, the negative fair values of derivatives reported in this way amounted to €0 million (2004: €1 million). These cash flow hedges will be terminated in 2006.

Interest rate derivatives, which hedge the exposure to future changes in the fair value of assets and liabilities as a result of interest rate and currency volatility, are accounted for under the rules for fair value hedges. In fiscal 2005, the total positive fair values of these derivatives was €37 million (2004: €63 million), while negative fair values amounted to €20 million (2004: €28 million). In addition to direct hedges of capital market liabilities and financial assets, Linde manages cumulative interest rate risks carefully at Group level. To achieve this, it enters into interest rate swaps and interest rate options, which have the effect of transforming liabilities at variable interest rates into fixed-interest liabilities.

Price change risks

To hedge against price change risks, a small number of electricity derivatives are used. The changes in the fair values of these derivatives are recognized directly in equity as cash flow hedges. In fiscal 2005, the total positive fair values of these derivatives was €13 million (2004: negative fair values of €4 million). Derivatives with a positive fair value of €9 million (2004: negative fair values of €3 million) are recognized in the income statement in one year and derivatives with a positive fair value of €4 million (2004: negative fair value of €1 million) in one to five years.

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

in € million	EUR	USD	GBP	JPY	PLN	CZK	SKK
Interest for six months	2.61 %	4.66 %	4.54 %	0.06 %	4.51 %	2.30 %	3.05 %
Interest for one year	2.83 %	4.80 %	4.53 %	0.14 %	4.51 %	2.52 %	3.20 %
Interest for five years	3.16 %	4.83 %	4.53 %	1.00 %	4.94 %	3.20 %	3.50 %
Interest for ten years	3.39 %	4.90 %	4.46 %	1.62 %	4.97 %	3.46 %	3.65 %

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

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

Fair value of derivative financial instruments – Assets

	Non-current				Current		Total	
	Due in 1 to 5 years		Due in more than 5 years		Due within 1 year			
in € million	2005	2004	2005	2004	2005	2004	2005	2004
Forward exchange transactions*	–	4	–	–	10	40	10	44
Foreign currency options	–	–	–	–	–	1	–	1
Swap transactions	40	76	1	1	2	6	43	83
Interest rate options	1	2	–	–	–	–	1	2
Electricity derivatives	4	–	–	–	9	–	13	–
	45	**82**	**1**	**1**	**21**	**47**	**67**	**130**

Fair value of derivative financial instruments – Liabilities

	Non-current				Current		Total	
	Due in 1 to 5 years		Due in more than 5 years		Due within 1 year			
in € million	2005	2004	2005	2004	2005	2004	2005	2004
Forward exchange transactions*	11	1	–	–	27	27	38	28
Foreign currency options	–	–	–	–	–	–	–	–
Swap transactions	12	43	2	4	26	20	40	67
Interest rate options	1	2	–	–	–	–	1	2
Electricity derivatives	–	1	–	–	–	3	–	4
	24	**47**	**2**	**4**	**53**	**50**	**79**	**101**

Nominal amounts – Assets

	Non-current				Current		Total	
	Due in 1 to 5 years		Due in more than 5 years		Due within 1 year			
in € million	2005	2004	2005	2004	2005	2004	2005	2004
Forward exchange transactions*	5	58	–	–	625	784	630	842
Foreign currency options	–	–	–	–	–	10	–	10
Swap transactions	1,075	1,245	120	125	84	28	1,279	1,398
Interest rate options	25	175	–	–	–	25	25	200
Electricity derivatives	19	–	–	–	31	–	50	–
	1,124	**1,478**	**120**	**125**	**740**	**847**	**1,984**	**2,450**

* Including embedded derivatives from hybrid contracts.

Nominal amounts – Liabilities

in € million	Non-current: Due in 1 to 5 years 2005	Non-current: Due in 1 to 5 years 2004	Non-current: Due in more than 5 years 2005	Non-current: Due in more than 5 years 2004	Current: Due within 1 year 2005	Current: Due within 1 year 2004	Total 2005	Total 2004
Forward exchange transactions*	346	11	–	–	941	482	1,287	493
Foreign currency options	–	–	–	–	–	10	–	10
Swap transactions	406	593	95	95	249	200	750	888
Interest rate options	25	75	–	–	–	–	25	75
Electricity derivatives	–	12	–	–	–	18	–	30
	777	**691**	**95**	**95**	**1,190**	**710**	**2,062**	**1,496**

* Including embedded derivatives from hybrid contracts.

[37] Group cash flow statement

The cash flow statement shows the source and application of funds in the fiscal years 2005 and 2004.

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

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

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

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

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

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

[38] Segment information

Segment information by activity

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

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

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

The Material Handling business segment brings together the Linde Material Handling, STILL and OM Pimespo brands. It develops, manufactures and sells forklift trucks and warehouse equipment. It also offers a comprehensive range of service packages and financial services. The Linde Material Handling division also develops, manufactures and sells hydraulic components.

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

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

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

Segment information by region

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

Segment assets/liabilities

in € million	Dec. 31, 2005	Restated Dec. 31, 2004
Non-current segment assets (excluding tax receivables and deferred tax assets)	**8,318**	**7,872**
Inventories	1,024	942
Other current assets (excluding tax receivables)	1,919	1,882
Securities, cash and cash equivalents	911	567
Current segment assets (excluding tax receivables)	**3,854**	**3,391**
Deferred tax and tax receivables	354	372
Total assets	**12,526**	**11,635**
Non-current liabilities (excluding pension provisions and deferred tax liabilities)	319	301
Current liabilities (excluding tax liabilities)	3,094	2,649
Segment liabilities	**3,413**	**2,950**
Pension provisions	1,122	1,019
Financial liabilities	2,927	3,058
Minority interests	49	38
Equity	4,364	3,908
Capital employed	**8,462**	**8,023**
Deferred tax	340	294
Tax provisions	160	173
Tax liabilities	151	195
Total equity and liabilities	**12,526**	**11,635**

[39] Employees

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

	2005	Comparable 2004
Production	20,061	19,419
Sales and distribution	15,144	14,670
Research and development	1,288	1,172
Administration	4,764	4,761
	41,257	40,022
Trainees	824	833
	42,081	**40,855**

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

Linde AG, the holding company of the Linde Group, reports unappropriated profit of €168,058,354 (2004: €149,159,218) for the fiscal year 2005.

The annual financial statements of Linde AG prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Law (AktG) are published in the German Federal Gazette (Bundesanzeiger) and filed with the Commercial Register at the Local Court in Wiesbaden.

Balance sheet of Linde AG – Assets

in € million	Dec. 31, 2005	Dec. 31, 2004
Intangible assets	83	70
Tangible assets	360	338
Financial assets	6,916	6,264
Non-current assets	**7,359**	**6,672**
Inventories	1,468	1,648
less advance payments received from customers	–1,468	–1,648
	–	–
Receivables and other assets	441	552
Securities	56	17
Cash and cash equivalents	341	157
Current assets	**838**	**726**
Prepaid expenses and deferred charges	**50**	**62**
Total assets	**8,247**	**7,460**

Balance sheet of Linde AG – Equity and liabilities

in € million	Dec. 31, 2005	Dec. 31, 2004
Capital subscribed	307	305
Conditionally authorized capital €114 million (2004: €65 million)		
Capital reserve	2,682	2,664
Revenue reserves	628	510
Unappropriated profit	168	149
Equity	**3,785**	**3,628**
Special tax-allowable reserves	**14**	**12**
Provisions for pensions and similar obligations	864	571
Other provisions	558	484
Provisions	**1,422**	**1,055**
Liabilities	**3,026**	**2,765**
Equity and liabilities	**8,247**	**7,460**

Income statement of Linde AG

in € million	2005	2004
Sales	**3,089**	**2,295**
Cost of sales	2,358	1,767
Gross profit on sales	**731**	**528**
Marketing and selling expenses	241	219
Research and development costs	81	77
General administration expenses	308	274
Other operating income	131	238
Other operating expenses	53	136
Investment income	156	224
Income from other securities and loans in financial assets	–	–
Other interest and similar income		
of which from affiliated companies €12 million (2004: €12 million)	36	38
Amortization of financial assets and securities held as current assets	13	28
Interest and similar charges		
of which from affiliated companies €79 million (2004: €91 million)	118	142
Profit on ordinary activities	**240**	**152**
Special items		
Profit on disposal of investments	413	–
Change in measurement of pensions	286	–
Taxes on income	81	3
Net income	**286**	**149**
Transfer to revenue reserves	118	–
Unappropriated profit	**168**	**149**

The Executive Board recommends to the Supervisory Board that, when the annual financial statements of Linde AG are approved at the meeting of the Supervisory Board on March 3, 2006, it proposes the following appropriation of profit to be voted on at the Shareholders' Meeting on May 4, 2006: the distribution of a dividend of €1.40 (2004: €1.25) per share entitled to dividend.

The amount to be distributed will therefore be €167,809,664.40, based on 119,864,046 (2004: 119,327,374) shares entitled to dividend. The remaining amount of €248,689.87 will be carried forward to the following year.

[41] Approval of the Group financial statements

On February 22, 2006, the Executive Board of Linde AG released the Group financial statements for submission to the Supervisory Board. It is the responsibility of the Supervisory Board to examine the Group financial statements and to state whether it approves them.

[42] Related party transactions

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

The full list of Group shareholdings has been filed in the Commercial Register of the Local Courts in Wiesbaden, Munich, Bad Hersfeld, Essen, Frankfurt am Main, Halle, Hamburg, Reutlingen and Würzburg.

The volume of transactions of the Linde Group with these related parties in fiscal 2005 was as follows:

Services provided by the Group to related parties:

	2005				2004			
in € million	With non-consolidated subsidiaries	With associates or joint ventures	With other related parties	**Total**	With non-consolidated subsidiaries	With associates or joint ventures	With other related parties	**Total**
Sales from engineering services to related parties	20	–	–	**20**	1	–	–	**1**
Revenue from the sale of industrial gases to related parties	–	–	–	**–**	3	–	8	**11**
Other revenue from the sale of finished or unfinished goods or services to related parties	24	168	2	**194**	10	196	2	**208**
Other income from the sale of real estate and other non-current assets to related parties	–	3	–	**3**	–	–	–	**–**

Services provided by related parties to the Group:

in € million	2005 With non-consolidated subsidiaries	2005 With associates or joint ventures	2005 With other related parties	2005 Total	2004 With non-consolidated subsidiaries	2004 With associates or joint ventures	2004 With other related parties	2004 Total
Industrial gases purchased from related parties	2	13	–	15	–	–	–	–
Lease agreements with related parties	–	–	–	–	8	–	–	8
Material Handling services purchased from related parties	–	5	–	5	–	3	9	12
Finished or unfinished goods or services purchased from related parties	74	50	6	130	74	50	6	130
Other operating expenses arising from the purchase of real estate and non-current assets from related parties	–	2	–	2	–	–	–	–

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

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

in € million	2005 With non-consolidated subsidiaries	2005 With associates or joint ventures	2005 With other related parties	2005 Total	2004 With non-consolidated subsidiaries	2004 With associates or joint ventures	2004 With other related parties	2004 Total
Receivables from related parties	8	27	1	**36**	23	30	1	**54**
Liabilities to related parties	5	37	1	**43**	5	9	–	**14**
Provision for doubtful debts in respect of related parties	–	1	–	**1**	–	–	–	–

[43] 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, amounted to €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 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: €32,579,626) has been made in the Group financial statements for current pensions and future pension benefits in respect of former members of the Executive Board and their dependants. In the financial statements of Linde AG, a provision of €34,504,903 (2004: €25,401,353 in accordance with §6a of the German Income Tax Act, or EStG) was also made.

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 in the Group management report on pages 018–020 of the 2005 annual report.

[44] 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.

[45] Contingent liabilities and Other financial commitments

Contingent liabilities

in € million	Dec. 31, 2005	Dec. 31, 2004
Bills endorsed and discounted	21	25
Guarantees	81	70
Warranties	66	14
	168	**109**

Litigation

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

Other financial commitments

in € million	Dec. 31, 2005	Dec. 31, 2004
Capital expenditure commitment	41	84
Obligations under non-cancelable operating leases	539	476
Obligations arising from the purchase of companies	126	–
Other	74	73
	780	**633**

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

in € million	Dec. 31, 2005	Dec. 31, 2004
Nominal future minimum lease payments		
Due within one year	145	135
Due in one to five years	291	266
Due in more than five years	103	75
	539	**476**

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

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

	Procurement leases		Sale and leaseback subleases	
in € million	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004
Nominal future minimum lease payments (disbursements)				
Due within one year	90	81	55	54
Due in one to five years	186	154	105	112
Due in more than five years	100	71	3	4
	376	**306**	**163**	**170**
Nominal future minimum lease payments (receipts)				
Due within one year	–	–	54	51
Due in one to five years	–	–	105	102
Due in more than five years	–	–	5	4
	–	**–**	**164**	**157**

[46] Auditors' fees and services

KPMG, the auditors of the Group financial statements, provided the following services to companies in the Linde Group:

in € million	2005	2004
Audit (including expenses)	8	8
Other reports	–	1
Tax consultancy	1	1
	9	**10**

Auditors other than KPMG provided the following services to the Linde Group:

in € million	2005	2004
Audit (including expenses)	1	1
Tax consultancy	1	–
Other reports	1	–
	3	**1**

Audit comprises the fees for the audit of the consolidated financial statements of the Linde Group and of the statutory annual financial statements of Linde AG and the subsidiaries included in the consolidated financial statements.

Other reports comprises mainly due-diligence reviews, confirmations of compliance with specific contractual agreements and other review procedures.

Tax consultancy costs relate mainly to tax consultancy services in connection with proposed or current business transactions, analyses of transfer prices and advising employees who work outside their home country.

The fee for the audit of the holding company (Group financial statements and individual company financial statements) was €1 million (including expenses).

[47] Significant Group companies

Affiliated companies

	Country (registered office)	Group holding in %	Equity in € million
Business segment Gas and Engineering			
Linde Gas			
Linde Gas Austria	A	100.0	131
Linde Gas Pty. Ltd.	AUS	100.0	61
Linde Gas Brazil	BR	100.0	91
PanGas	CH	100.0	147
Linde Gas Columbia	CO	100.0	39
Linde Technoplyn	CZ	100.0	215
Linde Gas Produktionsgesellschaft mbH & Co. KG	D	100.0	275
Linde Gas Therapeutics GmbH & Co. KG	D	100.0	4
Tega-Technische Gase und Gasetechnik GmbH	D	100.0	2
Linde Gas Denmark	DK	100.0	8
Abelló Linde Spain	E	74.8	96
Linde Gas France	F	99.8	128
Linde Gas Finland	FIN	100.0	114
Linde Gas Great Britain	GB	100.0	28
Linde Hellas E. P. E.	GR	100.0	28
Linde Gas Hungary AG	H	100.0	161
Linde Gas Italy	I	100.0	126
Linde Gas Mexico	MEX	100.0	52
Linde Gas Norway	N	100.0	45
nv Hoek Loos	NL	100.0	231
Linde Gas Poland	PL	99.9	98
Linde Gas Puerto Rico	PR	100.0	12
AGA S. A.	RA	100.0	22
Linde Gas Chile	RCH	100.0	51
Linde Gas Romania	RO	100.0	48
AGA AB	S	100.0	708
Singapore Syngas Pte. Ltd.	SGP	100.0	86
Linde Gas USA	USA	100.0	126
AGA Gas C. A.	YV	100.0	20

Affiliated companies

	Country (registered office)	Group holding in %	Equity in € million
Business segment Gas and Engineering			
Linde Engineering			
Linde Kryotechnik AG	CH	100.0	9
Linde-KCA-Dresden GmbH	D	100.0	51
Selas-Linde GmbH	D	100.0	7
Linde Impianti Italia S. p. A.	I	100.0	–
Linde Engineering USA	USA	100.0	19
Business segment Material Handling			
Linde Fördertechnik GmbH	A	100.0	11
Linde Materials Handling Pty. Ltd.	AUS	100.0	20
Linde Lansing Fördertechnik AG	CH	100.0	7
Linde (China) Forklift Truck Corporation Limited	CN	100.0	28
Linde Material Handling Czech Republic	CZ	100.0	21
Linde Material Handling Ibérica, S. A.	E	100.0	27
Fenwick-Linde France	F	100.0	102
Linde Material Handling Great Britain	GB	100.0	132
Linde Material Handling Italia S. p. A.	I	100.0	15
Linde Material Handling Polska Sp. z o. o.	PL	100.0	4
Linde Material Handling AB	S	100.0	15
Linde Material Handling North America Corporation	USA	100.0	17
Linde Material Handling (Pty) Ltd.	ZA	100.0	4
STILL N.V.	B	100.0	5
Empilhadeiras Sul Americanas S/A	BR	100.0	7
STILL GmbH	D	100.0	176
STILL WAGNER GmbH & Co. KG	D	100.0	37
STILL, S. A.	E	100.0	14
STILL S. A. R. L.	F	100.0	25
STILL Materials Handling Ltd.	GB	100.0	–
STILL ITALIA S. p. A.	I	100.0	7
STILL Intern Transport B. V.	NL	100.0	9
STILL POLSKA Sp. z o. o.	PL	100.0	4
IBERCARRETILLAS, S. A.	E	100.0	2
OM Carrelli Elevatori S. p. A.	I	100.0	356
Other affiliated companies			
Linde Finance B. V.	NL	100.0	25

Selected associates

	Country (registered office)	Group holding in %
Business segment Gas and Engineering		
Linde Gas		
Linde Nippon Sanso GmbH	A	51.0
Ossigeno S. A.	CH	66.7
Linde Nippon Sanso GmbH & Co. KG	D	51.0
Linde Nippon Sanso Verwaltungs-GmbH	D	51.0
GI/LINDE ALGERIE	DZ	40.0
HELISON PRODUCTION S. p. A.	DZ	51.0
Linde Nippon Sanso France SAS	F	51.0
Linde Nippon Sanso Ltd.	GB	38.3
TLF Tjeldbergoddens Luftgassfabrik DA	N	37.8
OCAP CO2 v. o. f.	NL	50.0
Business segment Material Handling		
JULI Motorenwerk, s. r. o.	CZ	50.0
Eisengießerei Dinklage GmbH	D	50.0
Linde Leasing GmbH	D	45.0
Granville Group Ltd.	GB	33.0
Linde Sterling Ltd.	GB	49.0
Komatsu Forklift Co. Ltd.	J	35.0
Linde High Lift Chile S. A.	RCH	45.0

[48] Events after the balance sheet date

In December 2005, Linde Gas Inc. acquired the US specialty gases company Spectra Gases, Inc., USA, from the founder's family. The company produces high-purity specialty gases and chemicals, which are used in production and research and for analysis purposes, as well as specialty gas mixtures, e.g. for the semi-conductor industry and for laser therapy. If approval is received from the anti-trust authorities, it is anticipated that Spectra Gases will become a fully-owned subsidiary from fiscal 2006.

Linde AG sold its subsidiary Linde Ladenbau GmbH & Co. KG in December 2005 to Dolma Holding AG. In these Group financial statements, the assets and liabilities of the company have been classified as held for sale in accordance with IFRS 5 and disclosed separately in the balance sheet. The legal transfer of Linde Ladenbau GmbH & Co. KG took place on January 27, 2006. On that date, the company was eliminated from the consolidation.

In January 2006, Linde AG submitted an informal friendly bid for the British gases company BOC Group plc. As this annual 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.

Other than the events mentioned above, there have been no significant events for the Linde Group between December 31, 2005 and the printing deadline for this annual report.

Declaration of the Executive Board

The Executive Board of Linde AG is responsible for the preparation, completeness and accuracy of the Group financial statements, the Group management report and for the additional information given in the annual report.

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The Group management report includes an analysis of the net assets, financial position and results of operations of the Group, together with explanatory comments thereon, as required by the provisions of the German Commercial Code (HGB).

Our efficient internal management and control systems and the use of uniform guidelines throughout the group ensure the reliability of this data. We have received confirmation from those responsible in each division and from the chief executives of each company of the soundness of the financial data reported to the Corporate Center and of the effectiveness of the related control systems. The internal audit department performs reviews on a continuous basis across the Group to ensure compliance with the guidelines and the reliability and effectiveness of the control systems.

The risk management system established for the Linde Group ensures that, in accordance with the requirements of company law, developments that might endanger the continuance of the Linde Group as a going concern are identified early, so that measures may be taken to counter the risks if necessary.

In accordance with the shareholders' meeting resolution, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft have audited the Group financial statements drawn up in accordance with International Financial Reporting Standards and the Group management report, and issued an unqualified opinion thereon.

The Group financial statements, the Group management report and the audit report will be discussed in detail in the presence of the auditors at the meeting of the Supervisory Board to approve the financial statements. The Supervisory Board will present the outcome of the audit in its Report.

Wiesbaden, February 22, 2006

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

Dr. Aldo Belloni
Member of the Executive Board
of Linde AG

Dr. Peter Diesch
Member of the Executive Board
of Linde AG

Hubertus Krossa
Member of the Executive Board
of Linde AG

Auditors’ report

We have audited the consolidated financial statements, prepared by Linde AG, comprising the balance sheet, income statement, statement of recognized income and expense, cash flow statement and notes to the Group financial statements, together with the Group management report for the business year from January 1, 2005 to December 31, 2005. The preparation of the consolidated financial statements and the Group management report in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and the additional requirements of German commercial law pursuant to § 315a (1) of the German Commercial Code (HGB) are the responsibility of the Company’s Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit. Moreover, we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and in supplementary compliance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the determination of those companies to be included in the consolidation, the accounting and consolidation principles used and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and the Group 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 consolidated financial statements comply with IFRS as adopted by the European Union and with the additional requirements of German commercial law pursuant to § 315a (1) of the German Commercial Code (HGB) and with full IFRS, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, February 22, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Professor Dr. Rolf Nonnenmacher	Michael Gewehr
Wirtschaftsprüfer	Wirtschaftsprüfer

Further Information

Other Board memberships
(As at December 31, 2005)

Supervisory Board

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

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

→ External offices:
Allianz AG
Bayer AG (Chairman)
DaimlerChrysler AG
Metro AG
RWE AG
TUI AG

Hans-Dieter Katte
Deputy Chairman of the Supervisory Board of Linde AG
Chairman of the Works Council, Linde Engineering division, Linde AG, 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)

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

→ Membership of other German supervisory boards.

→ Membership of comparable German and foreign boards.

Supervisory Board

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.

Executive Board

In addition to their individual management functions within the Group and group companies, members of the Executive Board of Linde Aktiengesellschaft are members of the following 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.

Management organization
(As at March 3, 2006)

Executive Board	Responsible for business segment	Central functions
Professor Dr. Wolfgang Reitzle, President and Chief Executive Officer		Investor Relations, Communications, Organization, IT, Legal, Internal Audit, Business Development
Dr. Aldo Belloni	Gas and Engineering	Patents
Dr. Peter Diesch		Accounts, Controlling, Financial Control, Mergers & Acquisitions, Tax, Personnel
Hubertus Krossa	Material Handling	

Business segments

Gas and Engineering	Linde Gas	Linde Engineering
Dr. Aldo Belloni, Spokesman	Dr. Aldo Belloni, Spokesman	Werner Schwarzmeier, Spokesman
Georg Denoke	Georg Denoke	Dr. Markus Raab
Lars Kallsater	Lars Kallsater	Dr. Bruno Ziegler
Dr. Rainer Schlicher	Dr. Rainer Schlicher	
Werner Schwarzmeier	Peter Stocks	
Peter Stocks		

Material Handling	Linde Material Handling	STILL GmbH
Hubertus Krossa, Spokesman	Dr. Stefan Rinck, Spokesman	Dr. Rolf Karg, Spokesman
Dr. Stefan Rinck	Karl-Heinz Birkner	Bert-Jan Knoef
Ralf Speth	Erwin Bruckmoser	Dr. Lorenz Zwingmann
	Klaus Heinrich Hofmann	
	Georg Silbermann	**OM Carrelli Elevatori S. p. A.**
		Dr. Daniele Signorini

Corporate Center

Accounts	Björn Schneider
Controlling	Christoph Wöhler
Financial Control	Erhard Wehlen
HR Management	Christian Molsen
Communications, Investor Relations	Dr. Harry Roegner
Mergers & Acquisitions	Matthias von Plotho
Organization, IT	Dr. Peter Wroblowski
Legal	Lothar Dressel
Internal Audit	Detlev Hübner
Tax	Michael Weissberg
Business Development	Michael Ullrich

Review of the year

January
After the tsunami in South-east Asia, Linde makes a donation of over 350,000 US dollars to the “We want to help – A heart for children” campaign for the victims of the natural disaster. The company also provides medical gases to hospitals and logistics equipment to the “Luftfahrt ohne Grenzen” relief organization (the German partner organization of Aviation sans Frontières).

February
With the order to supply an air separation plant to the Baosteel Group, the biggest steel production company in China, Linde is strengthening its position as a leading supplier of air separation plants in the growth market of China. The plant will produce 60,000 cubic meters of oxygen per day.

Linde hosts the International Hydrogen Day in Berlin, where around 200 senior delegates from politics, the media, industry, science and research discussed topics including the future of a hydrogen infrastructure. Among the participants are the German Minister for Economic Affairs, Wolfgang Clement (SPD), and speakers from the European Commission, the Japanese Ministry of Economics, Technology and Industry, the US Department of Energy and the International Energy Agency.

March
At the press conference of Linde AG on the annual results, the President of the Executive Board, Professor Dr. Wolfgang Reitzle, gives a positive summary of the 2004 fiscal year and the first two months of 2005. Following the sale of the Refrigeration business segment, the company is concentrating on the Gas and Engineering and Material Handling business segments and is pursuing an earnings-based growth course. The Executive Board defines its objective for the year 2005 – to continue to grow Group sales and Group earnings.

April
The first Monte Carlo rally for fuel cell and hybrid vehicles demonstrates the potential of hydrogen as an environmentally friendly means of powering cars. The race, over a total distance of 416 kilometers, went from the Swiss town of Lugano through Italy and France to Monaco.

During the six-hour journey, Linde Gas supplies the fuel cell vehicles with liquefied and gaseous hydrogen using two mobile filling stations.

May
The ethylene plant built by Linde in Bandar Imam in Iran, which has a capacity of 500,000 tonnes per year, comes on stream. The liquefied gas cracker was commissioned by AKPC, a subsidiary of the state-owned petrochemical company.

June
Linde is commended for its outstanding technology management in the Material Handling business segment. The Fraunhofer Institute of Production Technology (IPT), together with an industrial panel, identified the five leading companies in this field. The survey looked at the variety and development of technologies in 280 companies and at the organization of their risk management and management of know-how.

July
The future centerpiece of Europe’s biggest natural gas liquefaction plant covers 2,700 nautical miles on its long journey from Spain to Northern Norway. Linde constructs the plant on the island of Melkøya off Hammerfest. This ambitious technological project was commissioned by the Norwegian company, Statoil ASA, on behalf of the international Snøhvit joint venture. Linde is responsible for the design, procurement and supervision of the installation. The total value of the contract to Linde is more than €800 million.

Linde is strengthening its position in Asia with two important major contracts. The company is building two ethylene plants for the Iranian Bakhtar Petrochemical Company. The value of the contract to Linde, within the consortium carrying out the work, is €400 million. The company is also building an ethylene plant together with Samsung Engineering Co. in Al-Jubail, Saudi Arabia, for a private consortium. The value of the contract to Linde is around €300 million.

August
The Linde Group made a mandatory declaration of commitment, to document its objective of combining profit-based trading with environmental protection and social involvement. This corporate responsibility policy emphasizes the responsibility, commitment and future competence of the company.

September

BASF awards Linde the contract to expand the capacity of its naphtha steam cracker in the Belgian town of Antwerp. This will create the biggest plant of its type in the world. The contract value is around €180 million.

Linde builds Germany's second hydrogen liquefaction plant at the Leuna chemical site. The project will be completed by the middle of 2007, directly adjacent to the hydrogen production plants also operated by Linde.

PetroChina International awards Linde the contract to build China's biggest ethylene plant in Dushanzi in the north-west of the country. The mega-cracker with an annual production capacity of one million tonnes of ethylene and 500,000 tonnes of propylene should be finished in the second half of 2008.

October

Linde publishes its first corporate responsibility report. In it, the company reports on the commitment of the whole Group to the four strategic action areas: the environment, employees, society and the capital market. From now on, the corporate responsibility report will be a permanent feature of our annual reporting process, together with the quarterly reports and the annual report.

With the commencement of the construction of a new production center for semi-conductor gases, Linde is strengthening the high-tech site of Unterschleissheim near Munich. The high-purity specialty gases are produced mainly for the electronics industry, including for example companies in the semi-conductor industry and in nanotechnology.

November

Linde is awarded its biggest ever individual contract for air separation plants from the Saudi Basic Industrial Corporation (SABIC) in Saudi Arabia. The contract is to engineer, supply, construct and bring on stream two oxygen production plants, each with a capacity of 3,000 to 3,600 tonnes of oxygen per day. Completion is scheduled for April 2008. The value of the contract is more than €300 million.

December

Linde signs up to the Global Compact, a United Nations initiative. The Global Compact represents a global alliance of organizations, who have made a commitment, in collaboration with more than 2,000 companies in the private sector worldwide, to respect human rights, to comply with labor standards, to promote environmental protection and to fight corruption. Linde AG expressly supports the ten principles in the Global Compact.

To expand its specialty gases business, Linde acquires the US company Spectra Gases, Inc. from the founder's family, Alvin and Andrew Dietz. The transaction is subject to the approval of the relevant antitrust authorities. With this acquisition, Linde is strengthening its business in a market with above-average growth. Spectra Gases produces specialty gases, which are used for example in the semi-conductor industry and for laser therapy in eye operations. The company has annual sales of around €50 million.

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Financial Calendar

Press Conference on Annual Results
March 6, 2006
Städelmuseum, Frankfurt

Analysts' Conference
March 6, 2006
Städelmuseum, Frankfurt

Interim Report
January – March 2006
April 26, 2006

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

Dividend Payment
May 5, 2006

Interim Report
January – June 2006
July 28, 2006

Fall Press Conference
October 31, 2006
Corporate Center, Wiesbaden

Interim Report
January – September 2006
October 31, 2006

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

Shareholders' Meeting 2008
June 3, 2008, 10.00h
International Congress Center, Munich

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 +49.611.770-603
E-Mail info@linde.com

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

The Financial Report of the Linde Group and the Linde Annual are available in both German and English and can be downloaded from our website at www.linde.com. An interactive online version of the Annual Report, comprising the Linde Annual and the Financial Report of the Linde Group, is also available at this address.

Additional information about the Linde Group can be obtained from us free of charge.

Five-year summary

		2001	2002	2003	2004	2005
Sales	€ million	8,833	8,726	8,992	9,421	9,501
Domestic	%	24.9	22.9	22.9	21.4	20.2
Foreign	%	75.1	77.1	77.1	78.6	79.8
Earnings						
Earnings before interest, taxes on income and amortization of goodwill (EBITA)	€ million	764	647	556	777	913
Earnings before taxes on income (EBT)	€ million	447	356	287	510	789
Net income after minority interests	€ million	241	240	108	266	501
Earnings per share[1]	€	2.02	2.01	0.91	2.23	4.19
Dividend	€ million	135	135	135	149	168
Dividend per share	€	1.13	1.13	1.13	1.25	1.40
No. of shares (at December 31)	in 000s	119,262	119,262	119,262	119,327	119,864
Asset structure						
Fixed assets	€ million	8,544	8,037	7,702	7,675	8,114
Inventories	€ million	1,047	994	1,107	942	1,024
Trade receivables[2]	€ million	2,034	1,874	1,760	1,668	1,777
Cash and cash equivalents	€ million	531	480	561	567	911
Other assets	€ million	712	821	785	739	700
Total assets	€ million	12,868	12,206	11,915	11,591	12,526
Capital structure						
Equity	€ million	4,356	4,119	3,886	4,081	4,413
Provisions	€ million	2,097	2,146	2,227	2,124	2,598
Financial debt	€ million	3,795	3,294	2,991	2,535	2,416
Other liabilities	€ million	2,620	2,647	2,811	2,851	3,099
Total equity and liabilities	€ million	12,868	12,206	11,915	11,591	12,526
Cash flow statement						
Capital expenditure (including financial assets)	€ million	727	668	719	785	906
Amortization and depreciation	€ million	735	759	763	726	505
Cash flow from operating activities	€ million	891	1,145	1,281	1,249	1,435
Employees		46,168	46,034	46,164	41,383	42,229
Domestic	%	38.7	38.1	37.3	35.4	34.6
Foreign	%	61.3	61.9	62.7	64.6	65.4
Key ratios						
Equity ratio	%	33.8	33.7	32.6	35.2	35.2
Return on capital employed (ROCE)[3]	%	7.9	7.0	7.7	10.8	12.5
EBITA margin[3]	%	8.6	7.4	7.6	8.2	9.6
Cash flow from operating activities as percentage of sales	%	10.1	13.1	14.2	13.3	15.1

[1] Based on the weighted average number of shares.

[2] Includes Receivables arising from financial services.

[3] Before special items.

Glossary

Coil-wound heat exchanger
Central component of natural gas liquefaction plants, which is used to cool down and liquefy natural gas or as a precooler.

Cold box
Complete ready-to-use unit, equipped with pipes, fitted with instruments and containing heat exchangers, used to separate gases at low temperatures.

Corporate compliance committee
The corporate compliance committee of the Linde Group ensures compliance throughout the Group with the Code of Conduct, amends the Code and is the point of contact for complaints. It comprises representatives from the Executive Board, the business segments and the legal, personnel and communications departments.

Corporate responsibility road-map
In the corporate responsibility road-map, the objectives we set ourselves under the corporate responsibility strategy have been laid down.

Corporate volunteering
The involvement of employees in charitable projects, motivated and supported by the employer in the form of donations in cash or in kind.

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

Credit line, syndicated
Credit line which is agreed with a group of banks (syndicate) on the same terms.

Cryogenic separation
Separation of gas mixtures using very low temperatures, e.g. separation of air into oxygen, nitrogen and noble gases.

Currency swaps
Swaps of capital amounts denominated in different currencies.

Debt Issuance Program (DIP)
Outline agreement for the issue of financial instruments on the capital market.

EBITA
Abbreviation for Earnings before Interest, Taxes and Amortization. Here, earnings before the financial result (the balance of net interest, income from associates and other investment income), taxes on income and the amortization of goodwill.

Euro Commercial Paper Program (ECP)
Capital market program for short-term notes on the euro market.

FSC system
Full suspended cabin. Cushioning system to reduce vibrations in the operator compartment of OM XD40–50 series forklift trucks.

Gas phases process
Here, in connection with polyethylene production. Low-pressure polymerization of olefins (ethylene or propylene) in a fluidized bed reactor to produce polyolefins.

HSE activities
In English-speaking countries, HSE is the normal abbreviation for Health, Safety and Environment.

HSE policy
The HSE policy is a declaration of commitment which reflects the way companies see themselves in terms of health, safety and the environment.

Intralogistics
Name of an industry sector. Comprises the entire organization, implementation and optimization of internal material flows in industrial and trading companies and in public institutions, using technical systems such as forklift trucks and warehouse equipment, as well as services.

Know–how contract
An agreement to make your own know-how available to a party to a contract.

LNG
Liquefied Natural Gas, regarded as a fuel with a promising future, due to its high energy density, constant combustion value and high level of purity.

Metallurgy
The production and processing of metals and alloys, including the extraction of the metals from their ores, removing impurities from the metals and modifying the composition of alloys.

Naphtha steam cracker
Plant used for cracking naphtha, a long hydrocarbon, into shorter molecules.

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

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

Polyurethane
An extremely versatile plastic which is used in the most diverse areas, e.g. as foam for upholstered furniture, mattresses and sponges or for coating carpets, insulating foam in buildings, and as varnishes and adhesives etc.

Polyvinyl chloride (PVC)
A hard white plastic, made more flexible by the addition of softeners and stabilizers, so that it can be used for technical applications.

RFID
Radio Frequency Identification Device. A method which permits data to be read by radio and stored.

Shell process
Process for the liquefaction of natural gas, characterized by two mixed refrigerant cycles and the exclusive use of coil-wound heat exchangers to liquefy and subcool the natural gas.

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

Treasury
The Treasury department ensures that the company has sufficient liquid resources and capital. It invests surplus funds, reduces financial risks and optimizes costs and income arising from financial transactions.

Value at Risk
Value at Risk measures the worst expected loss on a portfolio, over a specific time interval at a given confidence level.

Linde AG
Abraham-Lincoln-Strasse 21
65189 Wiesbaden
Germany
Phone +49 (0) 611 770-0
Fax +49 (0) 611 770-269
www.linde.com