

Facts and Figures.

The Linde Financial Report 2007.

LeadIng.



THE LINDE GROUP

# Linde financial highlights

in € million	January to December 2007	2006	Change
<b>Share</b>			
Closing price	€ 90.45	78.26	15.6 %
Year high	€ 91.75	79.56	15.3 %
Year low	€ 75.26	56.32	33.6 %
Market capitalisation	15,046	12,579	19.6 %
<b>Earnings per share<sup>1</sup></b>	€ 5.02	4.66	7.7 %
<b>Earnings per share</b>	€ 5.87	13.30	-55.9 %
Number of shares outstanding (in 000s)	166,347	160,736	3.5 %
<b>Sales<sup>2</sup></b>	12,306	8,113	51.7 %
<b>Sales – comparable<sup>3</sup></b>	12,306	10,803	13.9 %
<b>Operating profit<sup>2,4</sup></b>	2,424	1,586	52.8 %
<b>Operating profit – comparable<sup>3,4</sup></b>	2,424	2,053	18.1 %
<b>EBIT before amortisation of fair value adjustments and non-recurring items</b>	1,591	989	60.9 %
<b>Earnings after taxes on income</b>	1,013	1,856	-45.4 %
<b>Number of employees<sup>2</sup></b>	50,485	51,038	-1.1 %
<b>Gases Division – comparable<sup>3</sup></b>			
Sales	9,209	8,421	9.4 %
Operating profit	2,314	2,035	13.7 %
<b>Engineering Division – comparable<sup>3</sup></b>			
Sales	2,750	1,958	40.4 %
Operating profit	240	172	39.5 %

<sup>1</sup> Adjusted for the effects of the purchase price allocation and non-recurring items.

<sup>2</sup> Continuing operations of The Linde Group: i.e. excluding KION and BOC Edwards Equipment.  
In 2006, other BOC companies included for four months from September 2006.

<sup>3</sup> Prior year figures including twelve months of BOC.

<sup>4</sup> EBITDA before non-recurring items including share of income from associates and joint ventures.

# Corporate profile



## The Linde Group

The Linde Group is a world-leading gases and engineering company which operates in around 100 countries and has more than 50,000 employees. It achieved sales in the 2007 financial year of EUR 12.306 bn. The strategy of The Linde Group is geared towards sustainable earnings-based growth and focuses on the expansion of its international business with forward-looking products and services.

## Organisation

The Group comprises three divisions: Gases and Engineering (the two core divisions) and Gist (logistics services, reported under "Other activities"). The largest division, Gases, has four operating segments, Western Europe, the Americas, Asia&Eastern Europe, and South Pacific & Africa, which are subdivided into nine Regional Business Units (RBUs). The Gases Division also includes the two Global Business Units (GBUs) – Healthcare (medical gases) and Tonnage (on-site) – and the two Business Areas (BAs) – Merchant & Packaged Gases (liquefied and cylinder gases) and Electronics (electronic gases).

## Gases Division

The Linde Group is a world leader in the international gases market. We offer a wide range of compressed and liquefied gases as well as chemicals and we are therefore an important and reliable partner for a huge variety of industries. Our gases are used, for example, in the energy sector, in steel production, chemical processing, environmental protection and welding, as well as in food processing, glass production and electronics. We are also investing in the expansion of our fast-growing Healthcare business, i.e. medical gases, and we are a leading global player in the development of environmentally friendly hydrogen technology.

## Engineering Division

Our Engineering Division is successful throughout the world, with its focus on promising market segments such as olefin plants, natural gas plants and air separation plants, as well as hydrogen and synthesis gas plants. In contrast to virtually all our competitors, we are able to call on our own extensive process engineering know-how in the planning, project development and construction of turnkey industrial plants. Linde plants are used in a wide variety of fields: in the petrochemical and chemical industries, in refineries and fertiliser plants, to recover air gases, to produce hydrogen and synthesis gases, to treat natural gas, and in the pharmaceutical industry.



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# Executive Board

## **Professor Dr Wolfgang Reitzle**

Born 1949

Doctorate in Engineering (Dr.-Ing.),  
Degree in Economics and Engineering

Chief Executive Officer

Responsible for Gist and the following global and central functions:  
Communications & Investor Relations, Corporate Strategy, Group  
Human Resources, Group Information Services, Group Legal, Inno-  
vation Management, Internal Audit, SHEQ (Safety, Health, Environ-  
ment, Quality), Six Sigma

Member of the Executive Board since 2002

## **Dr Aldo Belloni**

Born 1950

Doctorate in Chemical Engineering (Dr.-Ing.)

Responsible for the Engineering Division, the operating  
segments Western Europe and Asia & Eastern Europe,  
the Global Business Unit Tonnage (on-site) and the Business  
Area Electronics (electronic gases)

Member of the Executive Board since 2000

## **J. Kent Masters**

Born 1960

BS Chemical Engineering,  
MBA Finance

Responsible for the operating segments Americas and  
South Pacific & Africa, the Global Business Unit Healthcare  
and the Business Area Merchant & Packaged Gases (lique-  
fied and cylinder gases)

Member of the Executive Board since 2006

## **Georg Denoke**

Born 1965

Degree in Information Science,  
Degree in Business Administration (BA)

Responsible for the following global and central functions:  
Capital Expenditure, Financial Control, Group Accounting &  
Reporting, Group Treasury, Growth & Performance, Mergers &  
Acquisitions, Procurement, Risk Management, Tax  
Human Resources Director

Member of the Executive Board since 2006

The following member has retired from the Executive Board:

## **Trevor Burt**

Born 1958

Bachelor of Science (BS)

Responsible for the Regional Business Units of Greater China,  
South & East Asia, South Pacific, and the Business Areas  
Packaged Gases & Products (cylinder gases) and Electronics  
(electronic gases)

Member of the Executive Board since 2006

Retired on 31 December 2007





From left to right: Georg Denoke, Dr Aldo Belloni, Professor Dr Wolfgang Reitzle, J. Kent Masters.

# Letter to shareholders

*Ladies and Gentlemen,*

2007 was no ordinary financial year for the Group. It was the first full year of trading since we acquired our British competitor BOC – a year which saw an extensive Group reorganisation, a year full of challenges.

We have overcome all those challenges. The new Group is solidly positioned and successful. The Linde Group today is a world-leading international gases and plant construction group. In a short period of time, we have created an efficient global organisation, while at the same time continuing to strengthen our operating business.

We only have to look at the key figures for 2007 to see how well the Group has performed. On a comparable basis, we increased Group sales by 13.9 percent to EUR 12.306 bn (2006: EUR 10.803 bn) and operating profit (EBITDA) by 18.1 percent to EUR 2.424 bn (2006: EUR 2.053 bn). This means that we achieved double-digit growth and that our earnings rose at a faster rate than sales. We have therefore exceeded expectations for the 2007 financial year.

We have also made even better progress with the repayment of our financial debt than originally forecast. We expected to have net financial debt at 31 December 2007 of between EUR 7.2 bn and EUR 7.5 bn, but the actual figure at the year-end was EUR 6.4 bn.

Likewise, we are on track to meet our medium-term performance target. We are seeking to achieve Group operating profit in the 2010 financial year of more than EUR 3 bn. The synergies arising from the BOC acquisition will help us to achieve this target. We will be able to achieve the planned cost synergies we announced of EUR 250 m per annum, in full for the first time from the year 2009.

Linde has a tradition of pursuing an earnings-based dividend policy, a tradition we intend to uphold this year. The Executive Board and the Supervisory Board will recommend an increase of over 13 percent in the dividend at the Shareholders' Meeting on 3 June 2008, giving a dividend per share of EUR 1.70 (2006: EUR 1.50).

In the past year, our shareholders have continued to benefit from the good performance of Linde shares. The capital market has rewarded our focus on gases and plant construction – international businesses which are very robust – with Linde shares increasing in value in the course of 2007 by 15.6 percent. This means that for the third year in succession we have achieved a double-digit increase in share price. In 2007, the market capitalisation of The Linde Group rose from EUR 12.6 bn to EUR 15.0 bn.

In the past few months, we have been doing the groundwork to ensure that this positive trend continues in the long term. We have a presence in around 100 countries worldwide and hold strong market positions. Linde is the market leader in 46 countries and number two in a further ten. This significant improvement in our international position has also had a positive impact on our global plant construction business. Let me elucidate further. Of the four major types of plant built by our Engineering Division, two are used by the industrial gases sector: air separation plants on the one hand and hydrogen and synthesis gas



plants on the other. We are the global market leader in air separation plants and number two in hydrogen and synthesis gas plants.

In the on-site business in particular, close interaction between Gases and Engineering is a real competitive advantage, because we can provide our customers with a one-stop service and integrated solutions for the construction and operation of gas production plants.

In return, our gases business benefits from the global orientation of our plant construction. Take China, for example: Linde plant construction has been active in this market for decades, building some 150 plants. Now, following the acquisition of BOC, we are also the leader in this growth region on the gases side and are able to continue to develop our gases business based on existing customer relationships from our plant construction business.

Our gases applications are in demand in a huge variety of customer segments, both from very innovative sectors such as the solar and electronics industries and from more traditional sectors such as the steel and petrochemical industries.

What is more, we are increasingly becoming involved in global megatrends, especially in the energy sector and in environmental technologies. As one of the world's largest suppliers of hydrogen, we can benefit for example from the continuing high level of demand from oil companies and refineries which require the industrial gas hydrogen for the desulphurisation of their fuels, in order to comply with ever-increasing environmental regulations.

We can also see particularly good opportunities for growth in the market for natural gas plants, especially in natural gas liquefaction (LNG) and GTL technology. GTL stands for Gas to Liquids and refers to a multi-stage process to convert natural gas into environmentally friendly fuels. Our Engineering Division is already playing an important role in the GTL plant business and is currently building eight large air separation plants for the Pearl GTL complex in Qatar. These plants will become part of the largest integrated complex of its kind in the world.

Moreover, we have the know-how to minimise CO<sub>2</sub> emissions with no adverse impact on the efficiency and profitability of industrial plants. This expertise includes our technology for emission-free power stations and CO<sub>2</sub> sequestration – both markets with great growth potential.

These examples show that we remain cutting edge. With our products, technologies and services, we will play an increasingly important role in major international developments in the medium and long term. We will contribute towards sustainable energy provision and work towards achieving the necessary reduction in CO<sub>2</sub> emissions.

As a result of our truly global orientation, we are extremely well-placed to exploit existing opportunities for growth in both mature and emerging markets.

The new Linde Group is less dependent on economic cycles, which enables us to cushion the impact of unfavourable economic conditions in the regions.

In other words, Linde is in robust health as it looks to the future. We will continue to offer you, our shareholders, as well as our customers and employees, exactly what you are entitled to expect in a well-led company: reliability, stability, growth and profit.



Professor Dr Wolfgang Reitzle  
Chief Executive Officer of Linde AG



# Supervisory Board

## Members of the Supervisory Board

**Dr Manfred Schneider**

Chairman  
Chairman of the Supervisory Board  
of Bayer AG

**Hans-Dieter Katte<sup>1</sup>**

Deputy Chairman  
Chairman of the Pullach Works Council,  
Engineering Division, Linde AG

**Michael Diekmann**

Second Deputy Chairman  
Chairman of the Board of Management  
of Allianz SE

**Dr Karl-Hermann Baumann**

Former Chairman  
of the Supervisory Board  
of Siemens AG

**Dr Gerhard Beiten**

Lawyer

**Dr Clemens Börsig**

Chairman of the Supervisory Board  
of Deutsche Bank AG

**Siegried Friebe<sup>1</sup>**

Chairwoman of the Works Council  
of Linde-KCA-Dresden GmbH

**Gerhard Full**

Former Chairman of the Executive Board  
of Linde AG

**Gernot Hahl<sup>1</sup>**

Chairman of the Worms Works Council,  
Gases Division, Linde AG

**Thilo Kämmerer<sup>1</sup>**

Trade Union Secretary on the Executive  
Board of IG Metall Frankfurt

**Klaus Peter Müller**

Chairman of the Board of Managing  
Directors of Commerzbank AG

**Jens Riedel<sup>1</sup>**

(appointed on 22 January 2007)  
Chairman of the Leuna Works Council,  
Gases Division, Linde AG

**Josef Schregle<sup>1</sup>**

(appointed on 22 January 2007)  
Manager responsible for finance and  
financial control, Engineering Division,  
Linde AG

**Josef Schuhbeck<sup>1</sup>**

(appointed on 22 January 2007)  
Chairman of the Schalchen Works Council,  
Engineering Division, Linde AG

**Professor Dr Jürgen Strube**

Chairman of the Supervisory Board  
of BASF SE

**Wilfried Woller<sup>1</sup>**

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

<sup>1</sup> Employee representative.

## Supervisory Board committees

### Mediation Committee in accordance with § 27(3) of the German Codetermination Law (MitbestG):

Dr Manfred Schneider  
(Chairman)

Hans-Dieter Katte<sup>1</sup>  
Michael Diekmann  
Gernot Hahl<sup>1</sup>

### Audit Committee:

Dr Karl-Hermann Baumann  
(Chairman)

Gerhard Full  
Hans-Dieter Katte<sup>1</sup>  
Dr Manfred Schneider  
Wilfried Woller<sup>1</sup>

### Standing Committee:

Dr Manfred Schneider  
(Chairman)

Hans-Dieter Katte<sup>1</sup>  
Michael Diekmann  
Gerhard Full  
Gernot Hahl<sup>1</sup>

### Nomination Committee:

(set up on 11 September 2007)

Dr Manfred Schneider  
(Chairman)

Michael Diekmann  
Klaus-Peter Müller

# Report of the Supervisory Board

Dear shareholders,

The Supervisory Board has been very closely involved with the work of the Executive Board in the 2007 financial year, a year which saw significant and fundamental changes in the structure of The Linde Group.

During the 2007 financial year, the Supervisory Board conducted detailed reviews of the company's situation, its prospects and its strategic development, as well as the future long-term positioning of The Linde Group. It also concerned itself with significant individual issues, above all the integration of the British gases company The BOC Group plc (BOC) into The Linde Group and the fulfilment of the conditions laid down by the competition authorities following the acquisition, as well as the subsequent concentration on a core portfolio of products and services. We have performed 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 the activities of 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 and the economic situation of the company and its subsidiaries, as well as with forecasts. The Supervisory Board was involved in all the 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, partly as a result of being provided with minutes of Executive Board meetings. 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. The Supervisory Board was able to satisfy itself as to the effectiveness of the risk monitoring system set up in accordance with § 91 (2) of the German Stock Corporation Law (AktG) on the basis of reports submitted by the Executive Board and a report on the risk monitoring system prepared by the auditors. At no time did the Supervisory Board raise any objections about the proper conduct or efficiency of the executive management of the Group.

## Meetings of the Supervisory Board

Four ordinary meetings of the Supervisory Board were held in the 2007 financial year. None of the members of the Supervisory Board attended fewer than half the meetings. There were no conflicts of interest for Supervisory Board members in 2007.

At our meetings, in addition to reviewing current business developments, we also dealt with the risk position of the company, compliance and those individual transactions of fundamental importance for which the Executive Board requires our approval. After a thorough review of the documents submitted and detailed discussions about each of the proposals of the Executive Board, the Supervisory Board granted all necessary approvals. Due to time pressures, six decisions were made on the basis of documents provided outside the Supervisory Board meetings in written form, after some of the facts relating to those decisions had been discussed in the full meeting. These related, in particular, to individual investment projects in the Gases Division requiring the approval of the Supervisory Board which involved the construction of on-site plants on the basis of long-term customer contracts.





In 2007, the advisory and monitoring activities of the Supervisory Board focused in particular on the integration of BOC into The Linde Group and on the continuing development of the Group. The Chairman of the Supervisory Board was involved at an early stage in the individual measures being taken. At each meeting, the Executive Board provided us with detailed reports and we were able to satisfy ourselves that the integration process was progressing at a rapid pace. The Executive Board outlined in each case the stage we had reached in terms of the corporate and strategic goals we had set ourselves following the acquisition, how these goals would be realised and the impact on our Group. We had in-depth discussions with the Executive Board on these issues, especially as regards strategic and financial considerations. The Linde and BOC groups were swiftly merged to form a new whole. In the course of 2007, the Executive Board was quick to implement a detailed timetable and schedule of measures they had submitted to us for approval, to ensure that appointments to management roles were made promptly and to develop a unique corporate culture as a result of the blending of the two groups.

At our meeting to approve the financial statements on 9 March 2007, we reviewed in detail and approved the annual financial statements of Linde AG and the Group financial statements for the year ended 31 December 2006 and agreed the proposed appropriation of earnings. Following an in-depth presentation by the Executive Board, we held detailed discussions about medium-term planning in the reorganised Group and in its divisions, the expected impact of the transformation in the 2007 financial year, particularly in relation to the disposal or sale of companies and investments, and the effects of the purchase allocation, restructuring measures and synergies. On the basis of a special report on the status of the portfolio optimisation and steps to be taken to comply with conditions laid down by the competition authorities, we were able to satisfy ourselves that good progress was being made in these areas.

At the Supervisory Board meeting in March, we also discussed the creation of conditionally authorised capital, which would be presented for approval at the Shareholders' Meeting. This would be used to launch a successor scheme to the share option scheme for members of the Executive Board and senior management approved in 2002 and fully utilised by 2006. The issues highlighted here were the economic significance of the new scheme to the company and to the participants, in comparison for example with the previous scheme, and the structure and parameters of the new scheme. Furthermore, at this meeting, we approved the agenda of the Shareholders' Meeting, including the proposed resolutions. In connection with this, we also agreed a draft of new rules for the remuneration of the Supervisory Board and for the creation of new authorised capital.

Immediately before the Shareholders' Meeting on 5 June 2007, the Executive Board presented a report on the current situation of the Group. The meeting also served to prepare for the subsequent Shareholders' Meeting.

At our meeting on 11 September 2007, the Executive Board gave us a detailed report about the economic situation of The Linde Group and its divisions. We were also presented with the outlook for the whole of 2007. In addition, the meeting focused on the status of the implementation and development of the Group's strategies. Moreover, we approved a new version of our bylaws, which were revised to comply with the provisions of the German Corporate Governance Code as amended on 14 June 2007. In this connection, we set up a nomination committee, to which we appointed Dr Manfred Schneider as Chairman, and Messrs Michael Diekmann and Klaus-Peter Müller as members.

On 7 December 2007, the Executive Board presented us not only with a report on current business developments, but also with a preview of the 2007 financial statements, the budget for the 2008 financial year and the medium-term corporate plan, including financial, capital expenditure and personnel plans. The Executive Board supplied reasons where there were discrepancies between corporate plans or targets set and actual performance. We questioned the Executive Board in depth about the assumptions they had made, particularly with regard to the opportunities and risks associated with the individual divisions and the movement in the US dollar relative to the euro. We approved the 2008 capital expenditure programme of The Linde Group and defined more closely the duty of the Executive Board to report information to the Supervisory Board. Moreover, we agreed on an amendment to the rules of procedure of the Supervisory Board which concerned in particular those transactions of the Executive Board which require the approval of the Supervisory Board. The Executive Board also informed us about the status of the medium-term notes programme agreed in 2006 for the issue of medium-term and long-term bonds.

### **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 14 June 2007.

On 11 March 2008, the Executive Board and the 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](http://www.linde.com)). Linde AG has complied with all the recommendations of the German Corporate Governance Code as amended on 14 June 2007. Further information about corporate governance in Linde is given in the joint report of the Executive Board and the Supervisory Board on pages 020 to 025.

## Committees and committee meetings

The Supervisory Board now has four committees: the mediation committee, formed under § 27 (3) of the German Codetermination Law (MitbestG), the standing committee, the audit committee and the nomination committee. The Chairman of the Supervisory Board is also Chairman of all the committees except the audit committee.

The current composition of the committees is given on page 011.

To the extent permitted by law and provided for in the rules of procedure of the Supervisory Board, certain decision-making powers of the Supervisory Board were delegated in individual cases to committees. This has proved worthwhile in relation to the practical work of the Supervisory Board.

The standing committee of the Supervisory Board, which makes decisions on behalf of the full Supervisory Board, for example about employment contracts and pension and other arrangements with members of the Executive Board, and prepares the appointment and removal of members of the Executive Board for the Supervisory Board, held three meetings. Several decisions were also made in writing. The standing committee dealt mainly with matters relating to the Executive Board, in particular with the termination of one contract and, in the context of the remuneration structure approved by the full Supervisory Board, it determined the amount of remuneration payable to each member of the Executive Board and those components of their remuneration based on bonuses and shares. Furthermore, the standing committee gave approval for the following disposals of companies and disposals or increases in investments, whether as a result of conditions imposed by the competition authorities or for other reasons, based on policy decisions made by the full Supervisory Board and the delegation of the final decisions to the committee: the reorganisation of joint ventures in Asia with the French gases company Air Liquide, the incorporation of the American Linde subsidiary INO Therapeutics LLC into a newly-formed pharmaceutical company in the US, the disposal of the BOC Edwards components business to an international private equity company, and the sale of the cylinder gas business with direct customers in the US to the American company Airgas, Inc. The standing committee also gave its consent to a member of the Executive Board assuming an office outside the Group. Moreover, the standing committee decided on adjustments required to the company statutes, where these concerned only the form of words to be used. It also dealt with new rules on the remuneration of the Supervisory Board, which were discussed at a full meeting of the Supervisory Board and approved at the Shareholders' Meeting on 5 June 2007.

The establishment of a new management incentive scheme for members of the Executive Board and the senior management of the Group was the subject of much discussion and scrutiny following the issue of the final options under the old Management Incentive Programme. The new scheme was presented to a full meeting of the Supervisory Board on 9 March 2007 and discussed at that meeting. It was approved at the Shareholders' Meeting in June 2007. At the meeting immediately after the Shareholders' Meeting, an in-depth presentation was given by a representative of the international law firm acting as consultants of the proposed details of the issue of shares from the increase in share capital conditionally authorised for that purpose and further conditions for the exercise of the options for the members of the Executive Board. Subsequent to that meeting, the standing committee made decisions on the scheme and presented them in written reports.

The audit committee held five meetings in 2007. In the presence of the auditors, the Chief Executive Officer 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 and the presentation by the auditors of the main results of the audit. The head of Group Accounting and Reporting attended all these meetings to provide information about the Group. One of the other main tasks of the audit committee was to discuss the interim financial reports and quarterly financial statements based on reports presented by the Executive Board and the audit review conducted by the auditors. The committee also prepared the proposal of the Supervisory Board on the appointment of the auditors at the Shareholders' Meeting, issued the audit mandate to the auditors, determined the key audit issues, agreed the audit fees and monitored the independence of the auditors. Furthermore, the audit committee awarded one assignment to the auditors for services not related to the audit in accordance with the Group's internal rules. The audit committee was also provided with information on a regular basis about the recording and monitoring of risk in the company. The head of Internal Audit presented a special report on the structure, roles and responsibilities in that department and on their audit work and the audit plan for 2007. In addition, the audit committee discussed with the Executive Board and the auditors fundamental issues regarding the preparation and audit of the 2007 Group financial statements in the light of the strategic reorganisation of The Linde Group. The audit committee paid particular attention here to modifications in the internal financial reporting system. The audit committee, together with the Executive Board and the auditors, followed closely the development of the new IFRS 8 regarding reporting by operating segments until the Standard was finally adopted at the end of November 2007, and advised on the necessary preparations to be made. The audit committee also dealt with the Group's new code of conduct and other compliance systems, using the existing systems in Linde and BOC as a basis. There was also much debate about the impact on the Group of the German business tax reform and the imposition of an interest deduction ceiling from 2008 and the measures that would have to be taken as a result.

The nomination committee, which was set up in 2007 for the first time, started work after the end of the financial year. At the beginning of 2008, it concerned itself with preparations for the re-election of shareholder representatives to the Supervisory Board at the Shareholders' Meeting on 3 June 2008.

The mediation committee had no occasion to meet during the year.

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

## Annual financial statements and Group financial statements

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG), Berlin, audited the annual financial statements of Linde AG for the year ended 31 December 2007 prepared in accordance with the principles set out in the German Commercial Code (HGB) together with the management report, as well as the consolidated financial statements of The Linde Group for the year ended 31 December 2007 prepared in accordance with IFRS including the management report applying German generally accepted standards for the audit of financial statements and International Standards on Auditing (ISA). The auditors have issued unqualified opinions on both the Group financial statements and annual financial statements. The auditors have confirmed that the Group financial statements and the Group management report meet the requirements set out in § 315a(1) HGB. KPMG performed audit reviews of the interim financial reports in the course of the 2007 financial year as instructed. At no time did these reviews give rise to any objections. KPMG also confirmed that the risk management system complies with legal requirements. No risks that might affect the viability of the company as a going concern were identified. The main focus of the audit in the 2007 financial year was the changes in the process for the preparation of the financial statements as a result of the integration of BOC.

The documents relating to the financial statements and the audit reports were issued to all members of the Supervisory Board in good time. They were the subject of extensive deliberations at the audit committee meeting on 28 February 2008 and the meeting of the Supervisory Board to approve the financial statements on 11 March 2008. The auditors took part in the discussions both at the audit committee meeting and at the meeting of the full Supervisory Board. The auditors presented the main results of their audit and were able to provide supplementary information and to answer questions. The audit committee also presented the results of its review to the full Supervisory Board. We conducted our own examination of all the documents submitted and audit reports and discussed them in detail. After evaluating the results of the preliminary review by the audit committee and the final results of our own review of the documents submitted to us by the Executive Board and by the auditors, we find no grounds for objection and concur with the results of KPMG's audit. We hereby approve and adopt the financial statements of Linde AG and of The Linde Group for the year ended 31 December 2007 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.

## Composition of the Supervisory Board and Executive Board

In the 2007 financial year, there were no changes to the composition of the Supervisory Board. The application for the appointment by legal process of Dr Clemens Börsig in 2006 was deferred to the next Shareholders' Meeting. At the Shareholders' Meeting on 5 June 2007, Dr Börsig was elected as a member of the Supervisory Board for the remaining period of office of the other members of the Supervisory Board.

At the Shareholders' Meeting on 3 June 2008, the period of office of the current Supervisory Board will expire.

As disclosed in the 2006 annual report, Mr Hubertus Krossa retired from the Executive Board of Linde AG on 31 January 2007 to assume the role of Chairman of the Management Board of the former Material Handling business segment. With effect from 31 December 2007, Mr Trevor Burt, who had been a member of the Executive Board from September 2006 and was responsible for the Asia/Pacific region and the cylinder gases and electronic gases Business Areas, also left the company. We expressed our gratitude to both gentlemen for the successful contributions they had made to the Group.

Following the retirement of Trevor Burt, the number of members on the Executive Board has been reduced from five to four. The responsibilities within the Executive Board were reallocated. The current duties and responsibilities of the Executive Board members are given in the summary on page 204 of this annual report.

The Supervisory Board would like to thank the Executive Board and all Linde employees for the conscientious and committed approach you have demonstrated in your work. Once again, you have overcome great challenges in the past financial year and achieved very good results.

Munich, 11 March 2008

For the Supervisory Board

A handwritten signature in black ink, appearing to read 'M. Schneider', written in a cursive style.

Dr Manfred Schneider  
Chairman



# Corporate Governance

Our actions have always been based on responsible corporate management and supervision. Linde sees corporate governance as an ongoing process and will continue to follow future developments closely.



## Corporate governance report

Linde AG welcomes the German Corporate Governance Code produced by the Government Commission and last updated in June 2007.

The corporate goals of good responsible management and supervision and the achievement of sustainable value added have traditionally been seen as important in 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, legal regulations and internal Group rules.

### Compliance with the German Corporate Governance Code

On 11 March 2008, the Executive Board and Supervisory Board made the annual declaration of compliance with §161 of the German Stock Corporation Law (AktG). It is published on page 025 of this report and on the company's website. Linde AG has complied with all the recommendations of the German Corporate Governance Code as amended on 14 June 2007.

Linde AG has also complied and will in future comply to the greatest possible extent with the suggestions made in the Code, with the following few exceptions:

- The Code suggests that the Shareholders' Meeting is transmitted on the Internet. We transmit the opening remarks of the Chairman of the Supervisory Board and the speech of the Chief Executive Officer, but not the general discussion. In principle, the articles of association 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 the Shareholders' Meeting 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 individual speakers. Nevertheless, we will continue to follow developments closely.
- 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. This will apply once again on the occasion of the re-election of the members of the Supervisory Board at the 2008 Shareholders' Meeting. 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. When revised arrangements for the remuneration of the Supervisory Board were agreed at the Shareholders' Meeting in 2007, it was specifically decided not to introduce a long-term component.

The new provisions of the Code in respect of the compensation cap relate principally to new contracts being drawn up with Executive Board members. Currently, there is no need for Linde AG to take any action. We will follow developments in this area with interest and make decisions at the appropriate time.

### Close cooperation between the Executive Board and Supervisory Board

Linde AG, which now has its registered office in Munich, is governed by the provisions of the German Stock Corporation Law (AktG) and the German Codetermination Law (MitbestG), capital market regulations and the rules set out in its articles of association. The Executive Board and Supervisory Board are responsible for the management and supervision functions allocated to them. They must act in the interests of the shareholders and for the benefit of the company.

#### Executive Board

The Executive Board of Linde AG manages the company and conducts its business. The current four-member Executive Board reflects the global nature of The Linde Group in its international composition. The Executive Board must consider the interests of the company and seek to achieve a sustainable increase in corporate value. It decides on the strategic direction of the company, obtains the Supervisory Board's approval of this, and ensures that the overall strategy is implemented. It is also responsible for annual and multi-year corporate budgets and for the preparation of the quarterly, annual and Group financial statements. It also ensures that appropriate risk management and risk control systems are in place and provides regular up-to-date detailed reports to the Supervisory Board on all the strategic issues affecting the Group, medium-term corporate plans, business trends, the risk situation, risk management and compliance of Group companies with legal regulations and Group guidelines. Actions and transactions of the Executive Board which are of fundamental importance require the approval of the Supervisory Board. While in office, members of the Executive Board are bound by a detailed restraint clause. Any conflicts of interest must be disclosed immediately to the Supervisory Board,

as well as to their fellow board members. The procedural rules of the Executive Board govern the work it performs, the departmental responsibilities of each member of the Executive Board, the issues which must be dealt with by the full Executive Board and the majority required for resolutions to be passed by the Executive Board.

### Supervisory Board

The term of office of all the members of the Supervisory Board ends with the completion of the Shareholders' Meeting which ratifies the acts of management for the 2007 financial year (2008 Shareholders' Meeting). Until the end of the Shareholders' Meeting on 3 June 2008, the Supervisory Board will consist of 16 members, comprising eight representatives of the shareholders, whose election is determined by the provisions of the German Stock Corporation Act (AktG), and eight representatives of the employees, whose election is determined by the provisions of the German Codetermination Law (MitbestG). Until the end of the 2008 Shareholders' Meeting, the members of the Supervisory Board will include one former member of the Executive Board of the company. Once the 2008 Shareholders' Meeting has ended, the Supervisory Board will comprise, in accordance with the company's articles of association, that number of members which is specified as the minimum number in the relevant regulations. Currently, the minimum number of Supervisory Board members specified is twelve, comprising six shareholder representatives and six employee representatives. The appointment of the members of the Supervisory Board is also governed by the relevant legal regulations.

The Supervisory Board appoints the Executive Board, advises it on the running of the company and monitors its executive management.

Under its procedural rules, the Supervisory Board has the right to veto significant transactions. Also included in the procedural rules of the Supervisory Board are provisions regarding its independence. Some of the members of the Supervisory Board have in the past financial year been and are currently on the Executive Boards of companies with which Linde has business relationships. Transactions with these companies take place under the same conditions as for non-related third parties. In the estimation of the other members of the Supervisory Board, these transactions do not affect the independence of the Supervisory Board members concerned. The Supervisory Board has a sufficient number of members with an adequate level of independence.

The members of the Supervisory Board disclose any conflicts of interest arising as a result of consultancy work performed for other companies or memberships of the executive bodies of other companies to the Supervisory Board. Any significant conflicts of interest arising which are not temporary will lead to the removal of the member from the Supervisory Board. The Supervisory Board informs shareholders in its report at the Shareholders' Meeting of any conflicts of interest which have arisen and the measures which have been taken as a result.

### 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 company 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.

### Supervisory Board committees

The Supervisory Board has four committees:

The Standing Committee, which comprises three shareholder representatives and two employee representatives, advises the Supervisory Board on the appointment and removal of members of the Executive Board, devises employment and remuneration policies and determines the remuneration of the Executive Board. It makes decisions on behalf of the Supervisory Board about employment contracts and pension and other arrangements with members of the Executive Board. It also provides regular advice about long-term succession planning for the Executive Board and reviews the effectiveness of the work of the full Supervisory Board.

The Audit Committee also comprises three shareholder representatives and two employee representatives. It does the groundwork for the decisions of the Supervisory Board regarding the adoption of the annual financial statements and the approval of the Group financial statements and makes arrangements with the auditors. In addition, it deals with risk management and compliance issues. Finally, it discusses the interim reports and quarterly and half-yearly financial statements.

In September 2007, the Supervisory Board set up a Nomination Committee, which comprises the Chairman of the Supervisory Board, the Second Deputy Chairman of the Supervisory Board and one other shareholder representative. It makes a recommendation to the shareholder representatives on the Supervisory Board on proposed candidates for the election of shareholder representatives at the Shareholders' Meeting.

The Mediation Committee, formed under the provisions of the German Codetermination Law, makes suggestions to the Supervisory Board regarding the appointment of members of the Executive Board, if the required majority of two-thirds of the votes of the members of the Supervisory Board is not obtained in the first ballot.

Information about the activities of the Supervisory Board and its committees and about the work it has done with the Executive Board in the 2007 financial year can be found in the Report of the Supervisory Board on pages 012 to 018.

## Shareholders' Meeting

The shareholders protect their rights at the Shareholders' Meeting by exercising their right to vote. Each share entitles the shareholder to one vote. Entitlement to vote at the meeting is based on holding shares at the internationally recognised record date. The beginning of the 21<sup>st</sup> day before the Shareholders' Meeting is used as the cut-off date for the identification of shareholders.

The annual general meeting takes place within the first six months of each financial year. The agenda for the meeting, including the reports and documents required for the meeting, is published on the company's website. The notice of the Shareholders' Meeting and the associated documents can be transmitted electronically to shareholders if they so wish.

Shareholders who cannot attend the Shareholders' Meeting or who leave the meeting before voting has commenced have the option to exercise their vote using a proxy of their choice or a proxy appointed by the company voting in accordance with their instructions. The proxy forms may be handed in at any time until the evening before the Shareholders' Meeting, and may also be in electronic form if so desired.

The Executive Board of Linde AG presents the annual financial statements and Group financial statements for approval at the Shareholders' Meeting. The Shareholders' Meeting passes resolutions regarding the appropriation of profits, the ratification of the acts of the Executive Board and Supervisory Board, the election of shareholder representatives to the Supervisory Board and the appointment of the auditors. Any changes to be made to the articles of association and any changes in capital are also dealt with at the Shareholders' Meeting.

## Consequential loss and liability insurance

The company has taken out consequential loss and liability insurance (D&O insurance) for the members of the Executive Board and Supervisory Board with an appropriate retention.

## Directors' dealings

Linde AG publishes without delay those transactions required to be notified under §15 a of the German Securities Trading Law (WpHG) which have been effected by the persons named therein, in particular officers of the company and related parties, in shares of the company or related financial instruments, in accordance with the provisions of the law. The notifications also appear on the Linde website.

In the course of the year, members of the Executive Board and the Supervisory Board informed BaFin (the German Federal Financial Supervisory Authority) about one notifiable purchase transaction

and a total of six notifiable sale transactions involving between 1,000 and 45,000 Linde shares, which were mostly in connection with the exercise of share options under the Linde Management Incentive Programme 2002. The price was between EUR 81.85 and EUR 91.71 per share and the size of the individual transactions between EUR 88,490 and EUR 4,126,950. In the case of sales of shares which members of the Executive Board subscribed for by exercising share options under the Linde Management Incentive Programme, the subscription rights were included at their value on the grant date in the disclosure of the remuneration of the Executive Board in the relevant financial year.

## Interests in share capital

The total holdings of all the members of the Executive and Supervisory Boards in Linde AG shares or related financial instruments during the financial year do not exceed 1 percent of the issued share capital. Therefore, there were no interests required to be disclosed under section 6.6 of the German Corporate Governance Code.

## Remuneration of the Executive Board and Supervisory Board

The remuneration report, which also includes information about the share option schemes, is on pages 026 to 031 of this annual report and forms part of the Group management report.

## Developing our core values and compliance

Linde has traditionally maintained a high standard of ethical principles. In 2007, the Executive Board developed a corporate philosophy entitled Linde Spirit and devised a new code of conduct known as the Code of Ethics. This was against the background of the reorganisation of the Group and the integration of the British gases company BOC, based on rules relevant to both Linde and BOC. These have now been launched worldwide. Linde Spirit, adopted by the Executive Board in April 2007, describes the three key elements in Linde's corporate culture: the Linde vision and the values and principles underlying our actions. The Code of Ethics sets out the commitment made by the employees of The Linde Group, to comply with legal regulations and to reinforce and develop the ethical and moral values of the Group. It is in line with our corporate philosophy and with our global values and basic principles. We have also installed a notification system known as the Integrity Line. The Integrity Line is an important part of The Linde Group's compliance guidelines. It provides both internal and external stakeholders with the opportunity to express doubts and suspicious circumstances.

Both Linde and BOC have adopted ethical principles in their respective organisations for the purchase of goods and services. These principles still apply. In the 2008 financial year, they will be merged, revised and introduced throughout the Group as a supplement to the Code of Ethics.

The Executive Board and the audit committee of the Supervisory Board are each kept informed and up to date by regular reports about the measures taken to ensure the effectiveness and appropriateness of the compliance management systems and about any breaches of legal rules and violations of the code of conduct.

### 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.

We keep our shareholders and the general public informed about key dates for the Group and about our publications in a financial calendar which appears in our annual report and in our interim reports, as well as on the Linde AG website. Linde AG publishes ad-hoc announcements and press releases as well as notifiable securities transactions (directors' dealings) in the legally prescribed media and on its website. The articles of association are also on the website. Linde provides information to the capital market and to the public through analysts' conferences and press conferences which coincide with the publication of the quarterly, half-yearly or annual results or in the form of teleconferences. Regular events involving the CEO and CFO and institutional investors and financial analysts also ensure a regular exchange of information with the financial markets.

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, audit and risk management

In June 2007, the Supervisory Board issued the mandate for the audit of the annual financial statements and Group financial statements to KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG), Berlin, who had been appointed at the Shareholders' Meeting as auditors of the annual financial statements and Group financial statements for the year ended 31 December 2007 and had also been appointed to conduct an audit review of the interim financial reports for the 2007 financial year.

The auditors have issued a detailed declaration confirming their independence to the audit committee. There were no conflicts of interest. 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.

Linde has monitoring and risk management systems which are continually being updated and adapted by the Executive Board to take account of changing circumstances. The effectiveness of these systems is reviewed by the auditors both in Germany and abroad. The audit committee also supports the Supervisory Board in monitoring the activities of executive management, concerning itself in particular with risk management issues. It receives regular reports on the identification and monitoring of risks.

## Declaration of compliance with the German Corporate Governance Code

On 11 March 2008, we made the following annual declaration of compliance with §161 of the German Stock Corporation Law (AktG) and made it available on a permanent basis on the company's website at [www.linde.com](http://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 and will in future comply with all the recommendations of the Government Commission on the German Corporate Governance Code as amended on 14 June 2007.

Since it made its last declaration of compliance on 9 March 2007, Linde AG has complied with the recommendations of the Code as amended on 12 June 2006 with the publication of its 2006 annual report on 12 March 2007 (individualised figures disclosed for compensation paid to members of the Executive and Supervisory Boards). Linde has complied with the recommendations set out in the Code as amended on 14 June 2007 by setting up a nomination committee at the Supervisory Board meeting on 11 September 2007.

Munich, 11 March 2008  
Linde AG”

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

Munich, 11 March 2008  
Linde AG

The Supervisory Board

The Executive Board

# Remuneration report

(part of the Group Management Report)

The remuneration report sets out the structure, the basic features and the amount of the remuneration payable to members of the Executive Board and Supervisory Board. It forms part of the Group management report and takes account of the recommendations of the German Corporate Governance Code. The remuneration report also contains the information about the remuneration of the Executive Board which is legally required under the provisions of the German Commercial Code (HGB). This information is therefore not repeated in the Notes to the Group financial statements.

## 1. Remuneration of the Executive Board

The standing committee of the Supervisory Board is responsible for determining the remuneration of the Executive Board. The Chairman of the Supervisory Board, his two Deputy Chairmen, a Supervisory Board member representing the shareholders and a Supervisory Board member representing the employees are all members of this committee.

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, and its performance and 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 an international context and offers an incentive for sustainable increases in the value of the company in a dynamic environment.

The remuneration system of the Executive Board comprises cash emoluments, share-based emoluments and pension commitments. The cash emoluments comprise a fixed element and a variable performance-related element and are 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 variable element comprises a dividend-related bonus and performance-related bonuses. The target income is reviewed at regular intervals, at least every three years. The last review was conducted on 1 January 2007. No adjustments were made as a result of this review. The members of the Executive Board receive no remuneration for any Group offices held.

### Fixed emoluments

Each member of the Executive Board receives fixed emoluments, comprising a fixed monthly salary and a fixed bonus in advance. Around 30 percent of the dividend-related bonus is paid in advance in twelve monthly instalments at the same time as the fixed monthly salary.

Benefits in kind are also provided, which are taxed individually. They 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 dividend-related bonus is calculated for each member of the Executive Board on the basis of an individually agreed amount in euro for each EUR 0.01 of the dividend declared per share at the Shareholders' Meeting which is due to be paid to shareholders in the relevant financial year. Of the resulting bonus entitlement, around 70 percent is currently variable, taking into account the monthly instalments paid in advance.

The annual bonus is dependent on the achievement of certain objectives specified at the beginning of the financial year by the standing committee of the Supervisory Board for that particular financial year. The main performance criteria for the bonus are return on capital employed (ROCE) and operating profit (EBIT) and, to a lesser extent, individual targets. For the Chief Executive Officer and the Chief Financial Officer, financial targets are determined on the basis of Group data. For those members of the Executive Board responsible for operations, the targets are determined on the basis of comparable figures in the divisions and regions for which they are responsible. The annual bonus has an upper limit. The portion based on data will not exceed 200 percent of the bonus amount agreed, and that portion based on targets relating to the functions performed will not exceed 100 percent of the amount. In 2007, the members of the Executive Board achieved targets between 100 percent and 170 percent. The Chief Executive Officer has entitlements to bonus payments guaranteed by contract if he achieves certain demanding acquisition, divestment and integration targets. The amount of these bonuses is determined in each case by the standing committee of the Supervisory Board. The bonuses have an upper limit.

The variable emoluments are payable on the day after the Shareholders' Meeting at which the appropriation of profits is decided.

### Share-based emoluments

Until the 2006 financial year, members of the Executive Board received a variable component with a long-term incentive in the form of options granted every year, based on the share option scheme approved at the Shareholders' Meeting in May 2002. This scheme (Management Incentive Programme 2002) applied to members of the Executive Board, members of the management boards of affiliated companies and selected executives. The scheme had 539 participants when it ceased. In 2006, the last options were issued

under this scheme. The options granted to the participants continue to be exercisable as long as the conditions for the exercise of the options are met. Each option confers the right to subscribe to one share in Linde AG at the exercise price. The exercise price for acquiring one new share is 120 percent of the base price. The base price is the average closing price of Linde shares in XETRA trading on the Frankfurt stock exchange over the last five trading days before the issue date of the options. The options have been issued in five annual tranches since 2002, 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 determined the options to be allocated to members of the Executive Board and, for other employees entitled to options, the Executive Board decided 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 Linde share price.

In the 2007 financial year, the 2002, 2003, 2004 and 2005 tranches of this share option scheme became valuable and exercisable. In total, members of the Executive Board held 710,000 options at the balance sheet date, of which 525,000 were exercisable as the qualifying period had expired. In the 2007 financial year, members of the Executive Board exercised 145,000 options.

Further information about the Linde Management Incentive Programme 2002 is given in Note [30] of the Notes to the Group financial statements.

It was resolved at the Shareholders' Meeting held on 5 June 2007 to introduce a new long-term incentive scheme (Linde Performance Share Programme 2007) which would again cover a five-year period. Participants in the scheme were to include not only members of the Executive Board, but also selected executives (members of the management boards of Linde AG group companies, as well as selected executives of Linde AG and its group companies). The options may be issued in five annual tranches, in each case within a period of twelve weeks following the company's Shareholders' Meeting. The Supervisory Board determines the allocation of options to members of the Executive Board, while the Executive Board determines the allocation for lower levels of management. The term of the options is calculated as three years, two months and two weeks from the issue date. The options in a tranche may be exercised, once a vesting period of three years from the date of issue has been completed, over a period of four weeks, if and to the extent that certain performance targets are met. Each option confers the right to purchase one share in Linde AG at the

exercise price, which is equivalent in each case to the lowest issue price, currently EUR 2.56.

The performance targets for each individual tranche are based on conditions laid down at the Shareholders' Meeting and on movements in earnings per share, absolute total shareholder return and relative total shareholder return. Within each of these individual performance targets, there is a minimum target, which must be reached if options are to be exercisable, and a stretch target. If the stretch target is reached, all the options become exercisable based on the weighting attached to that particular performance target. If there are exceptional unforeseen movements in the price of Linde shares, the Supervisory Board can restrict in whole or in part the volume or extent of options granted to the members of the Executive Board.

At the Shareholders' Meeting, it was resolved that members of the Executive Board would be subject to a two-year holding period for 25 percent of the shares issued.

In the 2007 financial year, the first tranche of options was allocated. Options were granted to 840 participants. The options are not yet exercisable.

Further information about the value of the options and about the structure, conditions and, in particular, performance targets of the scheme, are given in Note [30] of the Notes to the Group financial statements. Information about the rules which apply in the event of a change of control is given on page 080 of the Group management report (Disclosures in accordance with § 315 (4) of the German Commercial Code).

#### **Pension commitments**

There are pension commitments in respect of the members of the Executive Board, which are set out in individual contracts. The pension is based on a particular percentage of the most recently paid fixed monthly emoluments. The percentage rate on entry is 20 percent. This percentage increases by 2 percent for every year of service completed by the member of the Executive Board. The maximum percentage that can be achieved is 50 percent of the last fixed monthly emoluments paid. For contracts of employment agreed before 1 July 2002, the percentage rate on entry was 40 percent and the maximum percentage that could be achieved was 60 percent. Payments are made on a monthly basis once the member had retired from the company and is eligible for his or her pension (old age pension from the age of 65, pension for medical disability or incapacity for work, surviving dependants' pension in the event of death). A widow receives 60 percent of her husband's pension. The commitments also include benefits for any orphans or fatherless children. Current pensions are adjusted annually to take account of the change in the average retail price index, based on information

provided by the German Statistical Office. Once the member of the Executive Board has completed his or her 55<sup>th</sup> year and ten years of service on the Executive Board, and if the employment contract was terminated early by the Supervisory Board or the period of office was not extended for reasons beyond the control of the member of the Executive Board, he or she would immediately receive the pension earned, taking into account other income.

#### Emoluments of the Executive Board for 2007

The total cash remuneration of members of the Executive Board for performing their duties in Linde AG and its subsidiaries in 2007 was EUR 13,787,249 (2006: EUR 11,837,754). The total remuneration was EUR 16,886,785 (2006: EUR 14,647,754), which includes options

granted to members of the Executive Board under the Performance Share Programme 2007 (2006: under the Linde Management Incentive Programme 2002), which have a notional value of EUR 3,099,537 (2006: EUR 2,810,000). In the 2007 financial year, a total of 83,726 options (2006: 250,000) were granted to members of the Executive Board. The value of these options when they were granted was EUR 37.02 (2006: EUR 11.24) per option.

Provided that the annual financial statements of Linde AG for the year ended 31 December 2007 are approved and that the standing committee accordingly comes to a decision on the variable remuneration of 2007, the emoluments for 2007 of the individual members of the Executive Board were as follows:

		Cash emoluments				Share options		Pensions	
		Fixed emoluments	Benefits in kind/ Other benefits	Variable emoluments	Total cash emoluments	Value on the grant date	Total emoluments	Annual amount if pension were paid on balance sheet date	Allocated to pension provision in financial year
in €									
Professor Dr Wolfgang Reitzle (Chairman)	2007	1,816,000	58,035	4,635,000	6,509,035	1,549,805	8,058,840	408,000	94,433
	2006	1,816,000	14,314	4,075,000	5,905,314	1,461,200	7,366,514	391,680	832,059
Dr Aldo Belloni	2007	588,000	31,469	1,296,600	1,916,069	516,577	2,432,646	244,800	-235,604
	2006	588,000	25,419	1,247,500	1,860,919	449,600	2,310,519	244,800	613,913
Trevor Burt (from 12.09.2006)	2007	399,000	82,456	741,735 <sup>1</sup>	1,223,191	-	1,223,191	58,080 <sup>2</sup>	-
	2006	73,372	91,829	223,217	388,418	-	388,418	-	-
Georg Denoke (from 12.09.2006)	2007	360,000	13,275	821,500	1,194,775	516,577	1,711,352	68,640	12,502
	2006	110,000	4,309	178,982	293,291	-	293,291	63,360	45,024
J. Kent Masters (from 12.09.2006)	2007	624,000	28,579	2,291,600 <sup>3</sup>	2,944,179	516,577	3,460,756	167,280	185,850
	2006	145,641	180,773	322,356	648,770	-	648,770	-	-
<b>Total 2007</b>		<b>3,787,000</b>	<b>213,814</b>	<b>9,786,435</b>	<b>13,787,249</b>	<b>3,099,536</b>	<b>16,886,785</b>		<b>57,181</b>
(%)		23	1	58	82	18	100		
<b>Total 2006</b>		<b>3,657,013</b>	<b>354,736</b>	<b>7,826,005</b>	<b>11,837,754</b>	<b>2,810,000</b>	<b>14,647,754</b>		<b>3,345,290</b>
(%)		25	2	54	81	19	100		

<sup>1</sup> The 2007 figure includes emoluments provided by BOC companies of EUR 111,735.

<sup>2</sup> For information only – retired from the Executive Board at the end of the 2007 financial year with no pension entitlement.

<sup>3</sup> The 2007 figure includes emoluments provided by BOC companies of EUR 1,009,600.



The increase in variable emoluments compared with the previous year was due mainly to significant increases in the dividend and in EBIT. In the case of two members of the Executive Board, payments were made in 2007 via Group companies on the basis of existing employment contracts before their appointment to the Executive Board in 2006. If these payments are excluded, total cash remuneration rose 7.0 percent.

Included in the total remuneration for the 2006 financial year are Dr Peter Diesch (a member of the Executive Board until 31 December 2006), who received total emoluments of EUR 1,981,809, and Hubertus Krossa (a member of the Executive Board until 31 January 2007), who received total emoluments of EUR 1,658,433. The amounts of these emoluments allocated to cash emoluments and to share options were disclosed in the 2006 financial report.

Mr Krossa resigned from the Executive Board of Linde AG on 31 January 2007. Neither the company nor the Group incurred any expenditure in the 2007 financial year in respect of Mr Krossa.

The participation of the members of the Executive Board, Trevor Burt and Kent Masters, in the pension schemes of BOC Australia and BOC USA respectively was terminated in each case on 31 December 2006. Neither the company nor the Group incurred any expenditure in the 2007 financial year as a result of this. The endowment sums at 31 December 2006 and the additions to the endowment sums in 2006 from their dates of appointment to the Executive Board are disclosed in the 2006 financial report.

At 31 December 2007, pension provisions relating to members of the Executive Board who were active members of the pension scheme at the date of preparation of the annual financial statements and Group financial statements were EUR 6,347,933 (2006: EUR 6,290,752) in The Linde Group and EUR 7,242,798 (2006: EUR 6,101,800) in the financial statements of Linde AG.

#### **Benefits on the early termination of a contract**

Members of the Executive Board who are not reappointed between their 55<sup>th</sup> and 63<sup>rd</sup> year, or have their employment contract terminated early by the Supervisory Board from their 62<sup>nd</sup> year, will receive a severance payment of 50 percent of their annual salary. Annual remuneration here comprises the monthly emoluments paid twelve times a year and the full dividend-related bonus for the year in which the employment contract ends, as well as the annual bonus. The annual bonus is calculated on the basis of the average of the bonuses paid in the previous three years.

If Linde AG is acquired by another company and there is a change of control, and the employment contract is terminated within nine months of that date, either by mutual agreement or as a result of the passage of time and the employment contract not being renewed or by resignation of the member of the Executive Board due to significant impairment of his or her position as a member of the

Executive Board in consequence of the takeover, the members of the Executive Board have an entitlement to benefits, based on their contractual cash emoluments and limited in extent. However, the burden of proof is on the member of the Executive Board to demonstrate the actual circumstances as a result of which his or her position has been impaired in a material way. In addition to compensation, comprising the cash emoluments he or she has foregone for the remaining term of his or her contract (the total of the annual fixed emoluments, the dividend-related bonus based on the figure for the previous financial year and the annual bonus based on the average of the past three financial years, less an overall reduction of 25 percent), the member of the Executive Board has, in each individual case, an entitlement to receive severance pay equal to the full amount of the annual cash remuneration. If the member of the Executive Board has completed his or her 55<sup>th</sup> year when the employment contract ends and has been on the Board for at least five years, the severance pay increases to three times the full amount of the annual cash remuneration. There is no right to severance pay if the member of the Executive Board has been a member for less than three years, or if he or she has not yet completed his or her 52<sup>nd</sup> year or has already completed his or her 63<sup>rd</sup> year when the employment contract ends. Currently, only one member of the Executive Board would have an entitlement to additional severance pay. The total compensation comprising the cash remuneration plus the severance pay must not exceed an amount equivalent to five times the full amount of the annual cash remuneration. If the member of the Executive Board receives benefits on the occasion of or in connection with acquisition by a majority shareholder, a controlling company or another legal entity, these are offset against the compensation and severance payments. The pension entitlement is calculated according to the rules for the early termination of the employment contract for reasons beyond the Board member's control, with the proviso that any pension payments are granted from the date on which the employment contract would have ended had it not been terminated early.

#### **Loans and advances**

During the financial 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 total emoluments of EUR 4,534,599 in the 2007 financial year (2006: EUR 5,380,252).

A provision of EUR 35,088,368 (2006: EUR 39,062,290) 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 EUR 37,648,981 (2006: EUR 37,982,947) was made.

## 2. Remuneration of the Supervisory Board

The present remuneration of the Supervisory Board was determined at the Shareholders' Meeting on 5 June 2007 based on a proposal from the Executive Board and Supervisory Board with effect from the 2007 financial year and is governed by Article 11 in the company statutes.

The emoluments comprise two components, a fixed component and a variable one which is dependent on the company's performance. Part of the variable component depends on the dividend. Another part is linked to the return on capital employed (ROCE) for The Linde Group in the relevant financial year.

### Fixed emoluments

Each member of the Supervisory Board receives annual fixed emoluments of EUR 50,000, which are paid at the end of the financial year.

### Variable emoluments

The first part of the variable remuneration for each member of the Supervisory Board is EUR 300 for each EUR 0.01 by which the dividend declared at the Shareholders' Meeting exceeds a dividend of EUR 0.50 per share with full dividend entitlement distributed to the shareholders. The second part of the variable remuneration is EUR 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 financial year. ROCE is determined as follows, based on the information in the appropriate audited Group financial statements prepared in accordance with IFRS: earnings before taxes on income, before financial income and financial expenses and before any non-recurring items disclosed, but including the net profit from associates and joint ventures, adjusted for the amortisation of fair value adjustments identified in the course of the purchase price allocation, divided by capital employed. Capital employed comprises the aggregate of equity, financial debt, liabilities from financial services and net pension obligations less cash and cash equivalents and securities and receivables from financial services, calculated based on the average of the figures at the balance sheet date for the past financial year and the year prior to that. In 2007, ROCE calculated in this way was 10.3 percent.

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 EUR 40,000 and every other member of the audit committee receives EUR 20,000. However, if a member of the Supervisory Board holds several offices at the same time which pay a higher level of remuneration, he or she only receives the remuneration for the office which is the most highly paid.

### Attendance fees

The company also pays the members of the Supervisory Board an attendance fee of EUR 500 every time they attend a Supervisory Board meeting or committee meeting. This amount remains unchanged if several meetings take place on the same day.

### VAT and reimbursement of expenses

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

### Emoluments of the Supervisory Board for 2007

Based on a dividend of EUR 1.70 per share entitled to dividend and ROCE in The Linde Group of 10.3 percent, the total emoluments of the Supervisory Board (fixed emoluments, variable emoluments and attendance fees) amounted to EUR 2,107,914 (2006: EUR 1,931,774) plus VAT of EUR 398,923 (2006: EUR 357,976). Of the total emoluments, EUR 1,059,689 (2006: EUR 778,479) related to fixed emoluments and EUR 1,008,225 (2006: EUR 1,098,795) to variable emoluments. The total expenditure on attendance fees was EUR 40,000 (2006: EUR 54,500).

The individual members of the Supervisory Board received the amounts listed in the table below:

		Fixed emoluments	Variable emoluments	Emoluments for sitting on audit committee	Attendance fees	Total emoluments <sup>1</sup>
in €						
Dr Manfred Schneider (Chairman)	2007	150,000	152,550		4,000	306,550
	2006	105,000	165,000		5,000	275,000
Hans-Dieter Katte (Deputy Chairman)	2007	75,000	76,275		4,000	155,275
	2006	52,500	82,500		5,000	140,000
Michael Diekmann (Second Deputy Chairman)	2007	75,000	76,275		1,000	152,275
	2006	52,500	82,500		2,500	137,500
Dr Karl-Hermann Baumann	2007	50,000	50,850	40,000	4,000	144,850
	2006	35,000	55,000	40,000	4,500	134,500
Dr Gerhard Beiten	2007	50,000	50,850		2,000	102,850
	2006	35,000	55,000		3,000	93,000
Dr Clemens Börsig (from 30.06.2006)	2007	50,000	50,850		2,000	102,850
	2006	17,740	27,877		1,000	46,617
Gerhard Full	2007	83,320 <sup>2</sup>	76,275		4,000	163,595
	2006	91,583 <sup>2</sup>	82,500		4,500	178,583
Siegfried Friebe	2007	50,000	50,850		2,000	102,850
	2006	35,000	55,000		3,000	93,000
Gernot Hahl	2007	75,000	76,275		2,000	153,275
	2006	35,144 <sup>3</sup>	55,226 <sup>3</sup>		3,000	93,370
Thilo Kämmerer	2007	50,000	50,850		2,000	102,850
	2006	35,000	55,000		3,000	93,000
Klaus-Peter Müller	2007	50,000	50,850		1,500	102,350
	2006	35,000	55,000		2,500	92,500
Jens Riedel (from 22.01.2007)	2007	47,123	47,925		2,000	97,048
	2006	-	-		-	-
Josef Schregle (from 22.01.2007)	2007	47,123	47,925		2,000	97,048
	2006	-	-		-	-
Josef Schuhbeck (from 22.01.2007)	2007	47,123	47,925		2,000	97,048
	2006	-	-		-	-
Professor Dr Jürgen Strube	2007	50,000	50,850		1,500	102,350
	2006	35,000	55,000		2,500	92,500
Wilfried Woller	2007	50,000	50,850	20,000	4,000	124,850
	2006	35,000	55,000	164 <sup>4</sup>	3,000	93,164
<b>Total 2007</b>		<b>999,689</b>	<b>1,008,225</b>	<b>60,000</b>	<b>40,000</b>	<b>2,107,914</b>
(%)		47	48	3	2	100
<b>Total 2006</b>		<b>738,315<sup>5</sup></b>	<b>1,098,795<sup>5</sup></b>	<b>40,164</b>	<b>54,500<sup>5</sup></b>	<b>1,931,774<sup>5</sup></b>
(%)		38	57	2	3	100

<sup>1</sup> Amounts excluding VAT.

<sup>2</sup> Includes EUR 8,320 (2006: EUR 39,083) for membership of the management board of a foreign subsidiary.

<sup>3</sup> Standing committee from 29 December 2006.

<sup>4</sup> Audit committee from 29 December 2006.

<sup>5</sup> Includes the following members who retired in 2006: Dr Ackermann (Total emoluments: EUR 45,630), Mr Hartig (Total emoluments: EUR 138,890), Mr Pietsch (Total emoluments: EUR 92,260), Mr Zukauski (Total emoluments: EUR 92,260).

### Loans and advances

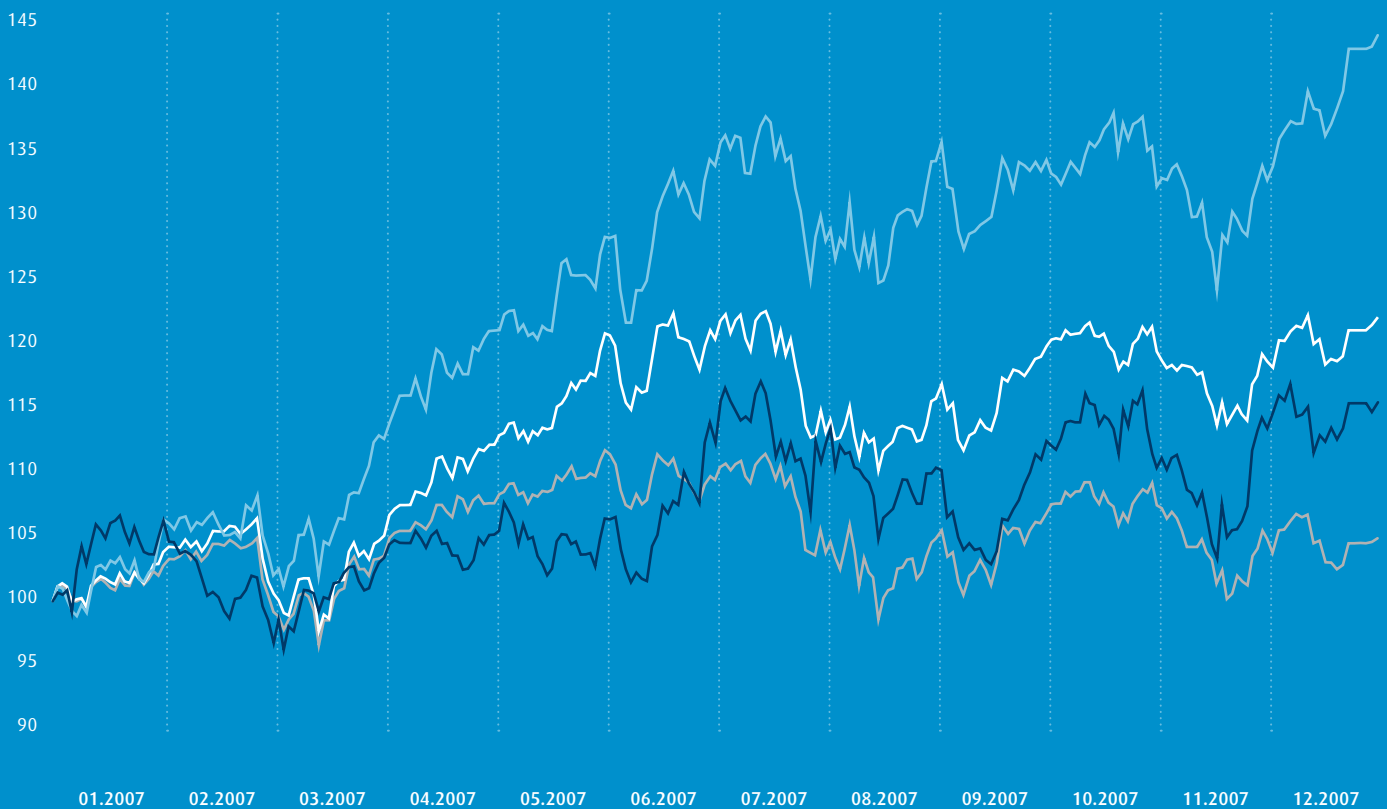
In the 2007 financial year, no loans or advances were made to members of the Supervisory Board.

# Linde Shares

In a generally favourable market environment, Linde shares saw double-digit growth for the third time in succession, increasing in value during the year by 15.6 percent. This was the capital market's reward for the reorganisation of The Linde Group and the positive trends in the 2007 financial year.

Linde share performance compared with indices

Index  
in %



— Linde AG  
— Prime Chemical  
— DAX  
— DJ EURO STOXX Chemical

### A good stock market performance again in 2007

The German share index again saw a significant increase in value during the financial year. It closed at 8,067.32 points at the end of 2007, a 22.3 percent rise over the figure at the end of the previous year. For the first few months of 2007, the trend was not so positive. The DAX fell to its lowest point for the year of 6,447.7 on 14 March 2007, but after that it began to climb again, reaching its highest point for the year of 8,105.69 on 16 July 2007.

This means that the German stock market was again one of the best performers when compared with the top leading indices in the world, ahead of the other major European indices in the stock markets of Paris, London and Madrid. The increase in the DAX, which was well above average, was due not only to a generally positive economic environment, but also to the exceptional performance of some shares in the wake of acquisitions and demergers.

### Double-digit growth again for Linde shares

In this favourable market environment, Linde shares achieved double-digit growth for the third time in succession, increasing in value during the year by 15.6 percent. We were in 13<sup>th</sup> position among the DAX 30 companies.

Our shares reflected the trends in the DAX, falling to their lowest point in the spring (EUR 75.26 on 5 March 2007) and closing the year at EUR 90.45. The share price at the year-end was only slightly lower than the highest price for the year of EUR 91.75, which was reached on 13 July 2007.

These positive trends in the Linde share price not only demonstrate that the capital market was happy to reward the Group for its positive business performance in 2007, but also that investors have

been convinced by the strategic reorganisation of The Linde Group and have confidence in the future and in the lasting success of our Group.

Further evidence of this confidence was to be seen in April 2007, when we successfully placed fixed-interest bonds with a volume totalling EUR 2.4 bn.

In the first few months of 2008, the mood in the international capital markets was beset by many uncertainties. In the wake of the financial and property crisis in the United States, all the main stock markets worldwide saw falls in share prices. Linde shares demonstrated a high level of stability in this difficult environment.

### Linde performance in comparison with the most important indices<sup>1</sup>

	2007	Weighting Linde shares
Linde (including dividend)	+ 17.7%	-
Linde (excluding dividend)	+ 15.6%	-
DAX	+ 22.3%	1.61%
Prime Chemical	+ 44.3%	9.91%
DJ EURO STOXX	+ 4.9%	0.33%
DJ EURO STOXX Chemical	+ 27.0%	6.82%
FTSE Eurofirst 300	+ 1.6%	0.18%
FTSE E300 Chemical	+ 29.1%	6.35%
MSCI Euro	+ 7.0%	0.39%

<sup>1</sup> As at 31 December 2007.

### Capital market based figures

		2007	2006
Shares with dividend entitlement for the financial year	No.	166,347,428 <sup>2</sup>	160,736,045
Closing price at year-end	€	90.45	78.26
Year high	€	91.75	79.56
Year low	€	75.26	56.32
Total dividend Linde AG	€ million	283	241
Market capitalisation <sup>1</sup>	€ million	15,046	12,579
Average weekly volume	No.	5,234,800	4,660,000
Volatility <sup>1</sup> (200 days)	%	24.6	21.3
<b>Information per share</b>			
Cash dividend	€	1.70	1.50
Dividend yield	%	1.9	1.9
Operating cash flow	€	10.73	8.88
Earnings <sup>3</sup>	€	5.02	4.66

<sup>1</sup> As at 31 December 2007.

<sup>2</sup> Exercise of purchase options under the share option scheme or in respect of the convertible bond.

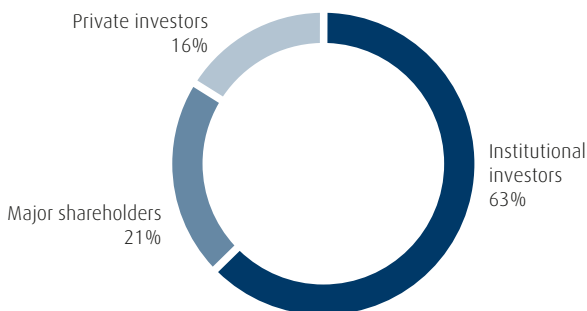
<sup>3</sup> Adjusted for the effects of the purchase price allocation and non-recurring items.

### Shareholder structure

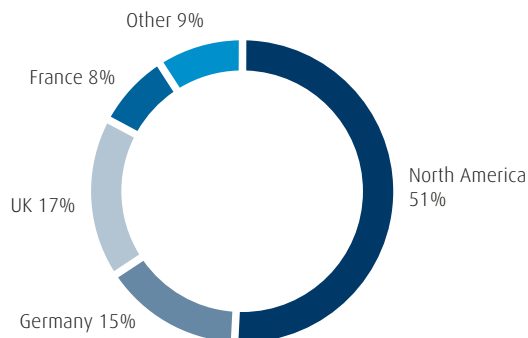
The investment structure of our major shareholders changed in the course of the financial year. At 31 December 2007, Allianz SE held around 6 percent of the shares in our company (2006: 9 percent) and Deutsche Bank AG around 5 percent (2006: 8 percent). With almost 10 percent of the shares, the holding of Commerzbank AG remained the same.

The proportion of shares held by institutional investors again increased in comparison with the previous year. Based on our annual shareholder identification survey conducted at the balance sheet date, 31 December 2007, around 63 percent (2006: 53 percent) of outstanding Linde shares are held by institutional investors. The proportion of private investors has declined and now stands at 16 percent (2006: 20 percent).

### Shareholder structure



### Institutional investors – Holdings by region



Our shareholder structure has become even more international in 2007. Above all, the proportion of North American investors amongst our institutional investors increased once again and now stands at 51 percent (2006: 38 percent). This increase is mainly due to the commitment shown by Capital Research & Management Group, which increased its investment to around 10 percent. The proportion of British and French institutional investors remained virtually the same, at 17 percent and 8 percent respectively. However, the proportion of German investors declined in 2007 and stood at 15 percent at the year-end (2006: 23 percent).

What is clear is that the proportion of investors who take a long-term view has increased significantly. This positive development is testimony to Linde's stable business model, which is based on sustainability.

### Dividend payment

We will continue to adopt an earnings-based dividend policy. The Executive Board and Supervisory Board of Linde AG will recommend an increase of over 13 percent in the dividend at the Shareholders' Meeting on 3 June 2008, giving a dividend per share of EUR 1.70 (2006: EUR 1.50). This gives a dividend payout ratio of 30 percent, based on net income for the year. The dividend yield was 1.9 percent, based on the year-end close.

### Resolutions passed at the Shareholders' Meeting on 5 June 2007

Subject to approval by the Supervisory Board, the Executive Board of Linde AG was authorised to acquire 10 percent of share capital in own shares by 4 December 2008.

A resolution was also passed at the Shareholders' Meeting to approve conditionally authorised capital for the issue of subscription rights to members of the Executive Board and senior management of Linde AG and to management boards and senior executives in the Group companies under a Performance Share Programme. Resolutions were also passed regarding authorised capital and various amendments to the articles of association.

### Investor relations activities

In the first year after the acquisition of BOC, our communications with the capital market focused not only on integration, but also on the strategic reorganisation of the Group and the related growth opportunities.

We have continued to enhance the transparency of our reporting and have provided detailed and up-to-date information about the status of the transformation process. As a result, we were able to make it even easier to understand our business performance and to foster enduring confidence in the capital market.

In more than 300 separate conversations with financial analysts and investors and in numerous teleconferences, we have explained our focus on the global gases and plant construction businesses and informed our shareholders and potential investors about the opportunities presented by our new business model.

In the course of 24 road shows and investors' conferences, we have given the participants in the capital market in all the major international financial centres the chance to discuss the current business situation of the Group and its prospects and long-term strategic focus with members of the Executive Board.

In the current year 2008, we will intensify our contact with existing investors and set about attracting new investors by expanding our communications with the capital market. Our investor relations activities will continue to focus on a clear and consistent presentation of our excellent position in the various operating areas, our competitive edge and the attractive growth opportunities in our end markets.

All current information about Linde shares is to be found on our website at [www.linde.com](http://www.linde.com) in the Investor Relations section. In addition, you can obtain information and answers to your questions by ringing us on +49.89.35757-1321. You are also welcome to send us your questions online at [investorrelations@linde.com](mailto:investorrelations@linde.com).

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#### Linde share information

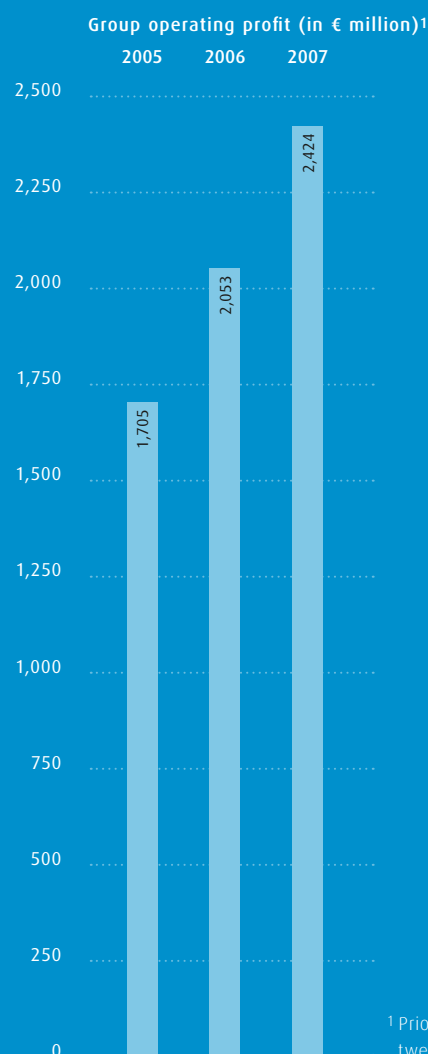
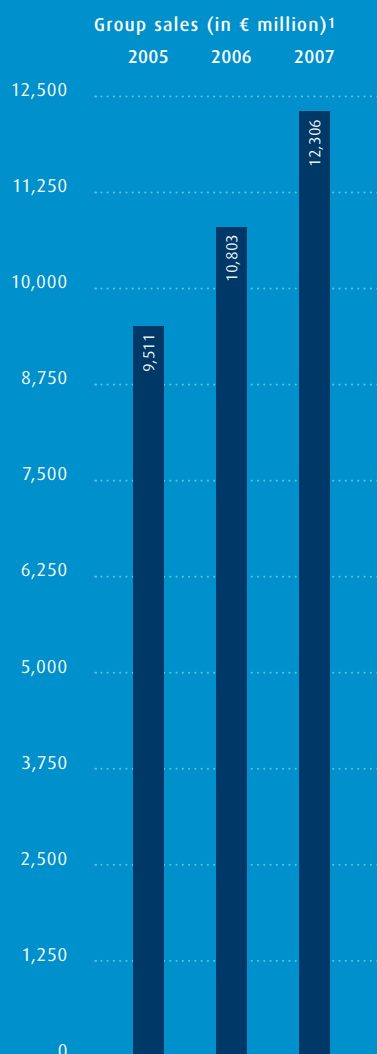
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Type of share	Bearer shares
Stock exchanges	All German stock exchanges, Zurich
Security reference numbers	ISIN DE0006483001 CUSIP 648300
Reuters (XETRA)	LING.DE
Bloomberg	LIN GR

# Group Management Report

In the year following the acquisition of the British BOC Group, we have transformed The Linde Group into a world-leading international gases and plant construction group, while at the same time strengthening our operating business. On a comparable basis, Group sales increased by 13.9 percent in the 2007 financial year to EUR 12.306 bn (2006: EUR 10.803 bn). Group operating profit rose at a faster rate than sales, by 18.1 percent to EUR 2.424 bn (2006: EUR 2.053 bn).

Group sales and Group operating profit (in € million)



<sup>1</sup> Prior year figures include twelve months of BOC.



## Macroeconomic environment

### Gross Domestic Product (GDP) in real terms<sup>1</sup>

	% Weighting	% Growth				
		2003	2004	2005	2006	2007
United States	30.45	2.5	3.6	3.1	2.9	2.2
Eurozone	18.40	0.8	1.8	1.6	2.8	2.6
Germany	5.40	-0.2	1.1	0.8	2.9	2.5
Southeast Asia	5.72	4.1	6.2	5.1	5.5	5.5
China	5.59	10.0	10.1	10.4	11.1	11.4
Latin America	6.41	1.8	4.6	3.7	4.3	4.5
World	100.00	2.8	4.1	3.5	3.9	3.7

<sup>1</sup> Source: National Statistical Offices, IMF, Oxford Economics and IFO Institute projections.

#### Overview of the global economy

The global economy again saw significant growth in 2007, although less rapid than in the previous year. The world gross domestic product increased at a more moderate rate than in 2006. Promising results for companies and improvements in the employment market on the one hand were offset by higher inflation and the return of sharp increases in oil prices on the other.

In the United States and the European Union (EU), economic expansion was robust. In the EU, there was a particularly marked increase in private consumption in the course of the year, after a period of stagnation in the first quarter, partly caused by the adverse impact of the increase in VAT in Germany.

In the newly industrialised countries, economic development in 2007 remained buoyant. In both China and India, the gross domestic product again rose significantly. In the other countries of East Asia and Latin America, economic growth remained stable.

In the industrialised countries, there were some significant price increases during the year as a result of the rise in the prices of energy and food. In Germany, the increase in VAT also had a negative effect on the inflation rate.

#### Property crisis dampens US economy

In the United States, production in the economy as a whole, after a weak start at the beginning of the year and a strong rise in the two middle quarters, slowed again at the end of the year. Taken over the whole year, gross domestic product increased by 2.2 percent. The key factors here were private consumption, exports, which benefited from the significant loss in value of the US dollar, and the public sector. Investment in house-building,

on the other hand, saw a sharp decline, as a result of the US property crisis. The Federal Reserve reduced its base rate, the Federal Funds Rate, by 225 basis points from September 2006, as a reaction to turmoil in the international financial markets and worsening economic prospects, which significantly eased monetary restrictions.

#### Dynamic economic development in parts of Asia

In China, economic development continued to accelerate in 2007, with growth of 11.4 percent. Private consumption and capital expenditure both increased significantly. Exports too continued to rise, with only a slight strengthening of the yuan.

The other newly-industrialised countries of East Asia also saw dynamic economic trends. The greatest impetus came from private consumption.

#### Robust growth in Latin America

In Latin America, strong growth continued in the year 2007. Overall, the major economies in the region benefited from the significant increase in the price of energy, raw materials and food, as they are net exporters of raw materials and food. Inflation remains high in Latin America as a whole, compared to other regions, although in some countries, such as Brazil, it continues to be curbed by revaluation of the currency.

#### Buoyant economic trends in Europe

Dynamic economic expansion in the eurozone continued in 2007. In the course of the year, the gross domestic product in the eurozone rose 2.6 percent, in the old EU by 2.7 percent and in the EU by 2.9 percent. Private consumption was particularly buoyant against

a background of positive trends in the labour market, and capital expenditure also began to rise again after a short period of stagnation. The foreign trade balance fell slightly, as exports increased at a slower rate than imports.

In the UK, the economic upturn continued unabated in 2007, with gross domestic product increasing by 3.1 percent. Consumption rose significantly as a result of higher disposable income, and capital expenditure also increased appreciably. However, there was a slight fall in the foreign trade balance, as exports did not grow at the same rate as imports. This was true in the whole of the eurozone.

In the new member states of the EU, the gross domestic product increased by around 6 percent in comparison with the previous year. Consumption was especially buoyant in Poland, Slovakia and the Czech Republic. Poland, in particular, saw significant increases in capital expenditure. Exports, on the other hand, levelled off considerably, while some imports rose significantly.

#### Positive economic development in Germany

The gross domestic product in Germany grew in real terms in the course of 2007 at a rate of 2.5 percent. In the first two quarters of 2007, however, economic trends were somewhat weaker, partly as a result of the dampening effect on the economy of the increase in VAT. As in the eurozone as a whole, the greatest impetus in Germany as the year progressed came from the domestic market.

Generally favourable economic trends also had a positive impact on the employment market. In Germany in November, 27.46 million people were employed and subject to social insurance contributions, 545,000 or 2.0 percent more than in the previous year. Unemployment fell sharply again during the year. In December 2007, the number of unemployed stood at 3.406 million, 602,000 lower than the figure in the same month in the previous year.

The cost of living accelerated rapidly in 2007 as a result of the significant increase in VAT, high oil prices and the increase in the price of staple foods. The inflation rate for the whole year was 2.2 percent.

## Sector-specific background

#### Gases industry

The gases industry was again able to benefit in 2007 from overall positive trends in the global economy. The greatest momentum came from growth regions such as Asia, especially China, and Eastern Europe. Further growth was generated by new gases applications and services. There was particularly high demand in all markets throughout the year for liquefied gases and on-site supply of gases.

In the metallurgy (see glossary) and glass industries, the increase in the demand for gases was driven mainly by the dynamic growth in the steel and non-ferrous metal industries. The world steel market grew by around 6 percent in 2007, and the pundits anticipate a similar

rise in the current year. It is estimated that world production of crude steel will increase in 2008 to 1.39 billion tons (2007: 1.32 billion tons).

All in all, globalisation has changed the world market of the steel industry greatly in the past few years. Companies have emerged of a size never seen before. Much of the impetus has come from the Asian countries. In China, for example, the high demand for steel and the continuing consolidation of industry there have had a positive impact on the pricing of basic gases such as oxygen and nitrogen. As a result of this stability and the efforts of the Chinese government to reduce steel exports, other countries such as Brazil, India and Russia have also significantly expanded production in the steel industry.

The global market for products and services in the metal-working industry has also grown in the course of the year. Dynamic trends in this segment were to be seen in particular in South Africa, South America and many Asian countries. The gases industry has benefited from good levels of demand for welding gases and cutting gases, the associated applications engineering and related safety products.

Demand for gases for applications in the food and drinks industry was equally robust. In 2007, this was especially true in the drinks industry in the emerging markets of Asia and Eastern Europe.

In the chemical and energy industries, there was steady growth in demand which was met by new applications engineering solutions, both for the pharmaceutical industry and the paper and cellulose industries and in the renewable energy and environmental protection sectors. There continued to be a high level of demand for hydrogen in 2007 from refineries for the production of low-sulphur fuels. The reason for this trend is the introduction of stricter environmental regulations and the industry's intention to shift the product mix away from low-grade fuels to high-grade petrol and diesel. This trend looks set to continue and is increasingly linked with the outsourcing of hydrogen production from refineries, especially in North America and Europe. This outsourcing creates additional market potential for the gases industry.

Our basic chemicals and speciality products business also proved robust during the year. There are plans to expand production of speciality products, even in the established markets.

In the semiconductor and electronics customer segment, dynamic growth continued in 2007. This trend was mainly the result of high demand for semiconductor products, flat screens and photovoltaic plants. The international gases industry has benefited particularly from the increased demand for high-purity specialty and electronic gases for the production of semiconductors and solar cells, especially in the Asian region, but also in Europe and North America. The new market for thin layer solar cells will offer outstanding opportunities for growth in future.

In the Healthcare business unit, the market for medical gases in hospital care grew during the year by an average figure of around 4 to 5 percent.

The number of patients with respiratory diseases who require care in the home has increased in the past year by around 10 percent. However, the entire homecare market grew by a mere 3 percent. This moderate level of growth is the result of cuts in the amounts reimbursed by medical insurance schemes, as well as strong downward pressure on prices in major markets.

### Plant construction

In 2007, global construction of large-scale plants continued to benefit from very high worldwide demand for raw materials, the rising prices of raw materials and energy, and growing demand for primary products in the major newly industrialised countries: India, China, Russia and Brazil.

In the olefin and polymer plant product area, the continuing development of additional capacity in the Middle East, South America and Russia and the expansion of existing capacity in Europe were the principal responses to increasing demand. These countries which are rich in raw materials have earned substantial foreign exchange revenue in the past few years from the proceeds of their oil and gas exports, which has triggered a capital spending boom.

The air separation plant market also benefited in 2007 from dynamic growth in the newly industrialised countries, especially China and India, and from the stable economic trends in Europe and North America. New applications processes to convert natural gas or coal into diesel, such as Gas-to-Liquids (GTL) and Coal-to-Liquids (CTL), have also improved the market potential for particularly large air separation plants. These processes require very large quantities of oxygen.

As a result of the continuing high demand for natural gas, the market for natural gas separation and liquefaction plants grew substantially in 2007. There has been an acceleration in the development of gas-fields using LNG technology (Liquefied Natural Gas – see glossary), where natural gas is liquefied and transported in tankers, especially in those regions in which the use of pipelines is not viable, either economically or politically. These areas include Northern Europe and the Middle East. Countries with remote areas like Australia provide a market for the smaller LNG plants, with deliveries to consumers being made by truck.

Worldwide demand for hydrogen and synthesis gas also continued to rise in 2007. This trend is the result of increasing legal requirements relating to the purity of fuels. Hydrogen is used in the desulphurisation process. Hydrogen is also increasingly being used in new processes, such as the extraction of oil sand. The growth markets for hydrogen and synthesis gas plants include North America and Europe, as well as the newly industrialised countries, China and India.

## Value-based and operational management

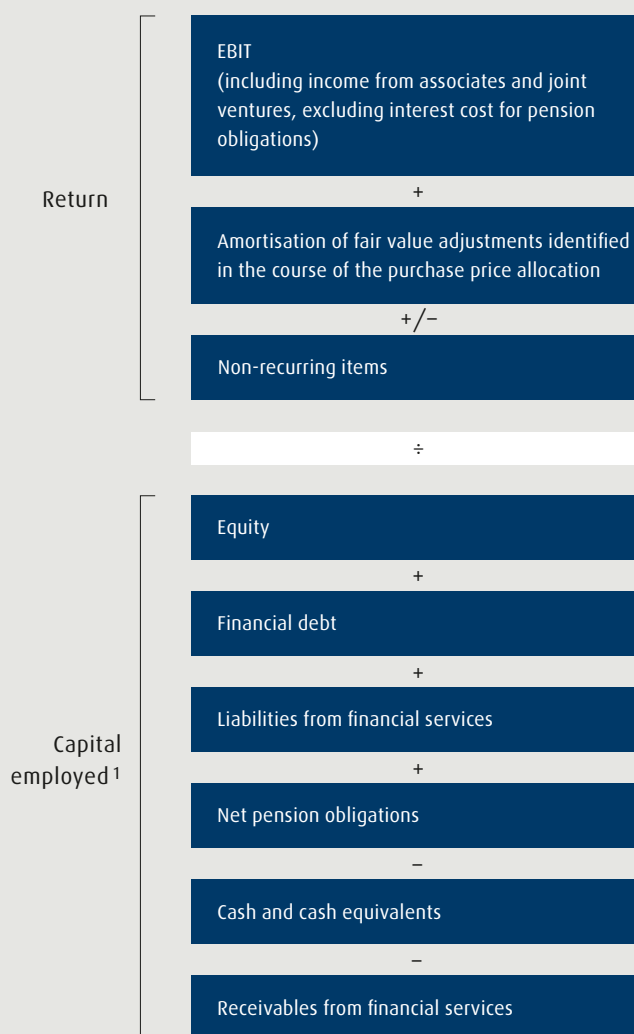
We pursue a corporate strategy of sustainable earnings-based growth, with the aim of achieving a steady increase in corporate value. To measure the medium-term and long-term financial success of this value-based management strategy, we use return on capital employed (ROCE) as our key target.

In the course of the acquisition of the British gases company The BOC Group plc, a transaction completed on 5 September 2006, we redefined ROCE and applied the new definition to the 2006 financial year. The revised definition, which we have also applied to the 2007 financial year, takes account of the various effects of the acquisition on the ROCE performance indicator. On the one hand, capital invested has increased significantly due to the cash used to finance the acquisition. On the other hand, earnings have been adversely affected by the amortisation of fair value adjustments identified in the course of the purchase price allocation. This reduces the return on capital, although the operating performance of the company has not been changed as a result of the identification of fair value adjustments and their amortisation. To ensure that the operating performance of The Linde Group is transparent and disclosed in a way which is comparable to the disclosure of our major competitors, we have eliminated the amortisation of fair value adjustments identified in the course of the BOC purchase price allocation from our ROCE calculation.

To achieve sustainable and successful growth in The Linde Group, we work together with some customers on the basis of joint venture business models. So that the current joint ventures, which form a major operational component of the Gases Division, are included in the management ratios and performance indicators, we have added our share of the income from associates and joint ventures, based on the respective earnings after taxes on income, to the figure for EBIT in the new ROCE calculation.

The revised calculation of the key target ROCE for The Linde Group can be summarised as follows:

### Definition of ROCE



<sup>1</sup> Each calculated on the basis of the average of the figures at the balance sheet date for the current year and previous year.

Based on this definition, ROCE at Group level in the 2007 financial year was 10.3 percent (2006: 11.4 percent). This means that we have achieved our target of a return on capital employed of over 10 percent one year earlier than expected. The slight decrease compared with the prior year is due to the increase in average capital employed.

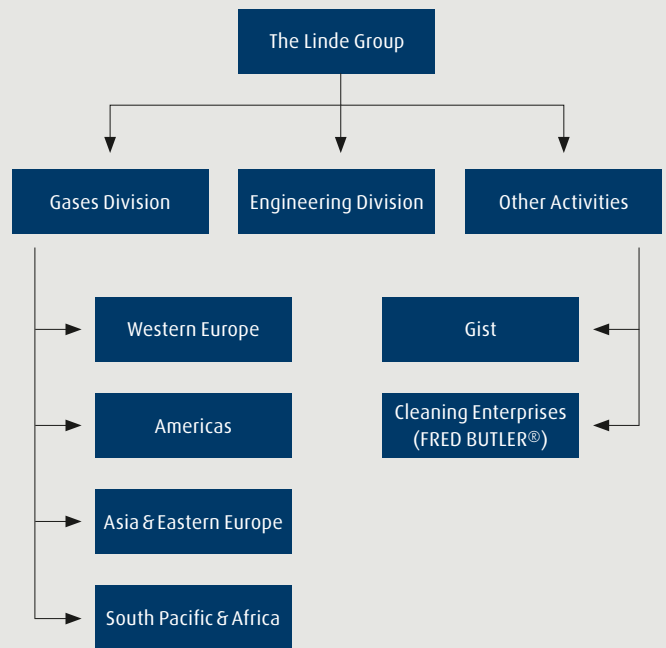
To manage our operating business and indicate our performance, we use not only ROCE as a management tool, but also other key figures such as free cash flow, operating earnings before interest, tax, depreciation and amortisation (EBITDA, operating earnings – see glossary), operating earnings before interest and tax (EBIT) and earnings per share (EPS). We adjust both EBIT and EPS for the amortisation of the fair value adjustments identified in the course of the purchase price allocation. A reconciliation between the reported figures for EBIT and EPS and the adjusted figures is included in the Notes to the Group financial statements. The calculation of the variable remuneration of our management is also based on these figures.

On the acquisition of The BOC Group plc, we redesigned our organisational structure to reflect our global outlook. The Group now consists of the Gases Division, the Engineering Division and Other Activities. In the Gases Division, we have linked responsibilities even more closely with local value creation. Therefore, in the new organisational model, which came into effect on 1 January 2007, the managers in the nine Regional Business Units (RBUs) within the four operating segments, Western Europe, Americas, Asia & Eastern Europe and South Pacific & Africa, will assume responsibility for the operating results and medium-term performance of the product areas. This structure means that we take into account the importance of local and regional market conditions in the gases business.

Responsibility for the Tonnage (on-site) and Healthcare (medical gases) businesses is also assumed by a global centralised function. In the on-site business, this enables us to take the international orientation of our major customers into consideration. In the Healthcare business, the additional centralisation allows us to respond more accurately and systematically to the specific requirements of this increasingly regulated sector.

When we reflect this operating model in the allocation of responsibilities on the Executive Board of the Group, we ensure that the respective strengths and skills of the Board-members are effectively exploited at both regional and product levels.

## Organisational structure



Organisational structure of the new Linde Group. The Group consists of the Gases Division, the Engineering Division and Other Activities. Within the Gases Division, there are four operating segments: Western Europe, Americas, Asia & Eastern Europe and South Pacific & Africa. Other Activities comprises Gist, our logistics services business, and our subsidiary Cleaning Enterprises (environmentally friendly dry-cleaning under the brand name FRED BUTLER®).

## The Linde Group

Following the acquisition of The BOC Group in September 2006, we completed our transformation in the course of the 2007 financial year into a focused world-leading gases and plant construction group. We have fulfilled the conditions imposed by the competition authorities on the acquisition of The BOC Group and we have effected the relevant sales with due haste and efficiency.

To ensure comparability of our business trends, we have adjusted the prior year figures for sales and operating profit (EBITDA) to reflect the new Group structure. The prior year figures therefore include The BOC Group's operations for the full twelve-month period, while KION, the forklift truck division sold in 2006, the BOC Edwards components business and the other companies and other assets sold as a result of The BOC Group transaction have been excluded from the figures.

On this basis, Group sales increased in the 2007 financial year compared with the previous year by 13.9 percent to EUR 12.306 bn (2006: EUR 10.803 bn). The Linde Group's participation in joint ventures gave rise to sales of EUR 745 m in proportion to its interest, which are not included in Group sales in accordance with our accounting rules.

### Results of operations

We increased our profitability still further in the financial year, with Group operating profit (EBITDA) growing at an even faster rate than sales by 18.1 percent to EUR 2.424 bn (2006: EUR 2.053 bn).

The prior year figures in the Group income statement relate to the continuing operations of The Linde Group. In other words, KION and the BOC Edwards components business have been excluded from the figures and the remaining BOC companies have been included with effect from September 2006. Included in the figures for the 2007 financial year are the earnings of those companies which we have sold as a result of the conditions imposed by the competition authorities on The BOC Group acquisition which relate to the period before the companies were sold.

Earnings before taxes on income (EBT) were EUR 1.375 bn, almost four times the comparable figure for the previous year of EUR 363 m. Earnings after tax showed a corresponding increase from EUR 219 m to EUR 996 m. A number of non-recurring items should be taken into account here. On the one hand, EBT and earnings after tax were positively affected by the book profit of EUR 607 m on the sale of businesses, while on the other hand they were reduced by the additional amortisation of EUR 446 m relating to the purchase price allocation on The BOC Group acquisition. The prior year figures were also adversely affected by transformation costs of EUR 198 m.

Earnings per share decreased from EUR 13.30 to EUR 5.87. After adjusting for the amortisation of the fair value adjustments identified in the course of the purchase price allocation and for other non-recurring items, earnings per share rose from EUR 4.66 to EUR 5.02.

The income statement prepared using the cost of sales method shows that The Linde Group made a gross profit of EUR 4.030 bn in the 2007 financial year (2006: EUR 2.721 bn) after deducting cost of sales.

The income tax rate fell from 39.7 percent in 2006 to 27.6 percent in 2007.

The net financial result (financial income less financial expenses) was a loss of EUR 377 m, a greater loss than in 2006 (net financial loss of EUR 242 m) as a result of the financing costs of the BOC acquisition relating to the whole year.

## Results of operations

	2007		2006 <sup>1</sup>	
	in € million	in %	in € million	in %
Sales	12,306	100.0	8,113	100.0
Cost of sales	8,276	67.3	5,392	66.5
Gross profit	4,030	32.7	2,721	33.5
Marketing and selling expenses	1,830	14.9	1,243	15.3
Research and development costs	97	0.8	92	1.1
Administration expenses	1,108	9.0	709	8.7
Other operating income	208	1.7	193	2.4
Other operating expenses	131	1.1	98	1.2
Income from associates	73	0.6	31	0.4
Non-recurring items	607	4.9	-198	-
Financial result	-377	-3.1	-242	-3.0
Earnings before taxes on income (EBT)	1,375	11.2	363	4.5
Taxes on income	379	3.1	144	1.8
Earnings after tax from continuing operations	996	8.1	219	2.7
Earnings after tax from discontinued operations	17	0.1	1,637	20.2
Earnings after taxes – Group	1,013	8.2	1,856	22.9
Attributable to minority interests	61	0.5	18	0.2
Attributable to Linde AG shareholders	952	7.7	1,838	22.7

<sup>1</sup> Continuing operations of The Linde Group, i.e. excluding KION and BOC Edwards Equipment. Other BOC companies included for four months from September 2006.

## Sales and operating profit by business segment

in € million	2007		2006 <sup>2</sup>	
	Sales	Operating profit	Sales	Operating profit
Gases Division	9,209	2,314	8,421	2,035
Engineering Division	2,750	240	1,958	172
Other activities including reconciliation	347	-130	424	-154
<b>Group</b>	<b>12,306</b>	<b>2,424</b>	<b>10,803</b>	<b>2,053</b>

<sup>2</sup> Prior year figures including twelve months of BOC.

## Gases Division

During the financial year, the Gases Division achieved sales growth of 9.4 percent to EUR 9.209 bn (2006: EUR 8.421 bn) in a seamless continuation of the positive trend from the prior year. After adjusting for exchange rate effects and changes in the price of natural gas the increase in sales was 12.1 percent. If adjustments are also made for changes in the structure of the Group and acquisitions we have made in order to strengthen our position, especially in the growth market of Asia, the increase in sales on a comparable basis was 7.2 percent. Sales in proportion to the Gases Division's interest in joint ventures, which are not included in Group sales, amounted to EUR 745 m in 2007.

Operating profit again increased at a faster rate than sales, with a rise of 13.7 percent to EUR 2.314 bn (2006: EUR 2.035 bn).

All the product areas and geographical regions contributed to this positive business performance.

### Gases Division

in € million	2007	2006 <sup>1</sup>
Sales	9,209	8,421
Operating profit	2,314	2,035
Capital expenditure (excluding financial assets) <sup>2</sup>	1,062	808
Number of employees	39,577	39,142
Sales from joint ventures	745	831

<sup>1</sup> Prior year figures including twelve months of BOC.

<sup>2</sup> Continuing operations of The Linde Group: i.e. excluding KION and BOC Edwards Equipment. Other BOC companies included for the four months from September 2006.

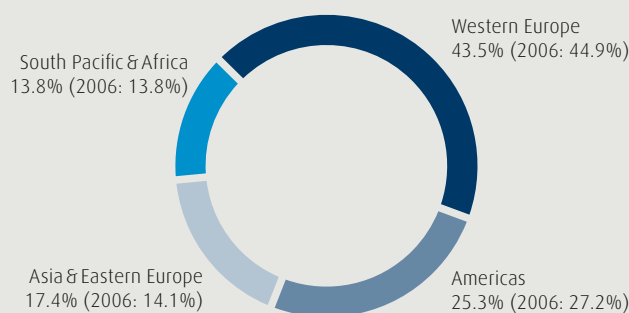
### Western Europe

In the Western Europe operating segment, sales increased by 5.6 percent to EUR 4.026 bn (2006: EUR 3.811 bn). On a comparable basis, i.e. after adjusting for exchange rate effects, changes in the price of natural gas and changes in Group structure, sales rose 5.1 percent. Sales in proportion to the Gases Division's interest in joint ventures

in this segment amounted to EUR 6 m (2006: EUR 0 m). Operating profit rose 5.8 percent to EUR 1.097 bn (2006: EUR 1.037 bn). The Western Europe operating segment generates the highest level of sales in The Linde Group. We have benefited from the good economic situation in Central Europe, which has led to high demand for industrial gases.

The share of total sales in Western Europe generated by the Regional Business Unit (RBU) Continental & Northern Europe was EUR 3.029 bn (2006: EUR 2.832 bn). This represents an increase in sales of 7.0 percent. The RBU UK & Ireland achieved sales growth of 3.1 percent to EUR 1.158 bn (2006: EUR 1.123 bn).

### Gases Division: Sales by operating segment (in percent)



In Germany during the financial year we continued to expand our largest gases production site in Leuna and in September 2007 a hydrogen liquefaction plant was officially inaugurated. The plant is the second plant of its type in Germany and has a production capacity of around 3,000 litres of LH<sub>2</sub> per hour. Production also began at a new air separation plant in Leuna, which has a capacity of 33,000 standard cubic metres per hour (scmh) of gaseous oxygen. The total additional capital investment was around EUR 52 m. These new plants improve our readiness to deliver and enable us to offer our customers a broader product range and enhanced product purity. Given the increasing use of hydrogen as a fuel for road transport, the hydrogen liquefaction plant is also a valuable investment in the future.

### Gases Division: Sales and operating profit by operating segment

in € million	2007 Sales	Operating profit	Margin	2006 <sup>1</sup> Sales	Operating profit	Margin
Western Europe	4,026	1,097	27.2%	3,811	1,037	27.2%
Americas	2,348	447	19.0%	2,306	403	17.5%
Asia & Eastern Europe	1,618	467	28.9%	1,199	313	26.1%
South Pacific & Africa	1,284	303	23.6%	1,169	282	24.1%
Consolidation	-67	-	-	-64	-	-

<sup>1</sup> Prior year figures including twelve months of BOC.



In 2007, we entered into a new on-site supply contract with our long-standing customer ArcelorBremen GmbH. Under the agreement, we will build a new air separation plant at the Bremen site in Germany, investing around EUR 50 m. Once the new plant comes on stream, which is scheduled for April 2010, it will replace one of the older air separation plants there and supply the customer's steelworks with up to 26,000 standard cubic metres per hour of gaseous oxygen and 23,000 standard cubic metres per hour of nitrogen by pipeline. The plant will also produce liquefied nitrogen (which can be used as a reserve for Arcelor), liquefied oxygen and argon for the local market. ArcelorBremen GmbH is part of the Mittal Group, the largest steel producer in the world, which will require greater quantities of gases from 2010 due to expanding production.

In September, we brought a new nitrogen liquefaction plant on stream at the Werk Gendorf industrial park in Germany, an investment of around EUR 15 m. An air separation plant for the production of oxygen was already in operation on the site, a by-product of which was gaseous nitrogen which had until now remained unused. The nitrogen liquefaction plant turns 13,000 standard cubic metres per hour of gaseous nitrogen into 12,100 cubic metres of liquefied nitrogen. The fully automatic plant operates 24/7, producing around 390 tons per day. This plant will enable us to improve the supply of nitrogen in Southern Germany, which is vital for many industry sectors, and will improve the productivity of the Bavarian Chemical Triangle around Burghausen an der Salzach.

In the UK, we have underpinned our market leadership in the gases business with several major capital projects. We are investing around EUR 80 m, for example, in the construction of a new air separation plant for our biggest customer in this region, the steel producer Corus, which belongs to the Indian Tata Group, at its Scunthorpe site. The plant will have a capacity of 1,600 tons per day and will supply the customer with additional quantities of oxygen and nitrogen for use in steel production. The contract also involves the modernisation of an existing air separation plant and the significant expansion of the existing pipeline system we use to supply the steelworks with air gases. The new plant should come on stream in the middle of 2010. The project will ensure our long-term co-operation with this major customer.

In 2007, we also improved our production and distribution infrastructure in the UK. In Glasgow, Scotland, we opened an ultra-modern gas filling plant in June, which replaces the previous plant in Polmadie. This is the first new gas filling station to be built by our subsidiary BOC in Scotland for 50 years. The EUR 22 m investment

will enable us to supply cylinder gases to around 18,000 Scottish customers as efficiently and safely as possible. In summer 2007, we brought the largest helium filling plant in the UK on stream at Thame. The new plant involved capital outlay of some EUR 13 m and replaces an old helium plant in Leeds. By using the most up-to-date technology, the new plant is able to operate much more effectively and it has been instrumental in reinforcing our position in the British helium market and ensuring that we are even better at meeting our customers' requirements.

We have entered into a long-term supply agreement with the Austrian steel producer voestalpine to deliver industrial gases to its Linz production site. The relevant contract, which involves the construction of an additional on-site air separation plant, was signed in September 2007. The amount being invested is over EUR 60 m. This contract will extend and supplement existing supply agreements. The new air separation plant is due to come on stream in January 2010. It will supply the voestalpine steelworks in Linz by pipeline with up to 30,000 standard cubic metres each of gaseous oxygen and nitrogen per hour. The plant is also expected to produce liquefied oxygen, nitrogen and argon, as well as smaller quantities of krypton and xenon for the open market.

In Scandinavia, our Gases Division is involved in a particularly forward-looking project. Our Swedish subsidiary AGA Gas AB will take 50,000 tons of liquefied natural gas (LNG) per annum from a natural gas liquefaction plant being built by our Engineering Division for Skangass AS near Stavanger in Norway, which is due for completion in 2010. It will then distribute the LNG itself. This project marks Linde's entry into the promising energy market and LNG trade, and is a prime example of successful close cooperation between our engineering operations and our gases business.

During the financial year, we brought a new air separation plant on stream for our customer Valmiera Glass Fiber in Valmiera, Latvia. This plant supplies the only glass fibre manufacturer in Latvia with gaseous oxygen, and also produces liquefied oxygen and nitrogen for the local Baltic market.

Based on capital outlay, Linde was responsible for the completion in Western Europe of almost one third of all the ECOVAR® projects in the world in 2007. These projects supply customers with high gas requirements, such as those in the semiconductor and glass industries, from standard on-site plants. Conergy AG, Europe's leading solar company, commissioned us to install an ECOVAR® plant (MiniGAN 2300) in Frankfurt an der Oder in Germany to produce up to 2,600 standard cubic metres per hour of gaseous

nitrogen. Conergy requires the nitrogen to manufacture solar cells and modules. The photovoltaic industry is a promising market with tremendous growth potential.

Our customer Knauf Insulation in France also awarded us the contract to supply an ADSOSS-0®-1680 plant for the production of gaseous oxygen to fire a glass furnace with oxyfuel technology at its Lannemezan site. The plant is due to come on stream at the beginning of 2009.

## Americas

In North and South America, our gases business also continued to grow in 2007. Our sales in this operating segment rose to EUR 2.348 bn (2006: EUR 2.306 bn). This represents an increase of 1.8 percent. On a comparable basis, we achieved an increase in sales of 6.6 percent. Sales in proportion to the Gases Division's interest in American joint ventures amounted to EUR 158 m (2006: EUR 262 m). Operating profit rose 10.9 percent to EUR 447 m (2006: EUR 403 m). All the product areas achieved sales growth.

The Gases Division in the RBU North America, which was adversely affected by the weak US dollar, achieved sales growth of 1.3 percent to EUR 1.893 bn (2006: EUR 1.869 bn). On a comparable basis the increase was 6.6 percent. The RBU South America achieved an increase in sales of 13.6 percent to EUR 508 m (2006: EUR 447 m).

In the United States, we completed several new air separation plants and hydrogen plants during the year and obtained new orders from various customers for on-site supply. In Cartersville, Georgia, a new air separation plant with a capacity of 800 tons of oxygen and nitrogen per day came on stream, while in Bethlehem, Pennsylvania, a nitrogen liquefaction plant with a capacity of 575 tons per day started production. The two plants will supply gases to customers in the food, metal and chemical industries and to health services in the south-east, mid-west and north-east of the United States.

In Columbus, Mississippi, we have been supplying nitrogen and oxygen since August 2007 to the steelworks of our customer SeverCorr LLC from a new air separation plant. The new plant also produces liquefied gases which are kept in reserve for the customer and also used to supply the local market. SeverCorr is currently planning to expand its steelworks in Columbus, with a second arc furnace for the manufacture of steel products for the automobile industry. In order to supply the additional quantities of gaseous oxygen that will be required to do this, there are plans to

build a second air separation plant with a capacity of around 10,000 standard cubic metres of gaseous oxygen per hour. The plant, which involves an investment of more than EUR 30 m, will be built directly adjacent to the existing air separation plant and will be completed by the end of 2009.

In Jackson, Tennessee, we constructed an ECOVAR® on-site plant (ICO 5000) in 2007 for the glass manufacturer Owens Corning, which has global operations. From this plant, we supply the customer with up to 4,500 standard cubic metres of gaseous oxygen per hour for the production of insulation materials based on glass fibres. Owens Corning has been a customer for a number of years. The new ECOVAR® plant was needed because the customer had converted a second glass furnace at its Jackson site to oxyfuel. Using pure oxygen to fire the furnaces instead of air improves efficiency and reduces environmental emissions.

The use of hydrogen to produce purer and more environmentally friendly petroleum and diesel fuel is also gaining in importance, given ever-increasing government requirements for environmental protection in the US. In the 2007 financial year, we brought a hydrogen production plant on stream in Salt Lake City, Utah, to supply Chevron, Holly and other local refineries. The plant has a capacity of around 27,000 standard cubic metres per hour. In Mobile, Alabama, a hydrogen plant with a capacity of just under 11,000 standard cubic metres per hour started production to supply the Shell refinery. In each case, the hydrogen is used in the desulphurisation of fuels.

We have entered into a contract with CITGO Petroleum Corporation to construct and operate a second large hydrogen plant at its refinery site in Lemont, Illinois, with a production capacity of around 50,000 standard cubic metres per hour. Linde has been operating a smaller on-site plant with a hydrogen capacity of around 16,000 standard cubic metres per hour for the customer in Lemont since 2003. The refinery requires large quantities of hydrogen so that it can process the highly sulphurous (acidic) crude oil from Canadian oil sands.

Our carbon dioxide business in North America is also expanding. Linde is already the supplier with the most extensive CO<sub>2</sub> supply network in the United States. In 2007, we took steps to develop this CO<sub>2</sub> production and distribution infrastructure even further. We therefore pressed ahead with the construction of a new carbon dioxide plant in Fulton, New York. The plant, which has a carbon dioxide capacity of 600 tons per day will probably come on stream in the first quarter of 2008 and will then supply customers in the food, drinks and chemical industries in the north-east of the US. In order to increase our distribution capacity in that part of the country, we also opened a new carbon dioxide depot in autumn 2007 in Attle-

boro, Massachusetts. The storage plant will become a vital centre for the delivery of CO<sub>2</sub> from the Fulton plant to our industrial customers.

In South America, we have also set up projects to improve the security of supply of air gases to our customers and to the regional market in the north of the continent. In Cartagena, Colombia, we are going to build a large new air separation plant, which will replace the existing plant which is 37 years old. We will be investing over EUR 20 m in the new plant. On its completion in the middle of 2009, the plant will produce 2,500 standard cubic metres per hour (scmh) of liquefied oxygen, 3,000 scmh of liquefied nitrogen and 95 scmh of liquefied argon for the open market in northern Colombia.

The plant will also enable us to supply up to 4,000 scmh of gaseous nitrogen for the production of the plastic propylene to our largest pipeline customer in Colombia, the petrochemical company Propilco, at its Cartagena site. The new air separation plant will enable us to meet the increasing gases requirements of our customers and of the local market in the northern part of Colombia and to reinforce our leading position in this region.

## Asia & Eastern Europe

In the Asia & Eastern Europe operating segment, with its dynamic growth markets, we achieved double-digit growth in sales of 34.9 percent to EUR 1.618 bn (2006: EUR 1.199 bn). On a comparable basis, the increase in sales was 9.1 percent. Sales in proportion to the Gases Division's interest in joint ventures in Asia & Eastern Europe amounted to EUR 336 m (2006: EUR 364 m). There was also a substantial increase in operating profit, which rose 49.2 percent during the financial year to EUR 467 m (2006: EUR 313 m).

In the RBU Eastern Europe & Middle East, where the gases market continued to be characterised in 2007 by a significant upsurge in demand, we achieved sales growth of 18.4 percent to EUR 715 m (2006: EUR 604 m). Most of this growth was generated by the metal production and processing industries and by the chemical industry.

The RBU Greater China achieved sales of EUR 328 m, almost tripling the prior year figure of EUR 116 m. In the RBU South & East Asia, sales rose 17.1 percent to EUR 657 m (2006: EUR 561 m). Dynamic growth continued to be seen not only in China, but also in Thailand and South Korea as a result of production start-ups. In Malaysia, following our acquisition of a 100 percent holding in Malaysian Oxygen Berhad (MOX), we withdrew the company from the stock market and integrated it into our regional gases organisation. This means that Linde is now the market leader in this attractive growth market.

During the financial year, we intensified our cooperation with the leading Hungarian chemical company BorsodChem Zrt. to supply industrial gases to BorsodChem's principal site in Kazincbarcika, Hungary. Linde and BorsodChem are planning to enter into a long-term supply contract for additional quantities of around 12,000 standard cubic metres per hour of carbon monoxide and 29,000 standard cubic metres per hour of hydrogen to expand the company's isocyanate production. To achieve this, a third hydrogen plant (HyCO) will be built on the site, which is due to come on stream in summer 2009. The contract involves new investment of around EUR 100 m. We are currently operating two HyCO plants and one air separation plant in Kazincbarcika. This will make this site into one of Linde's five most important production facilities in the world for hydrogen and carbon monoxide. Isocyanate is a base material for polyurethane (PU, see glossary), a versatile polymer which is used increasingly, for instance, in the manufacture of cars, aeroplanes, electronic goods, furniture and household appliances.

To enable us to respond more effectively to the rising demand for gases in the regional markets of Eastern Europe, we took appropriate measures in 2007. We are planning therefore to build a new air separation plant in the next two years in the Special Economic Zone near Wroclaw (Breslau), in south-western Poland. This plant will have a total capacity of 600 tons of oxygen, nitrogen and argon, and will supply customers in the regional market in Poland, the Czech Republic, Germany and Slovakia. In October 2007, we brought a new air separation plant on stream in Bulgaria. The plant in the south of the country has a production capacity of 60 tons per day and will supply air gases to customers in Bulgaria and in neighbouring countries. Our investment in these two plants will continue to reinforce our market position in a region which is experiencing dynamic growth.

We have also significantly improved our position in the Russian market. In January 2007, we acquired the Russian company SaKiZ (ZAO Samarsky Oxygen Plant), a regional supplier of industrial gases, based in Samara in southern Russia. SaKiZ, which has more than 200 employees, produces and distributes air gases (nitrogen, oxygen, carbon dioxide, helium and argon) in both gaseous and liquefied form. SaKiZ is the market leader in the fast-growing economy of the Volga region.

Furthermore, we entered into an agreement in May 2007 with URALTECHGAS (UTG), the leading gases company in the central Ural region, based in Ekaterinburg, whereby Linde would gradually acquire a majority shareholding in this company. The joint venture will purchase liquefied gas products to supply to its customers in

the neighbouring Berezowsky, where Linde is currently constructing an air separation plant for on-site supply to a steelworks in the Maksi Group. Both acquisitions in Russia are important elements of our future growth in the emerging markets of Eastern Europe.

In April 2007, we acquired the Turkish industrial gases company Birlesik Oksijen Sanayi A. S. (BOS), a company in the Koc Group at an enterprise value of around EUR 92 m. BOS, an industrial and specialty gases business, achieved sales of EUR 19 m in the 2007 financial year with around 190 employees. The acquisition of BOS is Linde's second largest transaction in Turkey, second only to our acquisition of Karbogaz A. S. in July 2006. By the end of 2007, we had completed the integration of both these companies into our Group company Linde Gas Turkey and had started to benefit from the resulting synergies. This acquisition completes our product range in the strategically important Turkish market and reinforces our position as a supplier to neighbouring markets in the Middle East.

The Middle East region is becoming increasingly important to the Gases Division, after the Engineering Division's many years of success in plant construction in the area. In 2007, we set up a joint venture with the state-owned oil group The Abu Dhabi National Oil Corporation (ADNOC), United Arab Emirates, for the long-term supply of industrial gases to customers in Abu Dhabi. The new joint venture ADNOC Linde Industrial Gases Company Ltd will trade under the name Elixir and is a logical extension of the previous collaboration between our Engineering Division and ADNOC in the petrochemical industry. The joint venture is of major strategic importance to us, as ADNOC has access to around 90 percent of the oil and gas reserves in Abu Dhabi, the fourth largest reserves in the world. In the first phase of the joint venture, Elixir will build an air separation plant in the Ruwais industrial zone, Abu Dhabi, for around USD 65 m. The new plant is due to supply nitrogen to industrial customers in Ruwais from the end of 2009 and will also produce liquefied nitrogen and oxygen. The huge natural gas fields in the United Arab Emirates will be developed by ADNOC both onshore and offshore, and exported in the form of liquefied natural gas (LNG) or used to supply local energy and various industries.

With the construction of several gas production plants and numerous major new contracts for on-site gas supply, we have continued to be successful in the past financial year, benefiting from dynamic economic growth in the emerging nations of Asia. In December, we signed a long-term supply contract with Ningbo

Wanhua Polyurethane Co. Ltd, one of the fastest-growing polyurethane manufacturers in China. From 2010, Linde will supply oxygen and nitrogen to the major Wanhua plants in Ningbo, China. This collaboration involves capital outlay of some EUR 90 m, which is the largest single amount Linde has invested in China to date. Linde Gas Ningbo, a fully-owned Linde subsidiary, will build two air separation plants, each with a capacity of 1,300 tons per day (tpd), as well as a new 30-kilometre pipeline. The plant will supply gases to both Wanhua and Ningbo Steel. It will also produce 800 tons per day of liquefied nitrogen and oxygen, as well as the noble gases krypton and xenon for the open market. Our investment in this project underlines Linde's long-term commitment to China and is a good example of how Linde can contribute to the growth of important industry sectors in China. We are able to benefit from our wide-ranging technical competence in gases production and supply on the one hand and plant construction on the other. When the new plant comes on stream in 2010, Linde Gas Ningbo is expected to become the largest cluster for air gases in China.

Ningbo Wanhua was established in 2005 and is the only Chinese company which has the technical know-how for the production of MDI (diphenylmethanediisocyanate). MDI is required to manufacture polyurethane, which is used in the construction and automobile industries and also in large quantities in the production of dyes and shoes. China is currently becoming one of the most important markets for MDI, after North America and Europe.

In 2007, we also brought two air separation plants on stream in Ningbo, each with a capacity of 21,000 standard cubic metres per hour of nitrogen and oxygen to supply the steelworks of Ningbo Jianlong Steel. The total investment was around EUR 50 m. Under a new supply agreement, we are also supplying nitrogen and hydrogen to several companies in the Formosa Group within the multi-product chemical complex in Beilun, Ningbo.

Moreover, we completed other air separation plants in 2007 in China, including two plants each with a capacity of 40,000 scm/h for Masteel and Shanghai Petrochemical Co. Ltd. Both plants supply our customers with nitrogen and oxygen, and we also produce liquefied products for the regional market.

Photovoltaics is a relatively young and promising market in renewable energy production with great growth potential. Many of the production facilities in this field are in Asia. We have the competence required in gases technology to provide a reliable ser-

vice in this demanding customer segment. We are building an on-site nitrogen generator, for example, for Jiangsu Linyang Solarfun Co. Ltd in Qidong, China. The customer requires the gas in a highly pure form to manufacture crystalline solar cells and modules.

One of the leading computer chip manufacturers in the world awarded us the contract to supply high-purity nitrogen, oxygen, hydrogen, helium and argon to the site of a proposed production facility for microprocessors in Dalian, North China. We therefore plan to build a new gases production plant in close proximity to the customer, which is due to come on stream at the beginning of 2009.

We are currently building a new air separation plant in the Hsinchu Science Park in Taiwan to supply high-purity oxygen and nitrogen to several customers in the electronics industry. The plant, which involves an investment of around EUR 28 m, is expected to come on stream in spring 2009.

In India, we have developed our production infrastructure for cylinder gases by constructing two new filling plants in Bhiwadi, Rajasthan, and Hyderabad in Southern India, which has improved our supply of industrial and medical gases to our customers there.

Our Group company Malaysian Oxygen Berhad (MOX) was awarded a major contract by the glass manufacturer Nippon Electric Glass Malaysia (NEGM) to supply oxygen for the glassworks in Shah Alam, Malaysia. NEGM, a subsidiary of NEG Japan, operates eight glass furnaces, seven of which are fired with oxyfuel. The customer requires large quantities of oxygen for this process. To meet the customer's requirements, we brought a new oxygen plant on stream in October 2007 with a capacity of 170 tons per day. NEG is MOX's largest on-site customer for oxygen.

In the Philippines, our Group company Southern Industrial Gases (SIG) is to invest EUR 14 m in the construction of a new air separation plant in Cebu City with a total daily capacity of 65 tons of liquefied oxygen, liquefied nitrogen and liquefied argon. The plant will be the first source of liquefied gases for SIG in the south of the Philippines and will supply mainly oxygen to our major customer there, the Japanese shipbuilder Tsuneishi Heavy Industries. This plant will also supply other customers in the electronics and manufacturing industries and in the health service. The new plant underlines our leading position in the gases market in the southern Philippines and will ensure continuing improvements in production efficiency and security of supply in this region.

## South Pacific & Africa

In the South Pacific & Africa operating segment, we increased sales in the financial year to EUR 1.284 bn (2006: EUR 1.169 bn). This represents sales growth of 9.8 percent. On a comparable basis, the increase in sales was 13.3 percent. Sales in proportion to the Gases Division's interest in joint ventures in the South Pacific & Africa region amounted to EUR 245 m (2006: EUR 205 m). We achieved an increase in operating profit of 7.4 percent to EUR 303 m (2006: EUR 282 m).

In the RBU South Pacific, sales rose in 2007 by 11.0 percent to EUR 755 m (2006: EUR 680 m). In the RBU Africa, the Gases Division achieved an increase in sales of 5.4 percent to EUR 528 m (2006: EUR 501 m), although this figure was significantly affected by adverse exchange rate movements. After adjusting for exchange rate effects, the increase in sales was 17.0 percent.

We are the leading supplier of gases in both the South Pacific and in Sub-Saharan Africa and we continued in 2007 to reinforce our market position in both areas with new investment and major contracts.

In Australia in 2007, we started to make preparations for the construction of a helium production and liquefaction plant in Darwin in the Northern Territory. These included signing a long-term agreement with the consortium Darwin LNG Pty. Ltd for the purchase of feed gas from its LNG plant in Darwin. The noble gas is extracted from the natural gas stream, around 3 percent of which is helium. The new helium plant is being built by our Swiss subsidiary Linde Kryotechnik AG directly adjacent to Darwin LNG. The amount invested is around USD 30 m. When it comes on stream in summer 2009, the plant will produce 750 tons of high-purity liquefied helium per annum. A third of this amount is destined for the Australian market, while two-thirds will be exported and used to supply customers in the Asia/Pacific region to meet rising demand.

This plant will enable us to improve the security of supply of helium significantly. With our own source in Australia and access to sources in Qatar and Algeria, we are less vulnerable to helium shortages in the world market. Helium is used in a large number of applications, e.g. to cool superconductive coils in magnetic resonance imaging (MRI), in metal welding and in the manufacture of semiconductors, electronic components and flat screens.

During the financial year, we also acquired parts of Shell's LPG (liquefied petroleum gas) business in New Zealand and an 18.75

percent shareholding in the company Liquigas, the sole supplier of sea-fed terminal facilities. These facilities make it possible to import LPG and distribute it locally throughout New Zealand. This recent acquisition gives us access to growth potential of around 8 percent a year in the LPG market in New Zealand and increases our market share from 4 to 20 percent.

The LPG market is a global growth market. We already have a successful presence in this segment in countries such as Australia, South Africa and Taiwan.

In Africa, we continued with the capital spending programme we began in the 2006 financial year, thereby reinforcing the positive trends in our Group company Afrox. During the 2007 financial year, we invested a total of some EUR 60 m in the expansion of our production plants and in the modernisation of our tank truck fleet. We also brought three new air separation plants on stream in South Africa and took out a five-year lease on a strategically important liquefied petroleum gas storage plant with a capacity of 3,600 tons of LPG.

To meet the ever-increasing demand for welding gases in Africa, we continued with the renovation of our gases centre in Germiston near Johannesburg in South Africa as planned. Around half of our industrial cylinder gases in Africa originate from the Germiston site. In 2007, we also continued with the modernisation of our infrastructure for the production of welding consumables. This modernisation will enable us to double the capacity of our factory in Brits in the North West Province of South Africa, the largest plant for the production of welding materials in the southern hemisphere.

In the South African province of KwaZulu-Natal, we were awarded a major contract by paper and cellulose manufacturer Sappi Saiccor for the supply of industrial gases and welding and safety products. The order relates to the expansion of the biggest cellulose factory in the world, which is operated by the customer in KwaZulu-Natal. We also supply gases and welding and safety products to the cement manufacturer PPC (Pretoria Portland Cement) for the development of its site in Dwaalboom in the Limpopo Province of South Africa.

As the market leader for industrial and medical gases as well as for welding and safety products in Sub-Saharan Africa, and the leading supplier of gases in virtually all industrial sectors in South Africa, we are well-placed to benefit economically from the FIFA World Cup to be held in 2010 in South Africa and from the major investment which will be associated with it.

## Growth in our product areas

We also saw positive trends during the financial year in the individual product areas. The on-site business, where we supply industrial gases to the customer from plants situated directly on the user's site, achieved 5.0 percent growth in sales to EUR 2.111 bn in 2007 (2006: EUR 2.011 bn).

Sales of liquefied gases increased by 9.1 percent to EUR 2.821 bn (2006: EUR 2.586 bn). Sales of cylinder gases and related products rose 12.1 percent to EUR 3.666 bn (2006: EUR 3.269 bn).

Our Global Business Unit Healthcare, or medical gases business, is becoming increasingly important for Linde. Once again, there was growth in sales, of 11.3 percent to EUR 983 m (2006: EUR 883 m).

In our Healthcare business, we distinguish between Hospital Care (supplying medical gases and equipment to hospitals) and Homecare (providing care for patients in settings other than hospitals). In 2007, we transferred our subsidiary INO Therapeutics LLC, USA (which markets INOmax® for the treatment of term and near-term neonates with certain pulmonary disorders), into the investment company Ikarria Holdings Inc., in which we have a 17 percent shareholding. Our INO business in Europe, which continues to achieve sales growth, remains in our Hospital Care segment. In future, Linde will also supply the product INOmax® on behalf of INO Therapeutics LLC to numerous countries outside the United States and Europe.

Sales in the Hospital Care segment rose 9.5 percent to EUR 683 m (2006: EUR 624 m). Our medical oxygen, which we supply under the brand name CONOXIA®, is being approved in more and more countries as a pharmaceutical. In 2007, CONOXIA® was approved in Finland and in the Czech Republic. With CONOXIA®, we can guarantee both patients and doctors safe, reliable and simple application, meeting all the quality criteria of a registered pharmaceutical. In Porcheville in France, Sines in Portugal and Koscian and Lodz in Poland, we have modernised our filling plants for medical gases and upgraded them to meet the latest pharmaceutical requirements.

In the Homecare segment, we saw significant growth in sales of 15.3 percent to EUR 264 m (2006: EUR 229 m). In this segment, we provide over 150,000 patients in more than 40 countries with oxygen therapy, sleep therapy, aerosol therapy and ventilation therapy to treat illnesses which are generally chronic. We are constantly developing new service solutions in this field. It is becoming increasingly important to plug the gap between care for patients in hospital and homecare. Linde is therefore following through and expanding its Care Centre concept. In these centres, patients who have been discharged from hospital are taught by qualified medical staff how to use the medical equipment they will need for their treatment and care when they return home.

Another growth area is REMEO®. This concept enables us to treat patients requiring ventilation in specialised care centres and at home.

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#### Gases Division: Sales by product area

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in € million	2007	2006 <sup>1</sup>	Change
Liquefied gases	2,821	2,586	9.1%
Cylinder gases	3,666	3,269	12.1%
On-site	2,111	2,011	5.0%
Healthcare	983	883	11.3%
<b>Total (consolidated)</b>	<b>9,209</b>	<b>8,421</b>	<b>9.4%</b>

<sup>1</sup> Prior year figures including twelve months of BOC.

## Engineering Division

Our Engineering Division again achieved significant growth in sales and earnings in the 2007 financial year, following on from a very successful year in 2006. Sales increased in 2007 by 40.4 percent to EUR 2.750 bn (2006: EUR 1.958 bn). Operating profit (EBITDA) rose 39.5 percent to EUR 240 m (2006: EUR 172 m).

### Engineering Division

in € million	2007	2006 <sup>1</sup>
Sales	2,750	1,958
Order intake	2,931	3,123
Order backlog	4,391	4,514
Operating profit	240	172
Capital expenditure (excluding financial assets) <sup>2</sup>	46	31
Number of employees	5,637	5,166

<sup>1</sup> Prior year figures including twelve months of BOC.

<sup>2</sup> Continuing operations of The Linde Group: i.e. excluding KION and BOC Edwards Equipment. Other BOC companies included for the four months from September 2006.

This substantial jump in sales and earnings is the result of high demand for our technologies worldwide in all four main operating areas (olefin plants, natural gas plants, air separation plants, hydrogen and synthesis gas plants). Especially in growth markets such as Asia, Eastern Europe and the Middle East, our overall strategy, which is not only to design and build plants, but also to offer reliable plant operation through our Gases Division under long-term delivery contracts, is a key factor in our success.

Against this background, our order intake of EUR 2.931 bn in the 2007 financial year approached the record level of EUR 3.123 bn we achieved in 2006. The order backlog at 31 December 2007 stood at EUR 4.391 bn, almost as high as the prior year figure of EUR 4.514 bn.

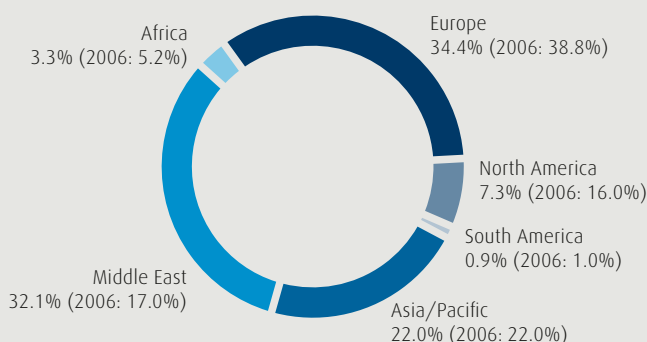
Demand in the Middle East remained exceptionally strong. In this region, we benefited from the continuing expansion of production capacity in the chemical and petrochemical industries. We were awarded a major contract, for example, from Abu Dhabi in the United Arab Emirates to build one of the biggest ethylene plants in the world at the Ruwais site (see olefin plants, page 053).

During the financial year, we won contracts worth a total of EUR 887 m in the Middle East. As a result, this region contributed the largest share of total order intake in the Engineering Division. Sales in the Middle East rose to EUR 882 m, more than double the prior year figure of EUR 333 m.

### Sales by region

in € million	2007	2006
Europe	947	760
North America	202	313
South America	24	20
Asia/Pacific	604	431
Middle East	882	333
Africa	91	101

### Sales by region (in percent)



Our Engineering Division also benefited from the positive economic situation in Europe, achieving an increase in both sales and order intake. Sales here rose to EUR 947 m (2006: EUR 760 m). The order intake from this region totalled EUR 885 m (2006: EUR 772 m), which represents 30.2 percent of the total order intake in the division.

The fast-growing Asia/Pacific region contributed over 15 percent of order intake in the Engineering Division in 2007. Sales in this region increased during the year from EUR 431 m to EUR 604 m.

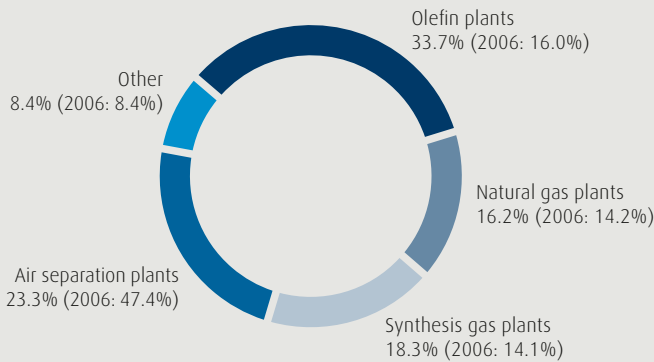
The North American share of order intake was around 15.5 percent. Sales in this region were EUR 202 m (2006: EUR 313 m).

The South American region was responsible for around 7 percent of order intake in 2007. Sales reached EUR 24 m, which was significantly above the prior year figure of EUR 20 m.

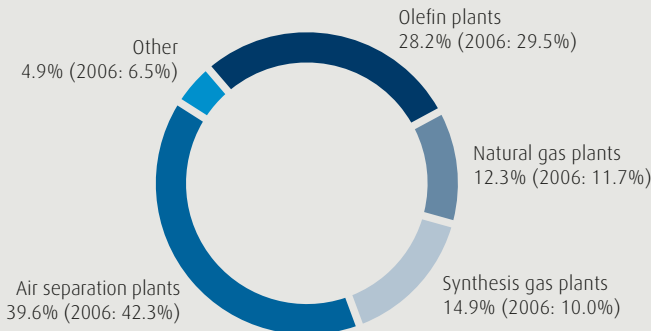
The largest share of total order intake worldwide (33.7 percent); related to olefin plants (2006: 16.0 percent). Air separation plants accounted for 23.3 percent (2006: 47.4 percent) of total order intake. 16.2 percent of order intake came from natural gas plants (2006: 14.2 percent) and 18.3 percent from hydrogen and synthesis gas plants (2006: 14.1 percent).



### Order intake by plant type



### Order backlog by plant type



#### Olefin plants: Major projects in the Middle East

Our Engineering Division started the year with one of the largest contracts in its history. We were awarded the contract from Abu Dhabi Polymers Company Ltd, Borouge, for the construction of one of the largest ethane crackers in the world at the Ruwais industrial site in Abu Dhabi. The ethylene plant, which has a capacity of just under 1.5 million tons of ethylene per annum will supply ethylene to a petrochemical complex for the production of polyethylene and polypropylene. Under this contract, our factory in Schalchen, Germany, will deliver aluminium heat exchangers, while Selas Fluid Process Corporation in Blue Bell, Pennsylvania, USA, will deliver seven cracking furnaces (see glossary). Currently, the project is in the detail engineering phase, in which Linde Engineering India Pvt. Ltd. in Baroda, India, is also involved.

The first ethane cracker on the Ruwais site, with a capacity of around 600,000 tons of ethylene per annum, which Linde brought on stream in 2001, is being modernised and expanded at the same time.

Borouge, based in Abu Dhabi, a joint venture between the Abu Dhabi National Oil Company (ADNOC) and Borealis, is a leading manufacturer of innovative plastic products.

Also in the Middle East, our Group company Linde-KCA-Dresden GmbH won a contract from Saudi Basic Industries Corporation (SABIC) for the basic engineering of a catalytic converter plant in Riyadh.

We are currently building a two-strand polyethylene plant in Al-Jubail in Saudi Arabia for Eastern Petrochemical Company (SHARQ), a contract worth more than EUR 500 m. There have been construction delays on this project. These delays are the result of a very high level of demand for engineering services in this region and a corresponding shortage of supply resources. We have taken measures to expedite the construction process, which has led to increased costs, and expect to bring the plant on stream in the middle of 2008.

The Engineering Division once again proved its technological and organisational competence, this time in Europe, as a leading supplier of cracking furnaces, which are key elements of olefin plant technology. In September 2007, we completed the construction of five cracking furnaces and two steam superheaters for the ethylene plant of Ruhr Oel GmbH in Gelsenkirchen, Germany, and brought them into operation. This process reduced the emissions at the plant, improved the safety engineering and further increased the capacity of the plant.

In October 2007, REPSOL in Portugal awarded us the contract for the modernisation of its steam cracker in Sines.

In Africa, construction work continued in 2007 on the alpha olefin plant for Sasol at the Secunda refinery site near Johannesburg in South Africa. This is the sixth alpha olefin plant built by our Engineering Division in Secunda. Once it has been completed at the beginning of 2008, the plant will have a production capacity of 100,000 tons of 1-octene per annum. 1-octene is used as a comonomer in the manufacture of plastics. The contract value is around EUR 170 m. The plant operates on the basis of a new process concept, which we developed by working together with our customer.

#### Natural gas plants: Rising demand for liquefied natural gas

With the increase in the price of crude oil and the corresponding rises in the price of petrol and diesel, and in view of the efforts being made to achieve significant reductions in carbon dioxide emissions, natural gas is becoming increasingly important as an energy source. Throughout the world, there is growing interest in natural gas liquefaction plants which produce LNG (Liquefied Natural

Gas), as well as in processes and plants for the production of liquid fuel from natural gas (Gas to Liquids or GTL).

When Europe's largest and northernmost LNG plant, situated in Hammerfest off the Norwegian coast and with a capacity of 4.3 million tons of LNG per annum, came on stream in autumn 2007, we were able to demonstrate that we can build plants of this type on a huge scale and in challenging climatic conditions. Nevertheless, we are still encountering some technical difficulties with the start-up. We are working together with our contractor StatoilHydro to resolve these difficulties as quickly as possible. Once full LNG production capacity has been reached, probably from the middle of 2009, a tanker will leave the harbour on the island of Melkøya every five to six days to supply LNG to customers around the world. The total value of the Hammerfest project to Linde was around EUR 900 m.

In July 2007, our Engineering Division was awarded another major contract from Norway to build an LNG plant. Linde will construct a natural gas liquefaction plant with an annual capacity of 300,000 tons near Stavanger for Skangass AS, a joint venture between LYSE Gass AS and the investment company Celsius Invest AS. The total value of this contract is around EUR 100 m.

In North America, our American subsidiary Linde Process Plants (LPP) has benefited from the development of new deposits of natural gas in Piceance Basin, Colorado. Williams Companies Inc. awarded LPP a contract to build a plant for the separation of propane, butane, ethane and CO<sub>2</sub> from raw natural gas there. The plant will have a capacity of 12.7 million standard cubic metres (scm) per day.

We believe that one of the most promising markets of the future for our Engineering Division is the market for floating natural gas liquefaction plants, which can be deployed in remote and offshore gas-fields which it would otherwise not be economic to develop. To develop, build and market suitably compact liquefaction plants on ship hulls – Floating Production, Storage and Off-take Vessels (FPSOs) – we set up a global alliance with the Dutch company Single Buoy Mooring Inc. (SBM). Our Engineering Division will design and build the liquefaction plants required, based on our multi-stage mixed-refrigerant process (see glossary).

The market for helium plants is also continuing to grow. Now that we have successfully brought on stream the helium recovery and liquefaction plant in Skikda, Algeria, we intend to start building a further plant of this type in Australia in 2008.

#### **Air separation plants: Demand remains buoyant**

The growing trend towards the refinement, purification and gasification of solid fuels such as coal, the worldwide boom in the steel industry and the increasing extent to which natural gas is being converted into liquid fuels (Gas To Liquids or GTL) are ensuring a high level of demand for industrial gases such as oxygen and nitrogen. Orders on

hand for air separation plants from the chemical, petrochemical and steel industries are correspondingly high. The most important regions here are the emerging markets of China, India and Russia.

Linde has been able to benefit disproportionately from this fast-growing business, both as a supplier of complete plants or major plant components such as cold boxes (see glossary) and, via our Gases Division, as the operator of on-site plants on our customers' behalf.

An example of this is the two air separation plants constructed by Linde Engineering Hangzhou for the customer Shenhua in Inner Mongolia, which started production of oxygen at the end of 2007. The two plants, which each have a capacity of 50,000 standard cubic metres per hour, are supplying a coal liquefaction project of a size never seen before. The Engineering Division is not only the supplier of the air separation plants, but also the engineering partner and licensor for the Rectisol plant (see glossary). The project is highly regarded in China, as this process enables the country to use its own vast coal resources and to reduce its dependence on oil imports.

In China, the Linde Engineering Division was also commissioned by the Gases Division in the fourth quarter of 2007 to supply two turnkey air separation plants, each with a capacity of 38,000 standard cubic metres of oxygen per hour. The plants are being built at the Ningbo site on the southern coast of China, from where our Gases Division supplies its industrial customers.

We also supply customers in the Middle East out of China. Our company in Dalian is building the central components of the cold boxes for the eight large air separation plants being constructed at the Pearl GTL plant in Qatar, the largest integrated complex of this type in the world. The contractors for the air separation plants are Qatar Shell GTL Ltd and Qatar Petroleum. The first two cold boxes will be delivered in the first quarter of 2008, and two more will be delivered every six months until the beginning of 2009. Once they have been completed, the plants will supply around 860,000 cubic metres of oxygen per hour.

Our Engineering Division won a contract in 2007 from the Steel Authority of India Ltd. (SAIL) to build two air separation plants for the steelworks in Rourkela (Rourkela Steel Plant) and in Burnpur (ISP Steel). The contract is worth more than EUR 100 m.

Our subsidiary Linde Process Plants (LPP) also successfully brought a number of air separation plants on stream in North America for various customers. Demand in this product area continues to be robust in the region.

We have, moreover, been awarded several contracts from Eastern Europe for air separation plants: for example, by the Russian fertiliser producer JSC ACRON in Novgorod and by Linde Gases Russia in Berezowsky. We will also supply a turnkey air separation plant with a capacity of 30,000 standard cubic metres per hour to our customer Karabaschmed in Karabash for its copper mill there.

In Germany, Linde is also building air separation plants for innovative CO<sub>2</sub> sequestration projects: e.g. for the pilot project of an emission-free power station for Vattenfall in Schwarze Pumpe and for the natural gas field of EEG-Erdgas, Erdöl GmbH, Berlin, in Altmark.

### Hydrogen and synthesis gas plants: Technology in harmony with environmental protection

There continues to be a high level of global demand for hydrogen plants from the chemical and petrochemical industries. Hydrogen is used in oil refineries to produce sulphur-free fuels such as petrol and diesel which comply with increasingly strict legal requirements. Further growth prospects for the use of hydrogen are also opening up in the area of refining mineral resources.

In 2007, Linde was awarded numerous contracts for hydrogen production plants. The orders came from Europe, the United States, East Asia and Africa.

In Germany, we will build a hydrogen plant for BASF AG in Ludwigshafen with a capacity of 50,000 standard cubic metres per hour (scmh). Linde will supply a turnkey plant and assume responsibility not only for the basic and detail engineering and material procurement, but also for the assembly of the plant and bringing it on stream.

The Engineering Division was also awarded three contracts from southern Europe to build adsorption plants for the production and purification of hydrogen. The ENI Agip refinery in Taranto, Italy, ordered a PSA (Pressure Swing Adsorption) unit for hydrogen production of 56,000 scmh, while the Repsol refinery in Cartagena, Spain, placed an order for a unit with an H<sub>2</sub> capacity of 55,000 scmh and the Cepsa refinery in Huelva, Spain, placed an order for a unit with production capacity of 70,000 scmh. The orders are all worth between EUR 3.5 m and EUR 4 m.

During the year, the Engineering Division was awarded a contract to supply a PSA hydrogen plant by the Thai company PTT Chemicals Plc.

In the United States, our subsidiary Linde Process Plants (LPP) is constructing a further hydrogen plant for the Gases Division at its site in Lemont, Illinois. It will supply the neighbouring refinery of CITGO Petroleum Corporation with around 50,000 scmh of hydrogen.

We were commissioned by our customer Markwest Hydrogen Inc., USA, to build a hydrogen plant with a capacity of 45,000 scmh.

We are delivering an H<sub>2</sub> plant with a capacity of 25,000 scmh to CPDC in Kaoshiung, Taiwan.

In 2007, we were awarded the contract to build an additional hydrogen liquefaction plant with a capacity of 3,000 litres per hour by the Japanese company Iwatani Intl. Corp. in Osaka. The plant is due to come on stream at the end of 2008. We delivered the first hydrogen liquefaction plant for Iwatani Intl. Corp. during the financial year. The value of that contract was around EUR 13.6 m.

In 2007, the Linde Engineering Division also transferred a hydrogen liquefaction plant at the Gases Centre in Leuna, Germany, to the Gases Division. This contract was worth around EUR 15 m.

The continuing high prices of oil and natural gas are reinforcing the trend for countries like China to use their plentiful reserves of coal not only as an energy source, but also to produce synthesis gases for use in coal gasification. One of the most important projects in this field is the hydrogen plant on the site of the Bayer works in Shanghai Chemical Industry Park in Caojing near Shanghai. The hydrogen plant built there together with our joint venture partner Shanghai Coking & Chemical Corporation under a long-term supply agreement with our customer Bayer Polyurethane Shanghai Ltd. Co. will supply hydrogen and carbon monoxide for the production of plastic products from summer 2008. A synthesis gas, which Shanghai Coking & Chemical Corporation recovers via the environmentally friendly process of coal gasification, will be used as the feed gas.

The Linde Rectisol® process is being used more and more often in the production of synthesis gases based on coal gasification. This process is a physical acid gas wash, which uses an organic solvent (typically methanol) at low temperatures. In this way, most hydrogen sulphide and carbon dioxide is removed from the synthesis gas. This process is suitable for a large number of different types of coal. During the year, Linde sold nine licences with a synthesis gas throughput totalling 2.7 million standard cubic metres. Sometimes, these Rectisol® washes are combined with cryogenic gas separation to recover ammonia synthesis gas or pure carbon monoxide. Linde supplies the separation component for this, the cold box, completely pre-assembled.

Linde is currently working on a feasibility study on lignite gasification for a Canadian customer, which involves recovering hydrogen for the hydrogenation of oil sands.

## Other activities

Other activities comprises Gist, our logistics services business, and our subsidiary Cleaning Enterprises (environmentally friendly dry-cleaning using carbon dioxide).

The Gist business unit achieved sales of EUR 577 m in 2007, which was almost the same as the prior year figure of EUR 579 m. The continental European business performed particularly well. We developed our business relations with existing customers and acquired new customers in Italy, Spain and Austria.

During the year, our major customer Marks & Spencer, a retail chain with a network of over 450 stores in the UK, selected Gist as its supply chain partner for the delivery of goods to its customer BP.

We were also able to develop our trading relationship with the Dutch Flower Group, the world market leader in floristry. We will be assuming responsibility for the logistics of importing flowers into the UK from Colombia for Dutch Flower on the basis of our end-to-end management solutions.

Our use of innovative RFID (Radio Frequency Identification – see glossary) technology for material handling in warehouses has reinforced our leading market position. For example, we have successfully implemented an efficient RFID system in the mechanised processes for the movement of goods for a major customer. This system enabled our customer to make significant improvements in the accuracy of his deliveries. This technology also results in an unbroken supply chain and contributes to sales growth. RFID technology allows data relating to goods in transit to be read and processed by radio.

Our subsidiary Cleaning Enterprises increased its sales in 2007 to EUR 3 m from EUR 2 m in 2006. Cleaning Enterprises markets our innovative system for the environmentally friendly dry-cleaning of textiles with recycled carbon dioxide under the brand name FRED BUTLER®. In 2007, we started to launch FRED BUTLER® across Europe. In the next few years, we will continue to develop our business model on a franchise basis and establish the necessary cleaning plants, service shops and drop-off points.

In 2007, we brought two new plants on stream and developed existing areas by opening more shops and acquiring new distribution channels and business-to-business applications. We acquired our first franchisee in Germany at the end of 2007 in the Düsseldorf region. In the current year 2008, Linde plans to develop ten more franchise areas and four company areas in Europe, opening sites in major conurbations. We are currently operating a total of eight large dry-cleaning plants, 33 shops and 360 office and service depots in Europe.

Our innovative cleaning process uses recycled liquefied CO<sub>2</sub> and nothing but biodegradable detergents. As a result, FRED BUTLER® is the only dry-cleaning company to have received environmental certification from the major ecolabels, including the German Blue Angel and the Scandinavian Nordic Swan.

## Net assets and financial position

Following the reorganisation of The Linde Group in 2006, the 2007 financial year saw the consolidation of the Group's net assets and financial position. We have successfully completed all major sales and partial sales and we have adjusted the prior year figures in the balance sheet to reflect the final figures from the purchase price allocation arising from the acquisition of BOC.

Total assets fell in 2007 by EUR 2.963 bn to EUR 24.955 bn. On the assets side, this decrease was mainly due to the disposal of non-current assets held for sale and to the sale of parts of the INO business in the US, the US cylinder gas business and the reorganisation of the Asian joint ventures as a result of the conditions imposed by the competition authorities. Goodwill declined by EUR 240 m to EUR 7.332 bn, mainly due to the effects of exchange rates. Inventories and trade receivables rose only slightly by 4 percent on a comparable basis, despite an increase in sales of around 14 percent.

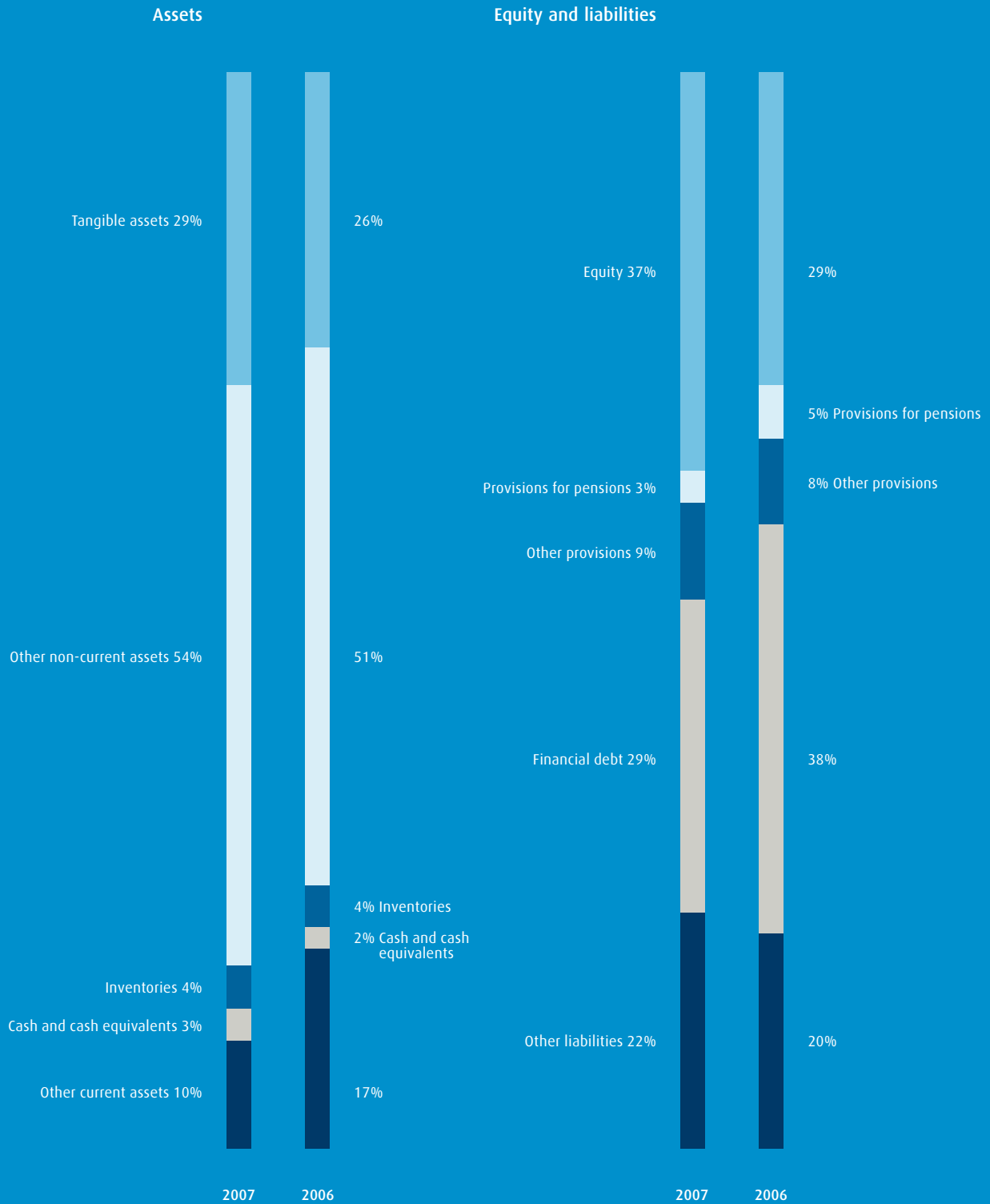
On the liabilities side, the decrease in total equity and liabilities was due mainly to the repayment of financial debt. We were able to reduce net financial debt from EUR 9.933 bn to EUR 6.427 bn by applying cash flow from operating activities, proceeds on the disposal of major companies and parts of companies, and exchange gains. The ratio of net financial debt to operating profit, a key ratio for us, improved from 4.8 to 2.7.

In contrast to the decrease in financial debt, equity increased from EUR 8.225 bn to EUR 9.210 bn. The equity ratio was 37 percent (2006: 29 percent). The most important factors in this increase, apart from earnings after tax of EUR 1.013 bn, were actuarial gains on the re-measurement of pension obligations of EUR 228 m and the conversion of the convertible bond into equity of EUR 253 m. Exchange losses of EUR 686 m had a negative effect on equity.

The net pension obligation decreased in 2007 from EUR 1.014 bn to EUR 403 m. The principal reasons for this were the positive trend in actuarial gains and the special payment of EUR 170 m made to the UK pension fund in the course of the BOC acquisition.

Other current and non-current provisions increased by EUR 117 m. Although tax provisions were higher, other provisions were lower than at the end of 2006. The main reasons for the reduction are amounts utilised from the provision for restructuring costs and post-acquisition restructuring and a one-off payment in settlement of claims asserted.

Balance sheet items as a percentage of total assets of EUR 24.955 bn (2006: EUR 27.918 bn)



## Cash flow statement

Cash flow from operating activities in the 2007 financial year was EUR 1.742 bn (2006: EUR 1.227 bn), which represents an increase of 42.0 percent. However, it is important to note that the prior year figure includes the KION Group, which had already been sold, and just under four months of trading in respect of The BOC Group, which was acquired in September 2006.

The increase in cash flow from operating activities was due not only to the fact that in the 2007 financial year, the cash outflows relating to the transformation process of The Linde Group in 2006 had ceased, but also to positive trends in the Gases Division.

Cash inflow from investing activities in 2007 was EUR 2.086 bn (2006: cash outflow of EUR 10.278 bn). This increase was due mainly to the successful completion of the sales transactions as a result of the BOC acquisition. In the course of the financial year, we completed the sales process for virtually all business classified as held for sale. In 2007, we achieved total net cash inflows of EUR 3,557 m. Capital expenditure for the year was EUR 1.632 bn (2006: EUR 12.948 bn). Included in the prior year figure is an amount of EUR 12 bn which relates to the BOC acquisition. Of the day-to-day capital expenditure of EUR 1.632 bn, EUR 576 m relates to payments for financial assets and companies included in the consolidation (2006: EUR 11.897 bn). The main transactions here were the acquisi-

tion of all the shares in Malaysian Oxygen Berhad, Hong Kong Oxygen & Acetylene Co. Limited and Birlesik Oksijen Sanayi A. S. (BOS), Turkey. As a result of the higher cash inflow from operating activities and the cash inflow from sales, the net cash inflow (free cash flow) in the 2007 financial year increased to EUR 3.828 bn (2006: net cash outflow of EUR 9.051 bn).

### Cash flow statement (summary)

in € million	2007	2006
Cash flow from operating activities	1,742	1,227
Cash flow from investing activities	2,086	-10,278
Dividend payments to Linde AG shareholders and other shareholders	-281	-168
Net interest payments	-404	-166
Receipts from capital increase and issue of employee shares	50	1,846
Receipts from issue of benchmark bond and other loans raised	4,499	10,724
Payments to redeem loans and bonds <sup>1</sup>	-7,456	-3,464
Change in cash and cash equivalents	236	-279

<sup>1</sup> Including change in liabilities from financial services.

## Summary of the 2007 financial year

In the year following the acquisition of our British competitor BOC, we have transformed The Linde Group into a world-leading international gases and plant construction group. In a short period of time, we have established a highly competitive global organisation, while at the same time strengthening our operating business.

On a comparable basis, Group sales increased by 13.9 percent, while operating profit rose 18.1 percent. We have therefore achieved double-digit growth and our profitability has increased at an even faster rate than sales.

Other key financial figures confirm the positive trends we have seen in the past year. Return on capital employed (ROCE), which was adjusted to reflect the new Group structure, was 10.3 percent in the 2007 financial year, which means that we achieved our dou-

ble-digit target a year earlier than expected. The adjusted figure for earnings per share, which is EUR 5.02, is already higher than the prior year figure of EUR 4.66 (for the calculation, see Note [43] in the Notes to the Group financial statements). In the first year of our reorganisation, we have therefore not experienced a dilution in earnings per share and have increased the value of the Group.

The Linde Group has also made better progress with the repayment of its financial debt than originally forecast. We had budgeted for net debt of EUR 7.2 to EUR 7.5 bn at 31 December 2007, whereas actual debt at the year-end was EUR 6.4 bn.

Overall, we have exceeded expectations for the 2007 financial year.

## Financing and measures to safeguard liquidity

### Financing principles and objectives

The aim of external financing and measures to safeguard liquidity is to ensure that the Group has adequate liquidity at all times. The current credit crisis in the international capital markets clearly emphasises the importance of sufficient liquidity procurement for companies.

Our external financial headroom is maintained primarily by an international banking group and the capital markets. Within the Group, the principle of internal financing applies, i.e. the financing requirements of subsidiaries are covered wherever possible by intra-Group loans.

As a result, the subsidiaries were again financed in 2007 mainly by our Dutch finance company, Linde Finance B.V., and our Corporate Centre. Centralised 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 in cash pools (in Germany, the UK, France, Italy, Switzerland, Scandinavia, the United States and the Benelux countries), or by Group loans from Linde Finance B.V. or The BOC Group plc. Occasionally, the Group Treasury (see glossary) also negotiates credit facilities with local banks, to take account of particular legal, fiscal or other circumstances.

### Repayment of the acquisition financing

In the 2007 financial year, the repayment and refinancing of the acquisition financing for the purchase of The BOC Group plc were at the forefront of our treasury activities. We were able to reduce our net financial debt in this period from EUR 9.933 bn to EUR 6.427 bn.

The acquisition of The BOC Group plc in 2006 at a price of around EUR 12.4 bn was assured by syndicated credit facilities of GBP 8.9 bn and EUR 2 bn (revolver). The syndicated credit line (see glossary) also serves as a back-up for our EUR 1 bn Commercial Paper Programme (see glossary).

To repay this credit, we used disposal proceeds from those business activities which we were required to relinquish as a result of antitrust conditions imposed by the competition authorities or which are non-core activities. Cash flow from operating activities also contributed to the loan repayments. The proceeds from the

sale of these activities and from the issue of bonds were used to reduce the amount drawn upon the syndicated loan commitment to around EUR 1.2 bn at 31 December 2007.

Linde currently has a committed unused credit line (revolver) of around EUR 1.4 bn from the international banking consortium which is available until 2011. This takes into account EUR 557 m of commercial papers issued by Linde Finance B.V., which are backed up by the credit line.

### Bond issues

In April 2007, we issued benchmark bonds with a total volume of more than EUR 2.4 bn via Linde Finance B.V. in a very favourable market environment. The bonds, under the lead of Deutsche Bank, Commerzbank, Morgan Stanley, UniCredit and HSBC, were more than three times oversubscribed, with a high level of demand from long-term investors and retail banks. The transaction comprised a five-year fixed-rate bond of EUR 1 bn at 4.375 percent, a ten-year fixed-rate bond of EUR 1 bn at 4.75 percent and a 16-year sterling tranche of GBP 300 m at 5.875 percent.

### BOC bonds – Change of issuer

In the course of the BOC acquisition, Linde assumed capital market liabilities of The BOC Group plc.

Under current law, the assumption of these BOC liabilities results in an obligation to publish consolidated financial statements for The BOC Group plc until the end of the maturity period in 2017.

To increase our efficiency and achieve synergies from the acquisition, we decided to cease producing the consolidated financial statements for The BOC Group plc. To achieve this objective, we chose to adopt the following structure: Linde Finance B.V. assumed the liabilities of The BOC Group plc at the year-end. These exclude BOC liabilities of JPY 6 bn, which were redeemed before the year-end. The liabilities assumed by Linde Finance B.V. are guaranteed by The BOC Group plc.

### Other capital market activities

In 2007, the Debt Issuance Programme was increased from EUR 5 bn to EUR 10 bn. Under the programme, issues amounting to around EUR 2.7 bn in four different currencies were outstanding at the year-end.

Most of the EUR 550 m convertible bond issued in 2004 (EUR 445.3 m) had been converted by the end of 2007 into 7,883,867 Linde shares.



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


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Issuer	Rating	Nominal amount	Coupon rate	Maturity date	CUSIP Ref. No.
Linde Finance B.V.	Baa1/BBB	€ 1,000 million	4.375%	24.04.2012	XS0297698853
Linde Finance B.V.	Baa1/BBB	€ 1,000 million	4.750%	24.04.2017	XS0297699588
Linde Finance B.V.	Baa1/BBB	£ 300 million	5.875%	24.04.2023	XS0297700006
Linde Finance B.V.	Baa1/BBB	€ 100 million	5.750%	05.06.2008	DE0006858350
Linde Finance B.V.	Baa1/BBB	€ 135 million	4.375%	04.08.2008	DE0008629429
<b>Subordinated bond <sup>1</sup></b>					
Linde Finance B.V.	Baa3/BB+	€ 400 million	6.000%	Undated Call right	XS0171231060
Linde Finance B.V.	Baa3/BB+	€ 700 million	7.375%	14.07.2066 Call right	XS0259604329
Linde Finance B.V.	Baa3/BB+	£ 250 million	8.125%	14.07.2066 Call right	XS0259607777
<b>Convertible bond <sup>1</sup></b>					
Linde Finance B.V.	Baa1/BBB	€ 104.7 million	1.250%	05.05.2009 Call right	DE000A0BBP11

<sup>1</sup> These bonds were not issued under our Debt Issuance Programme.

### Rating

Since 1999, the creditworthiness of The Linde Group has been rated by the leading international rating agencies, Moody's and Standard & Poor's. The rating is an essential requirement for a successful and sustainable presence in the capital market. Even after the BOC acquisition, our stated objective is an "investment

grade" rating. A good six months after the BOC acquisition, in spring 2007, the rating agencies both increased Linde's rating by one notch to BBB and Baa1 respectively. This increase in our rating was positively received by the capital markets and was conducive to the issue of the above-mentioned bonds.

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### Rating 2007

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Rating agencies	Long-term rating	Outlook	Short-term rating	Outlook
Moody's	Baa1	Stable	P-2	Stable
Standard & Poor's	BBB	Stable	A-2	Stable

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### Rating 2006

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Rating agencies	Long-term rating	Outlook	Short-term rating	Outlook
Moody's	Baa2	Stable	P-2	Stable
Standard & Poor's	BBB-	Stable	A-3	Stable

## Capital expenditure

In the past financial year, we have continued to apply our well-established investment strategy and concentrated our investment in those areas where opportunities exist for above-average growth and where we can increase our earning power and enhance the competitiveness of the Group.

Capital expenditure in the 2007 financial year, excluding financial assets, totalled EUR 1.035 bn (2006: EUR 776 m). Relative to Group sales, the rate of investment was 8.4 percent (2006: 9.6 percent). It should be noted here that some of the capital expenditure attributable to projects which was scheduled for 2007 will not be incurred until the middle of 2008.

We have also invested more in consolidated companies (EUR 537 m) to strengthen the world-leading competitive position of the whole Group still further. If the cost of these acquisitions is included, total investment in the past financial year was EUR 1.572 bn.

As in previous years, most of our capital expenditure (2007: EUR 1.062 bn; 2006: EUR 808 m) was incurred for the international expansion of our gases business. Our focus here was once again on the development of our fast-growing on-site business.

### Capital expenditure by division (excluding financial assets)

in € million	2007	2006 <sup>1</sup>
Gases Division	1,062	808
Engineering Division	46	31
Other activities <sup>2</sup>	-73	-63
<b>Group</b>	<b>1,035</b>	<b>776</b>

<sup>1</sup> Continuing operations of The Linde Group, i.e. excluding KION and BOC Edwards equipment. Other BOC companies included for the four months from September 2006.

<sup>2</sup> Including consolidations.

### Capital expenditure of the Gases Division by operating segment (excluding financial assets)

	2007		2006	
	in € million	in %	in € million	in %
Western Europe	377	35.5	387	47.9
Americas	213	20.0	193	23.9
Asia & Eastern Europe	334	31.5	157	19.4
South Pacific & Africa	138	13.0	71	8.8
<b>Total Gases Division</b>	<b>1,062</b>	<b>100.0</b>	<b>808</b>	<b>100.0</b>

## Purchasing

### The Linde Group

As a manufacturing technology company, The Linde Group, with its Gas and Engineering Divisions, spent around EUR 7.6 bn on purchasing in the 2007 financial year in a variety of markets worldwide (2006: around EUR 7.0 bn).

### Gases Division

The Gases Division focused in 2007 on the Growth and Performance (GAP) programme. The aim of this programme is to achieve sustainable synergies following the acquisition of The BOC Group. Procurement can make an important contribution in this area.

In 2006, the first cost savings were realised by our temporary project teams. Subsequently, in January 2007, The Linde Group's new purchasing organisation came into operation. By adhering closely to the matrix structure of the Group, we succeeded in establishing a global purchasing network. We work with purchasing teams who operate at global and regional levels, bundling together the local purchasing organisations, thus significantly improving the use of our purchasing resources and skills. We have also improved our overall efficiency as a result of the reorganisation and by involving interdisciplinary teams in our purchasing activities.

In order to reduce our process costs and achieve additional synergies in purchasing, our activities in the 2007 financial year focused on "A" suppliers and "C" materials in the new Linde Group.

In the case of "A" suppliers in particular, we used the economy-of-scale effects of material groups to improve our purchasing position. Despite unfavourable developments in the primary markets, e.g. the markets for energy, steel and coke, we succeeded in achieving the budgeted synergy targets for the year 2007, thereby making a positive and sustainable contribution to the GAP programme and to operating earnings.

Apart from achieving these synergy targets, it goes without saying that the purchasing department must provide effective support for the growth strategies of the various business units and business areas in the Group. We therefore base our commodity purchasing strategy on our business strategy, which leads to value added for the whole Group.

The supreme objective of procurement in the 2008 financial year, as in previous years, will be to make a sustainable contribution to increasing the value of the company as a going concern and to minimise cost risks.

### Engineering Division

The situation in the procurement markets for our Engineering Division in 2007 remained under pressure. The transformation of the markets into buyers' markets, a trend which had already established itself in previous years, persisted unabated. The high level of capacity utilisation of suppliers of products and materials and an increasing shortage of resources available in terms of engineering services and assembly capacity presented particular challenges to the purchasing department in the Engineering Division. It was important to minimise the risk of delays in meeting delivery dates and to keep costs within cost estimates.

Although the costs of basic materials, such as sheet metal and castings and forgings for manufacturing industry, changed little from those in 2006, there was an overall worldwide increase in the price of products being purchased. This trend was due to high demand and manufacturers working to a high level of capacity. These capacity constraints resulted in longer delivery periods. We have adopted a flexible approach to the change in market conditions and have adapted our procurement strategy accordingly.

In 2005, we started to set up a supplier management system. We spent time in 2007 developing this system, establishing it as an integral part of the procurement process. Our aim is to create a stable basis for our supplier relationships, to minimise any risks arising from quality problems, delays in delivery and failure to deliver, while at the same time reducing order handling costs for both parties.

Another measure we take to ensure that delivery dates are met is to bind key suppliers of components with longer delivery periods by contract at an early stage in the project.

Although the pundits are forecasting a slight decline in economic growth worldwide in 2008, we are not expecting any easing in the procurement markets which relate to plant construction. With the strict application and continuation of its procurement strategy, the Engineering Division feels that it is well-equipped to deal with this situation.

## Research and development

### The Linde Group

The key factors in the long-term business success of a technology group such as Linde in an internationally competitive environment are targeted research and development activities and the capacity to innovate.

In the 2007 financial year, The Linde Group spent a total of EUR 97m on research and development, exceeding the comparable prior year figure of EUR 92m. The total number of employees working in research and development at 31 December 2007 was 480 (2006: 438). Of these, 238 worked in the Gases Division and 242 in the Engineering Division.

To improve our capacity for innovation, in 2005 we set up the Inventors Club, a global forum for engineers, scientists and technicians. Employees are admitted to the Inventors Club if they have been awarded a prize for their inventions registered with our Group patent department. In July 2007, a jury selected the five best innovations of 2006 in each of two categories, technical excellence and financial/competitive excellence. In September 2007, these were then presented with the Linde Group Patent Award 2006 in Dresden.

### Gases Division

In 2007 in the Gases Division, we invested EUR 68m (2006: EUR 72m) in our research and development activities.

Much of this expenditure, as is customary in the international gases industry, is used to improve customer processes and to continue to develop existing industrial gases applications and systems by working together with the customer. This is how we ensure that our customers have access to a consistently high level of technology and how we contribute to their value added.

An example of this is a new process we have developed for the operators of plants producing biofuels, which makes the storage of the biomaterial in silos much safer. Inside the silos, smouldering fires can often break out as a result of the unwanted fermentation of the organic material stored there, such as rape, cereals or wood chips. As the biological material burns, if there is a lack of air, hydrogen can be produced which rises to the top of the silo, mixes with oxygen from the air in the roof chamber and creates such an explosive mixture that it can be ignited by a single spark. After extensive series of tests, we developed an innovative system which uses carbon dioxide to extinguish smouldering fires in silos in a way which is efficient and particularly safe. The system comprises hardware and special injection equipment for liquefied carbon dioxide. The advantages of the new system are that the risk of explosion while the fire is being extinguished is significantly reduced, the fire-

fighting team can operate from a safe distance, no pressure is exerted on the silo cover, it is a particularly environmentally friendly way of extinguishing the fire, and the contents of the silo, apart from those destroyed by the fire, can still be used to produce biofuels once the fire has been put out. The injected liquid carbon dioxide evaporates inside the silo and, as an inert cold gas, which is significantly heavier than air, penetrates the silo right to its base, displacing the oxygen and therefore extinguishing the smouldering fire. Conventional extinguishing agents such as water on the other hand only reach the upper layers and soak the biological material, with the result that it is generally no longer suitable for the production of biofuels once the fire has been put out and has to be disposed of. As the production of biofuels is becoming increasingly important as a sustainable energy source which protects both the climate and the environment, we anticipate a rise in sales potential for this extinguishing system.

In the metallurgy sector, as a result of a research and development project which has been running for several years, we have developed a new (flameless) low-temperature oxyfuel burner for metal remelting works and have optimised this combustion technology for our reference customer Hydro Aluminium in Norway at its aluminium smelting plants. The new LT (Low Temperature) burner results in a further five to ten percent energy saving compared with conventional oxyfuel combustion of a fuel with pure oxygen rather than atmospheric oxygen. The burner also makes it possible to achieve a higher metal output and, due to its homogeneous steric flame, prevents the creation of hot spots, i.e. areas of uneven heat distribution in the furnace. The new LT burner is suitable for almost all operators of reverberatory furnaces and remelting works and is seeking to achieve a potential market of at least 500 furnaces worldwide. We expect the global market launch of the LT burner to take place in the course of 2008.

In 2007, we entered into a strategic partnership with the leading supplier of soldering machines for the electronics industry, the global company SEHO based in Germany, to work together in future on the development of innovations in soldering. One example of this is a new technique for soldering printed circuit boards for electronic components in a nitrogen and inert gas atmosphere based on our patented SOLDERFLEX® process. Together with SEHO, we have further developed SOLDERFLEX® DIS (Double Inerting System). This is a double inerting system for wave soldering machines. The new system reduces the use of inert gases by up to 50 percent, with no effect on the quality of the soldering, and allows much longer production cycles without interruptions for cleaning or maintenance.

This enables users to reduce their production costs significantly. Two machines of this type are currently being used in production for test purposes. As our partnership with SEHO also gives us access to an innovative customer base, we expect to achieve substantial sales growth in the next few years in this sector with our application technology systems.

In the metal working industry, we have developed, in partnership with the independent Swedish Corrosion and Metals Research Institute, Swerea KIMAB AB, an innovative process to produce porous surfaces on high-grade steel and cobalt-chromium alloys. Using a sophisticated single-stage oxidation-reduction treatment, we can produce pore sizes of 1 to 10 micrometres (a micrometre is one millionth of a metre) on these metal surfaces. The total surface of a specific material can be significantly increased in this way, which is particularly necessary in many high-tech applications. There are potential fields of application in biomedical technology, for example in the production of stents for blood vessels and pacemaker electrodes, and in prosthetics. Here, the porous surface makes it easier for the adsorption of the body's own tissue. Furthermore, the use of highly porous surfaces in heat exchangers is an advantage, as this has a positive impact on blistering in boiling processes. They also improve the adhesive properties of paints and glues on metallic materials and serve as substrata for catalysts in chemical process engineering. The technology we have developed jointly with KIMAB is already generating great interest in the biomedical and process industries. We anticipate that it will develop into an important method for the cost-effective production of metal components which require highly porous surfaces.

The generation of electricity by wind power plants is becoming an increasingly important form of energy production from renewable sources. As wind turbines become bigger and more efficient, the demands on the load-bearing capacity of the materials used to build the plants increase, especially for wind power plants situated offshore. These applications require components of such a size that they can no longer be welded directly, but only after preheating. With its LINDOFLAMM® concept, our Gases Division offers preheating solutions for the manufacturers of specialised tubes and automated components which conform to the highest safety standard. We are developing new large specially-designed burners which, in conjunction with the use of acetylene as a fuel gas, ensure particularly short preheating times and therefore higher levels of productivity and energy efficiency: for example, we have built modular specially-designed burners with a total of 504 individual nozzles, which make it possible and cost-effective to preheat steel tubes for

circumferential seam welding which have a diameter of up to seven metres and a wall thickness of up to 150 millimetres. In addition to this, we have developed burners with 318 preheating nozzles for the longitudinal seam welding of tubes up to ten metres long. The first prototypes have already been successfully tested and will probably be brought into operation by our customer at the end of February 2008. With this new burner design, we are confirming our leading position as a gases supplier in the metal-processing industry and also in this particular field of application.

Our research and development activities focus not only on improving existing customer processes, but also on completely new technologies. We conduct research, for example, into forward-looking gases applications which might form the basis of future commercial success, such as new applications for medical gases or the use of hydrogen (H<sub>2</sub>) as an alternative source of energy.

In our Global Business Unit Healthcare in 2007, we have bundled together the expertise of Linde and BOC in medical gases to form a strong unit dedicated to innovation and development, combining the functions of science, technology, clinical research and business development. In the course of the year, we pressed ahead with numerous development projects in the field of respiratory therapy, pain relief and infection control.

In October 2007, our business unit Linde Gas Therapeutics, together with the Karolinska Institute, Stockholm, Sweden, and Harvard Medical International, Boston, USA, awarded the USD 1 m in the Gas Enabled Medical Innovations (GEMI) Fund to eight scientists. Every two years since 2003, we and the partners referred to above have used the money invested in the GEMI Fund to support leading doctors and scientists conducting intensive research in the medical gases field. On the basis of their research results, we develop new diagnostic and therapeutic solutions in order to help patients around the world.

We also conducted direct clinical research and trials to improve our products and treatment procedures with renowned institutions such as Imperial College in London, AKH (Allgemeines Krankenhaus Wien) in Vienna and the Grosshadern Clinic in Munich. In contrast with the basic research conducted by the GEMI Fund, this work seeks to achieve immediate and direct improvements in patient care. Examples of this are a clinical Phase 3 study on the treatment of bronchiolitis, a particular type of lung infection, with a mixture of helium and oxygen (Heliox) and an investigation into the effectiveness of oxygen therapy in the treatment of cluster headaches.

Patients with this relatively rare condition suffer from particularly severe recurring headaches.

In the course of the year, we also continued to work on various development projects relating to hydrogen technology, which has a promising future. These projects are for both stationary and mobile applications. In Turkey, for example, we are involved in a project to develop metal hydride hydrogen storage systems for stationary applications, which is being supported by the independent Scientific and Technological Research Council of Turkey (TÜBİTAK). The aim is to construct a hydrogen cylinder which has a greater H<sub>2</sub> storage density than previous metal hydride stores, can be filled more than 1,000 times, facilitates the removal of the gas in ambient conditions, is convenient to use and absolutely safe, as well as cost-effective and easy to manufacture. We bring to this project a great deal of experience in handling hydrogen and in its storage.

We are also one of the partners in a forward-looking project in Istanbul, the zero emissions ship. This ship, which is powered solely by renewable energy, will become a clean and sustainable solution for passenger transport on the Bosphorus between the European and Asian parts of the city. Linde is responsible for the production of the hydrogen, its storage (on land and on the ship) and for the H<sub>2</sub> filling technology. Here we will have recourse to our experience from the implementation of a similar project involving an emission-free pleasure boat on the Alster River in Hamburg, Germany, which started operation in autumn 2007.

### Engineering Division

In our Engineering Division, we spent around EUR 29 m (2006: EUR 20 m) on our research and development activities. Most of this money was spent on developing new and existing technologies for our plants. These include air separation, olefin and natural gas plants, as well as hydrogen and synthesis gas plants.

In addition to intensive development activity in the field of natural gas liquefaction (LNG) technology, our research and development activities in the Engineering Division focused in particular in 2007 on problem-solving with regard to changes in the supply of input materials to chemical and petrochemical production plants. As a result of the global increase in energy requirements and the simultaneous decline in fossil raw materials, a shift is taking place today away from traditional primary products based, for example, on crude oil, to alternative primary products. This trend is increas-

ing as a result of the growing social and political awareness of the need to promote the sustainability of processes. In order to play an active role in these developments, we tailored our R&D activities in the Engineering Division to these applications at an early stage. Coal and biomass are examples of raw materials which are alternatives to crude oil.

The experts agree that coal will continue to be one of the mainstays of energy supply for decades to come. A country like China, for example, which is experiencing dynamic growth, can meet most of its increasing energy requirements with domestic coal, which is available in large quantities and currently provides 73 percent of China's total energy mix. Coal as an input material is therefore of particular importance for gasification projects. The use of gasification plants means that chemical base products, synthetic fuels and electricity can be produced in a more environmentally friendly and cost-effective way than the alternative of using crude oil. Linde is heavily involved in the coal gasification process, both in terms of optimizing the technology and in terms of developing new process components.

The quantities of carbon dioxide and sulphur produced by gasification can be efficiently separated from the gasification gas with washing processes. The separated carbon dioxide can then be channelled towards re-use, for example in enhanced oil recovery. This involves carbon dioxide being pumped under pressure into existing crude oil beds, which increases the extraction rate and yield. Alternatively, the CO<sub>2</sub> can also be stored in underground caverns for the purpose of sustainable clean coal technology. We are also active in these areas and are currently involved in several carbon dioxide separation projects and in the development of optimised washing processes to purify synthesis gas for Fischer-Tropsch synthesis (see glossary).

Furthermore, we are engaged in activities relating to coal-fired power stations with CO<sub>2</sub> separation. Our Engineering Division is working together with partners such as the Western Research Institute, Wyoming, USA, on a current project set up by the US Department of Energy (DOE). We are investigating a cyclical Ceramic Autothermal Recovery (CAR) process in a pilot plant. During the CAR process, the coal is burned together with a mixture of recycled waste gas and oxygen in a coal-fired oxyfuel steam boiler to obtain a CO<sub>2</sub>-rich waste gas for the separation. Ceramic materials are used here as a source of oxygen – perovskite pellets, which have a high oxygen storage capacity and release the gas under certain reaction conditions.

In another development project, we are working with partner companies BASF and RWE on a new process to separate carbon dioxide from the combustion waste gases from coal-fired power stations (post-combustion capture). The collaboration involves the construction and operation of a pilot plant at the Niederaußem lignite-fired power station of RWE Power AG, in which BASF's newly-developed technologies and solvents for CO<sub>2</sub> separation, or CO<sub>2</sub> wash, are tested. Linde is responsible for the engineering and construction of the pilot plant.

Against a background of sustainable, climate-friendly and environmentally friendly energy supply, the use of renewable primary products will acquire greater strategic importance in future. We are therefore conducting research, for example, into the production of hydrogen from biogenic primary products which are not in competition with foodstuffs. To do this, we have developed a new thermal

process for which the input material is a waste product from a biological source. We are currently working on a BTH (Biomass To Hydrogen) plant as a pilot project. The pilot plant will serve initially to demonstrate the functional efficiency of the process and subsequently to produce biological hydrogen for use as a vehicle fuel for continuous operation. The project is a joint initiative between our Engineering and Gases Divisions and our Group company Selas-Linde GmbH.

In addition to these R & D activities, we are investigating other applications for the manufacture of chemical primary products from biogenic raw materials and assessing their technical feasibility and profitability.

In the past year, the Group filed 219 new patent applications for inventions. In total, the technologies of The Linde Group were protected by 4,062 patents at 31 December 2007.

## Research and development

	Expenditure (in € million)					Number of employees				
	2007	2006	2005 <sup>1</sup>	2004	2003	2007	2006	2005	2004	2003
Gases Division	68	72	61	56	46	238	317	319	313	292
Engineering Division	29	20	16	16	16	242	121	98	98	94
<b>Continuing operations</b>	<b>97</b>	<b>92</b>	<b>77</b>	<b>72</b>	<b>62</b>	<b>480</b>	<b>438</b>	<b>417</b>	<b>411</b>	<b>386</b>

<sup>1</sup> Adjusted.

## Corporate responsibility

It is our view that corporate responsibility extends beyond national boundaries. We have therefore adopted a comprehensive corporate responsibility (CR) plan, which enables us to integrate the various aspects of corporate responsibility into our business processes and to document our progress. Regular reporting and continuous dialogue with our major stakeholders – our employees, customers, business partners, shareholders and local communities – will ensure that our policies are easy to understand and transparent and take account of the requirements of the various parties involved.

In the 2007 financial year, we completed the Group-wide implementation of our CR concept. This includes the introduction throughout the Group of basic guidelines, such as the code of ethics and the corporate responsibility policy. In October 2007, we also published the first corporate responsibility report of the new Linde Group.

### Corporate responsibility management

Our CR management bridges the gap between abstract ideas and concrete value management and focuses on how the values of The Linde Group will gradually be incorporated into everyday business life. We have laid the foundations by allowing corporate responsibility to assume a pivotal role in the Group, with clearly defined areas for action.

The most senior management committee is the Corporate Responsibility Council. The members of the Council are Professor Dr Wolfgang Reitzle, Chief Executive Officer of Linde AG, and Dr Aldo Belloni, a member of the Executive Board, together with the managers with overall Group responsibility for Corporate Communications & Investor Relations, Human Resources, Internal Audit, Legal and SHEQ (Safety, Health, Environment, Quality). The Council defines the objectives in each of the areas for action: employees, SHEQ, corporate citizenship, ethics & compliance and capital markets.

### Road-map 2007/2008

These objectives are set out clearly every year in a corporate responsibility road-map (see glossary). In the 2007 financial year, we reached some important milestones on our road-map. These include:

- introducing a code of ethics and a notification system (integrity line) throughout the Group
- reviewing and recalculating health, safety and environment (HSE) data (see glossary) across the Group

- evaluating all corporate citizenship projects worldwide
- expanding our range of family-friendly policies in Germany and
- publishing the first corporate responsibility report of The Linde Group.

In the 2008 financial year, we will continue with our corporate responsibility reporting at a Group level and introduce CR reporting at Regional Business Unit level. At the same time, we will set up a web-based tool to collect HSE data across the Group.

In the area of ethics and compliance, we are planning to establish a Group-wide training programme which should help all our employees to apply the Linde code of ethics in everyday business life.

In the area of corporate citizenship, we intend to continue in 2008 to provide strong support for the social commitment of our employees, for example by developing an improved communications structure.

### Ethics and compliance

In 2007, in accordance with our CR road-map, we published a new code of conduct, the code of ethics, and installed a notification system, the integrity line, throughout the Group. In the 2008 financial year, we will focus on establishing structures and tools that will aid compliance with the rules of conduct set out in the code of ethics. The overall objective is to ensure that ethics and compliance are firmly rooted in The Linde Group.

The code of ethics deals with the most important compliance issues (compliance with statutory and internal Group regulations on the correct conduct to adopt in the course of business), such as fair trade and anti-corruption laws, grouped according to the main topics which concern our stakeholders. The code also includes a detailed description of the integrity line.

The integrity line provides employees with an additional channel for addressing legitimate issues. It can also be used by third parties such as customers and suppliers. All issues reported via the integrity line are coordinated by the Linde Compliance Facilitator in accordance with data protection regulations. The Linde Integrity Committee is made up of one representative from each of the following departments: Legal, Human Resources, Internal Audit and Corporate Communications. The committee adopts strictly confidential procedures when it decides how each individual case should be handled.



In 2008, the ethical procurement guidelines which have applied to date will be merged and implemented throughout the Group as a supplement to the code of ethics.

## Safety, Health, Environment, Quality (SHEQ)

For all our stakeholders, especially for our employees and customers, efficient and effective management of safety, health, environment and quality are of crucial importance. At the same time, it is a basic requirement if we want to maintain the high quality of our products and services and thereby achieve economic success.

Safety, health, environment and quality (SHEQ) are managed throughout the Group by a central department which is responsible for drawing up overall Group targets, which the individual organisational units must then implement themselves.

In the 2007 financial year, Linde began to introduce an integrated SHEQ management system based on the SHEQ policy launched throughout the Group in the previous year. It includes the most important objectives and standards for occupational safety, product safety, occupational health and environmental protection. This systematic approach will also make a significant contribution in 2008 to minimising the risks for all our employees, partners and customers, as well as for the natural environment.

Measures to improve environmental protection are increasingly being incorporated into national legislation, to meet emission-reduction targets, for example, or to reduce the volume of waste. Plant safety is another important consideration here. Many of these laws have now been largely harmonised at EU level, but differences remain between countries, both within the EU and especially outside the EU. These differences need to be taken into account. To ensure that the various requirements in different countries are met, each individual company is responsible for implementing its own SHEQ management system.

### REACH: Reform of European chemicals legislation

REACH (Registration, Evaluation and Authorisation of Chemicals) is a reform of European chemicals legislation, which came into force in June 2007 as an EU Regulation. REACH stipulates that chemical substances in the EU must be tested for their impact on health and the environment, and registered if annual production or the amount imported annually exceeds one ton. This also includes substances which are already on the European market. Most of the gases produced and distributed by Linde come under an exemption clause and are therefore not covered by REACH.

As a result of REACH, however, some changes have been made to the content and structure of product safety data sheets prepared in accordance with the previous directive. Linde intends to proceed in accordance with the recommendations of the European Industrial Gases Association (EIGA) and the European Chemical Industry Council (CEFIC) and make changes to the safety data sheets on a gradual basis.

## Climate protection

We believe that climate change is one of the issues which will influence our business in the years to come. Our economic objectives will be linked even more closely in future with our technological and eco-technical innovations. In this way, we will make even more efficient use of our far-reaching development potential in the field of climate and environmental protection. In the 2007 financial year, we conducted a fundamental evaluation of the opportunities and risks for Linde associated with climate change. We will further refine this analysis in 2008 and take the appropriate measures as a result.

In accordance with our SHEQ policy, we measure environmental and climate data constantly (see section on key data). In future, we will identify Key Performance Indicators (KPIs) from all the data recorded and we will use these indicators as critical measures and management tools when examining the ecological performance of the Group. As in the 2007 CR report, we will be guided by an international standard, the Greenhouse Gas (GHG) Protocol of the World Business Council for Sustainable Development (WBCSD).

## Social commitment – worldwide

Our social commitment is closely linked with our core business. It includes not only partnerships, affiliations and foundations, but also financial support for the individual projects and social initiatives of our employees worldwide. We focus in particular on education and training, science and research.

In the course of its 130-year history, Linde has produced some ground-breaking inventions which have changed the lives of many. We are therefore keen to share the story of Linde with the public and have set up a corporate heritage department. In the past year, the activities of this department have included embarking on a research project which will take several years, in collaboration with the University of Glasgow in Scotland and the Gesellschaft für Unternehmensgeschichte (GUG, a company for the promotion of business history) in Frankfurt, Germany.

In the past financial year, we have also performed a review of all our corporate citizenship activities. The results show that very many of our global locations help to deal with local social issues. A more detailed account of this can be found in our 2007 corporate responsibility report. In 2008, we are planning to set up an Internet-based forum to share best practice for the implementation of corporate citizenship projects. We would like to achieve better cross-linking of local employee initiatives and to increase transparency both within and outside the Group.

## Employees

Equality of opportunity is an important part of our value system. It follows therefore that the training and continuing professional development of our staff forms the basis of our personnel policy at all our locations. Our human resources strategy takes account of relevant business requirements, provides performance incentives and offers the most flexible framework possible.

### Integration

In the 2007 financial year, it was vital that we managed the integration process following the acquisition of the British BOC Group in a way that ensured decisions could be made and action taken at all times. The Group Human Resources department, which oversaw the integration process, focused on the development and implementation of the new organisational structure. The key to swift implementation was a standard process of employee selection and staff appointments used in the course of 2007 throughout the world.

### Corporate culture

In the course of the financial year, we completed our work on defining the corporate culture which would embody the new Group. We devised a document entitled "Linde Spirit", which outlines a new corporate philosophy, setting out the vision, values and fundamental principles of The Linde Group. This will provide guidance to all our employees worldwide.

### Recruitment and training

We intend to expand our marketing activities in higher education, so that in years to come we can continue to attract highly-qualified employees to The Linde Group, especially engineers and natural scientists. In Germany, Linde is able to offer sandwich courses at vocational colleges as an alternative to traditional university courses. We also assign thesis projects to exceptionally talented students in fields that match our core businesses, with the aim of interesting potential technical and management staff in our Group at an early stage. In addition, all the major German and international locations of Linde AG are in close contact with higher education institutions in their local area.

### Job evaluation and identification of potential

Describing the nature and significance of specific roles based on uniform standards is essential to ensure transparency for employees and comparability of jobs within the Group. We value highly not only jobs which involve leadership responsibility, but also roles which require particular technical expertise or specialised knowledge.

### Continuing professional development for qualified and management staff

We are constantly improving the range of specialised and interdisciplinary training courses which we offer throughout the Group and we see training as part of a process of lifelong learning. The emphasis here is on developing the skills of particular target groups: e.g. safety training, courses for plant operating staff, courses for field staff at Linde Gas Therapeutics and language courses. These measures ensure that our staff are employable in the long term.

Our management development and talent management schemes come under the umbrella of Linde University. Working together with leading international business schools, Linde University offers programmes and events tailor-made for the Group as a whole or for individual divisions. The aim is to develop strategic management skills among our Group executives, support international networking and create a uniform performance culture.

### Succession planning

Linde places great emphasis on succession planning for key positions within the Group. In future, we would like increasingly to fill job vacancies with internal candidates who have been identified as having potential. Therefore, we apply the same standards and criteria worldwide.

### Knowledge management

The know-how of a company is of the greatest benefit when it is made available to all employees who can make good use of it. We therefore ensure that we provide access to relevant information to employees at all levels in the Group. In all our divisions, we have Intranet-based knowledge databases, which hold extensive information about products, markets and competitors.

### Internal communications

Various tools are used by Linde to communicate information about organisational changes and important events within the Group promptly and in detail. In 2007, we made further improvements to our internal media and introduced the Linde Group Intranet, a worldwide information platform. We send a monthly electronic newsletter to all our employees worldwide, which provides an overview of the most important news from all the divisions. We also publish regular issues of our employee magazine "The Linde Group World Magazine" worldwide in printed form.

Many Linde companies conduct employee surveys as part of their dialogue with employees. The results provide us with useful suggestions as to how we can improve the way in which employees and management work together.

### Diversity

Our Group-wide code of ethics guarantees equal opportunities for our employees to the greatest possible extent. We attach importance to retaining the local workforce in the various countries in which we operate. We enhance our employees' inter-cultural skills by seconding them to foreign countries.

As the proportion of women working in engineering and scientific environments such as ours remains disproportionately low, we are taking measures to make Linde a more attractive employer for women. In Germany, for example, the Engineering Division is actively involved in the Technical University of Munich's MentorING scheme for female science and technology students. Here, mentors drawn from companies or from the university spend time with the young women and provide them with advice, from their intermediate examinations through to graduation.

### Work-life balance

Back in 2005, we first introduced a number of measures to ensure that our employees were able to maintain a balance between work and their private lives. One example of this is the fact that, from 1 January 2007, all employees in our German companies have had access to the services of a childcare agency.

In addition, from 1 January 2008, employees in Germany have had access to a care agency for their elderly relatives which can also provide advice.

### Employee representation

The Linde Group recognises the right of its employees to join trade unions. We strive to achieve constructive cooperation with employees, employee representatives and trade unions, and a fair balance between the economic interests of the Group and the interests of our workforce. In Germany, the Works Constitution Act (BetrVG) governs cooperation between company management and employee representatives. Employee representation in The Linde Group is two-tiered, comprising decentralised works councils in the individual units and a central works council for the Group as a whole. In addition to this two-tiered co-determination system, Linde has also had a European works council for a number of years. This provides the opportunity for employee representatives to share information across national boundaries. The European works council also functions as an advisory body to both the Group works council and corporate management.

### Pensions

With its occupational pension schemes, Linde contributes towards protecting the pension situation and standard of living of its employees once they have retired. Existing pension schemes are either defined contribution plans or defined benefit plans (see glossary). In terms of personnel management, occupational pensions play an important role, as they strengthen Linde's position as an attractive employer by forming part of the remuneration package offered to employees.

Risk control and cost transparency – especially in view of increasing life expectancy worldwide – are key principles of sustainable pension plans. Linde is therefore increasingly switching retirement benefits for its employees from defined benefit plans to defined contribution plans.

Pension plans are increasingly being set up so that employees build up their pension benefits with their own contributions. Frequently we will encourage such contributions on the employees' own initiative by making an additional employer's contribution, known as a matching contribution.

In many countries, converting portions of salary into pension contributions has tax advantages and it therefore offers many employees an attractive way of providing for their own pensions.

The main pension plans in The Linde Group, which constitute around 94 percent of Linde's global pension obligations, are in the UK, Germany, the United States, Australia, the Netherlands, South Africa and Switzerland. The pension obligation for these countries

(or gross provision under IAS) was EUR 4,830 m, with total plan assets of EUR 4,620 m.

In the 2007 financial year, Linde spent a total of EUR 151 m (2006: EUR 165 m) on pensions and staff welfare costs. Linde provided the funds for occupational pensions for 26,075 current employees who are active members of schemes. 19,558 former employees have acquired a non-forfeitable entitlement to a company pension (deferred members) and 29,636 pensioners drew a Group occupational pension.

#### Thank you to our employees

The Executive Board would like to thank all Linde employees for their dedication and hard work in a year which has required a particularly high level of commitment from you all. Our staff have made tremendous efforts to ensure that the integration process proceeded smoothly and that The Linde Group continues to grow.

#### Socially responsible investments (SRI)

In the medium term, Linde aims to be included in indices and investment funds which only admit companies managed in accordance with the principles of sustainable growth. We have the potential to assume a leading role in the areas of sustainability and corporate responsibility. As in 2007, we will participate in 2008 in the rating and admission procedures for these indices, such as the Dow Jones Sustainability Index. We have increased our chances of achieving such a listing by seeking to improve the measurability of our environmental performance and by positioning ourselves clearly on the subject of climate change, as set out in the CR road-map.

#### Corporate responsibility reporting

In October 2007, The Linde Group published its first corporate responsibility report. The purpose of this report is to record, classify and prioritise our activities in the five areas for action we have defined: employees, SHEQ, corporate citizenship, ethics & compliance and capital markets. Detailed information about each of the topics mentioned above can be found in the printed version of the CR report and on the Internet at [www.linde.com](http://www.linde.com).

#### Key data

Against the background of the extensive reorganisation of The Linde Group, recording and defining relevant employee key data and HSE key data for the new, larger organisation presented a particular challenge. To increase measurability as well as transparency at a gradual pace, the departments responsible set themselves specific targets. In 2007, the main aim was to standardise the key data and definitions of Linde and BOC and to extend the range of key data recorded on the basis of external requirements. In 2008, we are planning to introduce a Group-wide standardised web-based data capture tool. We will identify the Key Performance Indicators (KPIs) from the key data recorded by this tool and we will use these indicators as management and measurement tools when determining the sustainability of Linde.

In this report, Linde is publishing for the first time aggregated employee and HSE data for the years 2006 and 2007. We use these non-financial indicators to measure and compare the performance of Linde in the areas mentioned.

## Employees

	2007	2006 <sup>1</sup>
<b>Employees by division</b>		
Gases Division	39,577	39,142
Western Europe	13,284	12,332
Americas	7,554	10,764
Asia & Eastern Europe	11,309	9,694
South Pacific & Africa	7,430	6,352
Engineering Division	5,637	5,166
Other activities	5,271	6,730
<b>Group</b>	<b>50,485</b>	<b>51,038</b>
Discontinued operations and disposals	219	4,407
<b>Structure of the workforce</b>		
Proportion of part-time employees in %	2.9	2.9
Proportion of fixed-term employees in %	6.7	5.9
Proportion of staff covered by collective wage agreements in %	51.2	47.6
Proportion of apprentices and trainees in total workforce in %	1.0	0.8
Proportion of apprentices and trainees in Germany in %	3.4	3.6
<b>Employee retention</b>		
Staff turnover rate in %	7.2	6.8
Average length of service in years	8.6	7.4
<b>Diversity</b>		
Proportion of women in %	19.4	18.7
Proportion of women in senior management positions in %	7.8	N/A <sup>2</sup>
Age structure of permanent staff in %		
Number of staff between 20 and 30 years old	17.5	16.1
Number of staff between 31 and 50 years old	59.8	60.8
Number of staff over 50 years old	22.7	23.1
<b>Employee training</b>		
Number of employees who have taken up training opportunities in %	54.1	53.1
Average number of training days per employee	1.5	1.4
Average expenditure on training programmes per employee in €	323	263

<sup>1</sup> The prior year figures for 2006 have been adjusted and they relate, unless noted otherwise, to continuing business operations.

<sup>2</sup> As the job evaluation systems of BOC and Linde were combined in 2006, no corresponding data is available for 2006.

## Health, Safety and Environment (HSE) data

To make systematic improvements in our performance in the area of HSE, we review and document the measures we have taken by conducting regular audits based on standards recognised throughout the industry sector. In 2007, 775 environmental audits were conducted at our industrial sites. Occupational safety and health were the subject of 1,948 audits.<sup>1</sup> 31.0 percent of employees took part in environmental protection training programmes and safety training schemes during the financial year.<sup>2</sup>

### Performance indicators: Health & Safety

	2007	2006 <sup>3</sup>
Number of industrial accidents per million hours worked (Lost Time Injury Rate; LTIR)	2.63	2.60
Number of industrial accidents with at least one day of absence	275	287
Number of days lost due to industrial accidents	4,424	7,494
Number of days lost per million hours worked	42.3	70.0
Average number of days sick leave per employee	3.6	4.0

In 2007, our health and safety figures either improved or at least remained constant. By applying preventative measures, we have reduced the number of industrial accidents by at least one day of absence and significantly reduced the number of days lost due to industrial accidents compared with the prior year. However, among the industrial accidents, there were six fatalities in The Linde Group in 2007. In 2006, there was one fatality, if the parts of the business which had been sold at the year-end are not taken into account.

### Performance indicators: Environment

	2007	2006 <sup>4</sup>
<b>Use of resources</b>		
Consumption of electricity in GWh	20,713	19,882
Consumption of natural gas in GWh	21,915	24,772
Consumption of water <sup>5</sup> in million cubic metres	51.05	N/A
<b>Emissions into the air<sup>6</sup></b>		
Direct CO <sub>2</sub> emissions in million tons	4.65	4.17
Indirect CO <sub>2</sub> emissions in million tons	10.09	9.73
<b>Waste</b>		
Total waste in tons	95,477	70,947 <sup>7</sup>
Proportion of hazardous waste in %	45.0	42.7
<b>Environmental data for specific types of plant<sup>8</sup></b>		
Water consumption by air separation plants in million cubic metres	24.18	31.67
Energy consumption by air separation plants in TWh	16.93	17.80
Indirect CO <sub>2</sub> emissions <sup>6</sup> from air separation plants in million tons	7.97	8.68
Natural gas consumption by HyCO plants <sup>9</sup> in TWh	21.20	20.24
Direct CO <sub>2</sub> emissions from HyCO plants in million tons	3.31	3.13

The main indicators for the measurement of our ecological performance are the figures relating to specific types of plants.

It is the air separation plants and HyCO plants we operate which require the greatest input of resources, compared to other plant types, such as carbon dioxide plants and acetylene plants.

<sup>1</sup> The number of audits relates to internal and external audits performed at production, administration and sales sites worldwide.

<sup>2</sup> As a result of differing definitions being used within the former organisations of Linde and BOC, no consolidated figures are available for 2006 in the area of HSE management.

<sup>3</sup> The prior year figures for 2006 have been adjusted and relate to continuing operations.

<sup>4</sup> For better comparability, the 2006 prior year figures were adjusted to reflect the structure of the 2007 report. Some of the information therefore differs from the information given in the 2007 CR report and in the 2006 financial report.

<sup>5</sup> The water consumption relates to drinking water and industrial water used and does not include once-through water for cooling systems. Once-through water is drawn from a natural or other source, solely thermally polluted and ultimately piped back to the stretch of water.

<sup>6</sup> The CO<sub>2</sub> emissions have been calculated in accordance with the recognised country-specific CO<sub>2</sub> conversion factors of the International Energy Agency (IEA).

<sup>7</sup> Not included here are sites in Spain, Portugal and France, as well as some of the sites in the Regional Business Units North America and Africa. In 2007, the amount of waste produced by these sites was 10,918 tons.

<sup>8</sup> The period under review in the former BOC organisation in 2006 was the period from 1 October 2005 to 30 September 2006.

<sup>9</sup> The HyCO plants (see glossary) in 2007 include steam reformers (see glossary), partial oxidation plants (POX, see glossary) and methanol crackers. The figures for 2006 relate to steam reformers and POX plants in BOC, and steam reformers only in Linde.

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In the 2007 financial year, we were able to improve the environmental efficiency of our air separation plants overall. Thanks to targeted energy-saving projects, we reduced the electricity consumption of our air separation plants at various sites. The indirect carbon dioxide (CO<sub>2</sub>) emissions were also reduced as a result (Scope 2).

Overall CO<sub>2</sub> emissions (Scope 1 and Scope 2, see glossary) did, however, rise during the year. This was due mainly to the increased use of fuels such as propane and butane for the production operations of our HyCO plants. In comparison with natural gas, which is used primarily for the production of hydrogen, propane and butane have higher specific emission factors on combustion.

In order to reduce our high volumes of waste in future, we will become more efficient at waste management and make further improvements to our waste disposal policy. Our aim is to increase the proportion of waste recycled from its current level of 54.5 percent.

More background information about employees, environmental protection, safety and corporate citizenship can be found in our 2007 corporate responsibility report (which can be obtained by post or via the Internet at [www.linde.com](http://www.linde.com)).

## Risk report

### Risk management

Risk management in The Linde Group is an integral part of all our decisions and business processes. The Linde Group, a technology company with global operations, is exposed to a great variety of risks in the course of its international business. It is our willingness to take risks that enables us to exploit opportunities as they arise.

We therefore see risk management as an ongoing task, one which involves the recording, analysis and evaluation of areas which relate to potential and actual developments.

The Linde AG Executive Board has established a comprehensive, systematic and efficient risk management system, the basic principles of which are laid down in Group guidelines, a system which is adapted to suit our corporate structure and which represents a vital part of the Group management process. It is incumbent on the operational management of the risk owner to take direct responsibility for the early recognition, management and communication of the risks. The next level of management is responsible for controlling those risks. Under the risk management system, the Group companies adopt a bottom-up approach and report the status of any significant risks and any changes in those risks, based on graduated cut-off points. In addition, any risks which arise at short notice or which have repercussions for the whole Group are communicated directly to the appropriate personnel in the Group, irrespective of the normal reporting channels.

The aim is to identify potential risks arising from our operations at an early stage by incorporating them into a database, to assess them using specific criteria, to evaluate the extent and characteristics of the risks and to introduce appropriate precautionary and security measures.

Monthly Group reporting is of the utmost importance in the monitoring and control of economic risks in current business operations. It must ensure that the course of business in the individual Group companies is reflected and described in accordance with uniform guidelines.

Every quarter, the Executive Board is presented with status reports from the central risk management department which are then discussed at an Executive Board meeting. The status reports include not only a presentation of the significant risk positions in the individual divisions and regions, but also qualitative and quantitative assessments of the probability of occurrence and loss potential of the risks identified, which might jeopardise the Group companies and the Group as a whole. Moreover, the operational members of the Executive Board report every six months on the risk situation within their sphere of responsibility.

Risk workshops are held regularly. The central risk management department is responsible for the implementation of risk manage-

ment at a global level and ensures that not only are staff aware of risk, they are also able to make appropriate risk assessments.

The internal audit department performs reviews at regular intervals of the efficiency and effectiveness of the risk management system. The external auditors also assess the effectiveness of the risk management system and submit regular reports about the outcome of their reviews to the Group Executive Board and Supervisory Board.

Furthermore, there are rules of conduct in The Linde Group which are set out in guidelines and other standards. Speculative transactions or other arrangements of a speculative nature are not permitted. Our conduct towards our suppliers, our customers and the community is fair, and we are aware of our responsibilities.

### Risk areas

#### Risks arising from the economic environment

As a company with global operations, we are dependent on cyclical trends in the world economy. Furthermore, the fact that markets are competitive means that we are exposed to the risk of losing market share and experiencing a decline in the level of market awareness.

The Linde Group operates in a number of different industry sectors in order to avoid dependence on one particular sector. We are constantly conducting analyses of our market environment and competitive situation. We obtain vital information about our customers' needs by maintaining regular contact with customers, which enables us to stay close to the market. We use the information we receive to develop and supply products tailored to suit the needs of the market and to enhance our competitive position and level of market awareness.

#### Risks in politically unstable countries

The Linde Group is a global group operating in around 100 countries. Potential risks we might encounter in different countries include the nationalisation or expropriation of assets, legal risks, the prohibition of capital transfers, war and other unrest. To manage these risks, we employ risk assessment tools to evaluate our exposure to risk and the impact of risk on the net assets, financial position and results of operations of the Group and to ensure cross-border financing at optimal levels of risk. Individual capital expenditure projects are evaluated so as to identify any political risks which might be associated with them.

#### Financial risks

Due to its global operations, The Linde Group is exposed to a number of financial risks. In particular, these include counterparty risk and risks arising from movements in interest rates and exchange rates.



Interest rate risk arises as a result of fluctuations in interest rates caused by the markets. On the one hand, they have an impact on the level of the interest expense borne by The Linde Group, and on the other hand they affect the fair values of financial instruments.

In the case of exchange rate risk, it is important to distinguish between operational transaction risks, which are the result of supply contracts for individual projects spread across different currency zones, and translation risks, which arise from currency translation relating to individual companies at different cut-off dates. As a result of the acquisition of The BOC Group plc, our interest rate risk and exchange rate translation risk have increased significantly.

To manage counterparty risk, we rely mainly on the credit ratings of the counterparties and we limit the extent and duration of any financial transactions to be concluded accordingly. Regular reviews are performed by a supervisory unit which is independent of the trading entity to ensure compliance with all the limits set.

Within Treasury, the principle of segregation of duties 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 organisational separation between the dealing and the processing and verification of a financial transaction. We use a treasury management system to implement, record and evaluate our transactions. The operations within 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, and the objectives and principles governing our financing are determined by the Treasury committee led by the member of the Executive Board responsible for finance. This committee usually meets once a month.

We make financing and hedging decisions on the basis of the financial information which we receive from the treasury management system and from our financial and liquidity forecasts.

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 transaction risks themselves and agree appropriate hedging transactions with the Group Treasury, based on predetermined minimum hedging rates, provided that no country-specific restrictions or other reasons not to hedge internally apply. Specific risks are aggregated by currency at Group level and the resulting net foreign currency position (see glossary) per currency for The Linde Group is determined in each case. Furthermore, we regularly run value at risk scenarios on the net position using the variance-covariance method (see glossary), assuming a one-year holding period and a confidence level of 95 percent.

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 the US dollar (USD), the British pound (GBP), the Australian dollar (AUD) and some Eastern European, South American and Asian currencies. Since 2006, translation risks have also been hedged as, following the acquisition of The BOC Group, the focus of our currency management has shifted from currency transactions to currency translation.

In our Gases Division, we also use financial instruments to hedge against exposure to electricity price changes. In our project business in the 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 over and above this are immediately hedged fully when they arise, generally by entering into forward exchange transactions.

Interest rate risks are also centrally managed. We evaluate potential interest rate risks, ascertain the interest risk exposure in the major currencies and conduct sensitivity analyses. The Treasury committee then determines the range for the hedging rates and the Group Treasury concludes the transactions with the banks. Interest rate risks are hedged using long-term fixed-interest bonds, loans and interest rate derivatives. At 31 December 2007, around 32 percent of the Group's exposure was financed at variable rates.

#### **Personnel risks**

An important feature of Linde AG's corporate culture is that it is based on trust. We place special emphasis on our employees assuming personal responsibility and thinking and acting in an entrepreneurial way.

Linde will continue to position itself as an attractive employer and will seek to ensure the long-term loyalty of its management team by developing the strengths of the Group's executives and fostering their commitment. Our rigorous management development programme includes the provision of development opportunities and offering support and advice to target groups, the early identification and advancement of high achievers and those with potential, and attractive management incentive schemes which are tailored to suit the needs of the market.

The success of our company depends on the commitment, motivation and skills of our employees. We are addressing the issue of the shortage of qualified personnel in some fields by ensuring that we offer a range of personnel development schemes and extensive opportunities for gaining qualifications and for professional development. This strengthens our position as an attractive employer in the competitive market for qualified employees, especially in the field of engineering.

### Risks arising from acquisitions and investments

Acquisition and investment projects are vital for the growth of The Linde Group, because they look to the future. Such projects, however, are associated with complex risks. We manage and reduce these risks by designing tailor-made procedures and processes for our acquisition and investment projects.

Right at the beginning of each project, we use internal and external experts to assess the risks associated with that project, while acquisitions and divestments are regularly discussed at committee meetings or meetings of the Executive Board.

In the course of the past financial year, Linde AG has completed a variety of acquisitions and sales. Most of the sales were made because of conditions imposed by the competition authorities following the acquisition of The BOC Group plc in 2006. The acquisitions made by Linde AG in 2007 are the result of deliberate measures taken by the company to strengthen our core business. We monitor the performance of our acquisitions by examining movements in specific financial variables.

### Environmental risks

The Linde Group stands not only for quality management, but also for environmental management on a large scale. Our aim is to identify environmental risks at an early stage and to take appropriate countermeasures. In this way, we also reduce any liability risk arising from excessive environmental pollution. We have a holistic approach to environmental protection, involving the entire life-cycle of our products. We even consider the potential impact on the environment at the development and planning stages.

The tightening of legal regulations may lead to increased development costs, product identification requirements and production costs. In the course of our risk identification and management process, we monitor any legislation which applies to our markets and our research and development teams look at alternative production materials.

### Legal risks

With its international operations, The Linde Group is exposed to numerous legal risks. These may include, in particular, risks relating to product liability, competition and antitrust law, patent law, tax legislation and environmental protection. The outcome of any current pending or future proceedings can often not be predicted with certainty. It is therefore possible that legal or regulatory judgments or agreed settlements might give rise to expenses which are not covered, or not fully covered, by insurance benefits and which might have an impact on our earnings and on our business.

Legal proceedings currently considered to involve material risks are outlined below. This does not necessarily represent an exhaustive list.

Certain companies in The Linde Group are parties to various legal proceedings in the ordinary course of business, including some in which claims for damages in large amounts have been asserted. The outcome of the litigation to which Linde Group companies are party cannot be readily foreseen, but the Company believes that such litigation should be disposed of without material adverse effect on the Company's financial condition or profitability.

Certain subsidiaries of the Company are parties to lawsuits in the United States for alleged injuries resulting from exposure to manganese, asbestos and/or toxic fumes in connection with the welding process. In these cases, the Company's subsidiaries are typically one of several or many other defendants. The subsidiaries of the Company named in these cases believe that they have strong defences to the claims asserted in the various cases and intend to defend vigorously such claims. Based on the litigation experience to date, together with current assessments of the merits of the claims being asserted and applicable insurance, the Group believes that the continued defence and resolution of the welding fumes litigation will not have a material adverse effect on its financial condition or profitability. Nonetheless, the outcome of these cases is inherently uncertain and difficult to predict. The Company's subsidiaries have insurance that covers most or part of the costs and any judgements associated with these claims.

### IT risks

In a modern working environment, companies rely on information technology to ensure a secure and effective infrastructure. To minimise the risk of business processes being interrupted as a result of systems failure, numerous security measures have been implemented. These include access control systems, contingency plans, an uninterrupted electricity supply for critical systems, back-up systems and data mirroring. In addition, we use firewall systems and virus scanners to counter data security risks arising from unauthorised access to the IT systems. We also ensure the confidentiality, availability and integrity of the data.

### Project risks

Complex major plant construction projects make specific demands on risk management. In our Engineering Division, we handle major contracts which may be worth several hundred million euro and may extend over a number of years. Typically, the division is involved in the planning and construction of turnkey plants. Potential risks may arise as a result of costings of complex projects which are subject to uncertainties. Risks may include unexpected technical problems, bottlenecks in the supply of major components, unforeseen developments during on-site assembly and problems with our partners or subcontractors. To manage the risks in plant construction, we employ tried and tested methods even in the tendering phase, to assess the impact on the profitability of a large-scale project of potential variances from budgeted cost for individual components. We conduct simulations of the opportunities and risks associated with each project with the aid of numerical methods of analysis. By continually monitoring changes in the parameters alongside the progress of the project, we are able to identify potential project risks at an early stage and to take appropriate measures to counter them. These risk management tools are constantly being updated and modified to meet the increasing demands of the market.

Another important aspect of risk management is the planning, assembly and commissioning of the projected plants, while at the same time taking account of safety and environmental issues. To ensure that this is indeed the case, the Engineering Division has defined clearly-structured management standards and procedures and has set up a panel of experts with a wide-ranging remit.

### Strategy risk

The Linde Group has developed a long-term growth strategy. At regular meetings, the Executive Board and Supervisory Board, as well as Linde AG management personnel, evaluate the Group's growth strategy and implement any corrective measures required.

### External risks

A fundamental risk for Linde, as for all companies, is posed by potential radical changes in the political, legal and social environment. A theoretical risk to the financial position and results of operations of the Group also exists, in the form of terrorist acts or natural disasters. These risks are covered in some cases by insurance.

### Risk transfer

In selected risk areas, with the agreement of the Linde AG Executive Board, the risk is managed by transferring the risk to insurance com-

panies, i.e. by entering into Group insurance contracts with our central service-provider, *Commercium Versicherungsvermittlung GmbH*.

### Evaluation of the overall risk situation

Based on the risks and future prospects of the Group which have been outlined in this report, no risks have been identified in the 2007 financial year which might have a lasting or significant impact on the net assets, financial position and results of operations of The Linde Group. We have made the necessary organisational arrangements to ensure that we become aware at an early stage of any apparent risk situations.

## Disclosures in accordance with § 315 (4) of the German Commercial Code (HGB) and commentary

Significant financing agreements exist which each include specific rules in the event of a change of control. These rules set out, in particular, the duty to provide information to the contracting party, as well as the cancellation rights of the contracting party.

The convertible bond issued in 2004 includes rules on the adjustment to the conversion rate in the event of a change of control.

If there is a change of control, the hybrid bond issued in 2006 may be called in and repaid early.

There are customer contracts with clauses which grant the customer special cancellation rights in the event of a change of control. If these special cancellation rights are exercised, the contracts provide in principle for appropriate compensation.

In the 2007 financial year, it was resolved at the Shareholders' Meeting to introduce a share option scheme (Linde Performance Share Programme 2007) for management boards and lower-ranking executives under which up to 3.5 million subscription rights can be issued. If members of the Executive Board subscribe for or acquire shares as a result of exercising options, 25 percent of those shares or, under certain conditions, shares equivalent to 25 percent of the total number of options exercised, are subject to a two-year lock-up period. Under the terms and conditions of the share option scheme, in the event of a change of control, special rules may be adopted. The special rules which apply to the share options issued in 2007 are that, in the event of a change of control, cancellation rights apply, which means that options may be settled in cash in an amount to be determined.

In the 2007 financial year, Linde issued benchmark bonds under its Debt Issuance Programme. In accordance with § 5(4) of the terms and conditions of the issue, in the event of a change of control, the bond debtor has the option of demanding immediate repayment if the change of control leads to a withdrawal of the rating or a reduction in the rating to or below certain rating levels for unsubordinated unsecured liabilities.

If there is a takeover of Linde AG and their employment contracts are terminated, members of the Executive Board may be entitled to certain compensation payments based on their contractual emoluments. These compensation payments have an upper limit. A more detailed description of the rules affecting the members of the Executive Board which apply to a change of control can be found in the Remuneration report.

§§ 84 and 85 of the German Stock Corporation Law (AktG) and § 31 of the German Codetermination Law 1976 (MitbestG) apply in respect of the appointment and removal of members of the Executive Board. According to Article 5.1 of the company statutes, the Executive Board consists of several members, with the number of members of the Executive Board being determined by the Supervisory Board. According to Article 5.2 of the company statutes, the Supervisory Board can nominate one of the members of the Executive Board as Chairman of the Executive Board and one as Deputy Chairman.

§§ 179 ff. of the German Stock Corporation Law (AktG) applies when changes are made to the company statutes. A resolution at the Shareholders' Meeting on changes to be made to the company statutes, like all resolutions at the Shareholders' Meeting, requires a simple majority of the votes cast, as set out in Article 13.2 of the company statutes and, if a majority of shares is required, a simple majority of the share capital represented at the vote, as long as mandatory legal rules do not preclude this. A resolution at the Shareholders' Meeting to change the object of the company requires a three-quarters majority of the share capital represented at the vote in accordance with § 179(2) of the German Stock Corporation Law (AktG).

The information about capital subscribed, investments, shares with special rights and the powers of the Executive Board is disclosed in Note [24] of the Notes to the Group financial statements.

## Events after the balance sheet date

### **The Linde Group has completed the sale of the BOC Edwards pharmaceutical systems business to the Italian company IMA**

On 31 January 2008, The Linde Group completed the sale of the BOC Edwards pharmaceutical systems business to the Italian company IMA (Industria Macchine Automatiche) at an enterprise value of EUR 36m in accordance with the letter of the law. A contract of sale had already been signed by the contracting parties on 23 November 2007, subject to the usual closing conditions being met. Back in May 2007, following the acquisition of The BOC Group plc, and as a result of the subsequent focus on the international gases and plant construction business, Linde had completed the sale of the BOC Edwards components business (vacuum pumps and components for the semiconductor industry). Linde will, however, continue to conduct that part of the BOC Edwards business which relates to liquefied gases and electronic gases.

### **The Linde Group increases its shareholding in BOC India Ltd**

On 19 January 2008, the Board of Directors of BOC India Ltd issued and allotted on a preferential basis 36,200,000 new shares for cash at a price of Rs. 165 per share to The BOC Group plc, a Group company of The Linde Group. As a result, The BOC Group's shareholding increased from 54.80 percent to 73.99 percent. Furthermore, The BOC Group plc entered into a trust agreement whereby the allotted shares are held by Linde Holdings Netherlands B.V. on a beneficial basis. Following this preferential allotment, The BOC Group plc is required to make a mandatory public takeover offer to acquire up to 20 percent of the outstanding share capital of BOC India Ltd. The public announcement regarding the mandatory takeover offer was made on 22 January 2008.

## Dividends

The unappropriated profit for the year ended 31 December 2007 of Linde AG, the parent company of The Linde Group, was EUR 864,510,888.31. The Executive Board proposes to the Supervisory Board that, at its meeting on 11 March 2008 to approve the annual financial statements, it recommends the proposal of a resolution to the Shareholders' Meeting on 3 June 2008 that the profits be appropriated as follows:

- by distributing a dividend of EUR 1.70 (2006: EUR 1.50) per share entitled to dividend, a total amount of EUR 282,790,627.60, and
- by carrying forward an amount of EUR 581,720,260.71.

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), and the management report are published in the electronic version of the German Federal Gazette.

# Outlook for 2008

## Macroeconomic trends

### Global economy: Cooling off expected

Growth in the global economy will be slower in 2008 than in 2007. Economic trends in the US in particular are fraught with uncertainty in the wake of the financial and property crisis. Private consumption is suffering due to the continuing fall in house prices, and companies are reducing their expectations of sales and earnings due to lower levels of investment in house building, with the result that investment activity will only increase at a moderate rate. Weaker domestic demand, together with the low rate of the dollar and the accompanying improvement in competitiveness, should ensure that the US economy has a slight current account surplus. The relaxation of monetary policy at the beginning of the year will only cushion the negative impact of the financial and property crisis to a limited extent. Research economists expect an overall increase in the gross domestic product in the US in real terms of around 2.0 percent in 2008 (2007: 2.2 percent).

Economic growth in the eurozone is being supported in the current year by expansionary fiscal policy. However, the waning of the US economy will also have an adverse effect on growth in this region. Against this background, the pundits are expecting a probable increase in gross domestic product in real terms for the eurozone of 2.0 percent (2007: 2.6 percent).

In Germany, the gross domestic product is expected to rise by 1.8 percent in 2008, compared with 2.5 percent in 2007. In the first quarter, the assumption is that the pace of growth will be somewhat slower. For the rest of 2008, the research institutes are predicting a slight increase in economic growth, which is likely to be characterised by a significant rise in private consumer spending. Despite the fact that prices are less competitive than before, exports will continue to boost the German economy in 2008.

The Japanese economy is expected to grow in 2008 at 1.7 percent, a somewhat slower rate than in 2007 (1.9 percent), due to sluggishness in its major sales markets.

The most recent forecasts of the economic research institutes suggest that global gross domestic product in real terms will grow by around 3.0 percent in 2008 (2007: 3.7 percent). At the same time, there will be an expansion in world trade of 5.8 percent. This forecast by the Association of German Economic Research Institutes in Berlin is based on the assumption that the oil price will remain virtually constant until the end of the year at a level of around USD 80 a barrel. The economic pundits are estimating an average exchange rate for the euro in 2008 of USD 1.40.

## Industry sector outlook

### Gases industry

In 2008, we are anticipating solid growth once again in the international gases industry. Most of the growth is being generated by the Asian markets, where we are now a leading player following our acquisition of BOC, as well as in Europe and the US. We are expecting annual growth in the world market for industrial gases of around 7 percent in the coming years. This represents a market volume of some EUR 54 bn in the year 2009. This forecast growth will be derived from the expansion of the traditional gases business and from the development of new fields of application, with some growth also coming from the acquisition of production plants previously operated directly by the end user.

### Plant construction

We are also expecting further growth in 2008 in the global construction of large-scale plants. This will be driven mainly by increasing energy requirements throughout the world, high levels of capital spending by our customers in a wide variety of industries and growing demand for primary products from emerging economies such as China, India, South-east Asia and Eastern Europe.

Demand is expected to rise particularly fast in the energy and petrochemical sectors. Meanwhile, against a background of persistently high oil prices, projects for alternative energy production based on innovative processes and technologies make sense from an economic point of view.

Examples of this are coal liquefaction plants in China, the US and South Africa, plants for the treatment of oil sands in Canada, gas exploration and subsequent liquefaction in the North Sea and in Australia, and petrochemical plants with greater production capacity in the oil-producing countries of the Middle East and the former Soviet Union.

## Outlook for The Linde Group

The Linde Group, as a result of its global orientation, is very well-placed to take advantage of existing growth opportunities, both in mature markets and in the emerging regions of the world. The restructured Group is much less dependent on economic cycles and able to cushion adverse regional economic situations. We are therefore, despite some uncertainty about global economic trends, optimistic about the short-term and medium-term future of our Group.

Once again, we assume that Group sales will increase in the current fiscal year and that earnings will rise at a faster rate than sales. We confirm our medium-term target and are seeking to achieve Group operating earnings of more than EUR 3 bn in the 2010 financial year. By 2010, we want to achieve a return on capital employed (ROCE, our key management target) of at least 13 percent. We will also benefit from the synergies arising from the acquisition of BOC. We are convinced that we will be able to achieve the planned cost synergies previously announced of EUR 250 m per annum, in full for the first time from the year 2009.

#### Gases Division

The Linde Group is in a better position in the international gases business than ever before. We operate in almost 100 countries worldwide and have a strong market position in each of those countries.

This global presence strengthens our business: for example, in the on-site product area. In this area, we benefit from the fact that growth is generated in many different regions: in the US by the high level of demand for hydrogen from refineries, in Asia by above-average growth in all customer segments and in Eastern Europe by the establishment of an on-site infrastructure.

This is also why we are confident about the future development of our gases business, especially as this business is and remains a very stable growth market. We expect average annual growth of around 7 percent in the coming years in the global gases industry. Our medium-term target remains the same. We want to grow at a more rapid pace than the market and increase our earnings at a faster rate than sales.

#### Engineering Division

The global situation for international plant construction business remains good. In the four main operating areas (olefin plants, natural gas plants, air separation plants, hydrogen and synthesis gas plants), demand continues to run high.

The significant improvement in our international presence on the gases side also promotes our global plant construction business, as two of the four main types of plant in our Engineering Division are used by the international gases industry: air separation plants on the one hand, and hydrogen and synthesis gas plants on the other. In these product segments, we are either the world market leader or number two in the world.

Against this background, we expect an increase in sales in the Engineering Division in the coming years of 8 to 10 percent per annum on the basis of a high level of orders on hand and the anticipated processing of orders.

#### Capital expenditure

We will continue to apply our capital expenditure strategy and to invest consistently in those areas where there are opportunities for disproportionate growth and where we can increase the earning power and competitiveness of the whole Group. Most of our resources will again be devoted to reinforcing our global gases activities with lasting effect, and in particular to the continuing expansion of our on-site business. In the medium term, our guideline for capital spending in the Gases Division is an average of 13 percent of total gases sales per year.

#### Dividends

In future, we will continue to follow our earnings-based dividend policy and will determine the level of the dividend for the 2008 financial year on the basis of our performance in terms of operating profit.

#### Research and development

In 2008, the current financial year, we plan to spend around EUR 100 m on research and development activities. This is around the same figure as in 2007 (EUR 97 m). A good two-thirds of this amount will be used in our Gases Division for the ongoing development of existing industrial gases applications and processes, in collaboration with our customers. In addition, we intend to expand our R&D activities in the promising area of hydrogen technology. Here, we are concentrating in particular on new processes for the regenerative production of hydrogen. In the current financial year, we will also step up our research activities in our Healthcare business, to test the efficacy of gases in medical applications.

In the Engineering Division, our R&D activities will be focusing on the development of our various plant technologies. The aim is to use innovative technology to help reduce CO<sub>2</sub> emissions even further in the production processes of our customers.



## Purchasing

Purchasing in the Gases Division, which is based on a global organisation, will again make an important contribution in the current financial year towards achieving the desired cost synergies from the acquisition of BOC. The principal objective of purchasing is to continue to minimise cost risks, thereby contributing to a sustainable increase in the value of the Group.

Despite the forecast slowdown in the growth of the global economy, we do not foresee any easing in the procurement markets for international plant construction in 2008. Our Engineering Division is well-equipped for this situation, with its own purchasing strategy. We will continue to implement this strategy consistently: for example, by binding suppliers of high-cost plant components by contract early in the project.

# Group Financial Statements

Linde AG has prepared its Group financial statements for the year ended 31 December 2007 in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. 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.

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**Group income statement**


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in € million	Note	2007	2006
Sales	[8]	12,306	8,113
Cost of sales	[9]	8,276	5,392
<b>Gross profit on sales</b>		<b>4,030</b>	<b>2,721</b>
Marketing and selling expenses		1,830	1,243
Research and development costs		97	92
Administration expenses		1,108	709
Other operating income	[10]	208	193
Other operating expenses	[10]	131	98
Income from associates and joint ventures (at equity)	[12]	73	31
Non-recurring items	[11]	607	- 198
Financial income	[13]	475	257
Financial expenses	[13]	852	499
<b>Earnings before taxes on income</b>		<b>1,375</b>	<b>363</b>
Taxes on income	[14]	379	144
<b>Earnings after taxes from continuing operations</b>		<b>996</b>	<b>219</b>
<b>Earnings after taxes from discontinued operations</b>	[42]	<b>17</b>	<b>1,637</b>
<b>Earnings after taxes</b>		<b>1,013</b>	<b>1,856</b>
attributable to minority interests		61	18
attributable to Linde AG shareholders		952	1,838
<b>Continuing operations</b>			
Earnings per share in €	[15]	5.77	1.45
Earnings per share in € – fully diluted	[15]	5.60	1.45
<b>Discontinued operations</b>			
Earnings per share in €	[15]	0.10	11.85
Earnings per share in € – fully diluted	[15]	0.10	11.04

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**Group balance sheet**


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in € million	Note	31.12.2007	31.12.2006 <sup>1</sup>
<b>Assets</b>			
Goodwill	[17]	7,332	7,572
Other intangible assets	[17]	3,791	3,782
Tangible assets	[18]	7,213	7,219
Investments in associates and joint ventures	[19]	516	1,242
Other financial assets	[19]	395	367
Receivables from financial services	[21]	765	842
Trade receivables	[21]	1	-
Other receivables and other assets	[21]	406	285
Deferred tax assets	[14]	151	214
<b>Non-current assets</b>		<b>20,570</b>	<b>21,523</b>
Inventories	[20]	1,062	980
Receivables from financial services	[21]	95	88
Trade receivables	[21]	1,609	1,574
Other receivables and other assets	[21]	604	775
Securities	[22]	45	42
Cash and cash equivalents	[23]	858	621
Non-current assets classified as held for sale and disposal groups	[42]	112	2,315
<b>Current assets</b>		<b>4,385</b>	<b>6,395</b>
<b>Total assets</b>		<b>24,955</b>	<b>27,918</b>

<sup>1</sup> Adjusted for the final results of the BOC purchase price allocation (see Note [4]).

## Group balance sheet

in € million	Note	31.12.2007	31.12.2006 <sup>1</sup>
<b>Equity and liabilities</b>			
Capital subscribed		426	411
Conditionally authorised capital € 99 million (2006: € 104 million)			
Capital reserve		4,948	4,648
Retained earnings		3,940	3,226
Cumulative changes in equity not recognised through the income statement		-553	-285
<b>Total equity excluding minority interests</b>	[24]	<b>8,761</b>	<b>8,000</b>
Minority interests	[24]	449	225
<b>Total equity</b>	[24]	<b>9,210</b>	<b>8,225</b>
Provisions for pensions and similar obligations	[25]	747	1,284
Other non-current provisions	[26]	241	410
Deferred tax liabilities	[14]	2,164	2,227
Financial debt	[27]	6,027	9,504
Liabilities from financial services	[28]	24	37
Trade payables	[29]	8	3
Other non-current liabilities	[29]	162	118
<b>Non-current liabilities</b>		<b>9,373</b>	<b>13,583</b>
Other current provisions	[26]	2,029	1,743
Financial debt	[27]	1,303	1,092
Liabilities from financial services	[28]	12	12
Trade payables	[29]	2,067	1,949
Other current liabilities	[29]	910	879
Liabilities directly associated with non-current assets classified as held for sale	[42]	51	435
<b>Current liabilities</b>		<b>6,372</b>	<b>6,110</b>
<b>Total equity and liabilities</b>		<b>24,955</b>	<b>27,918</b>

<sup>1</sup> Adjusted for the final results of the BOC purchase price allocation.

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**Statement of recognised income and expense**


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in € million

See Note [24]

	2007	2006
Gain/loss on remeasurement of securities	-1	1
Gain/loss on remeasurement at fair value of derivative financial instruments	182	14
Currency translation differences	-686	-182
Change in actuarial gains/losses on pension provisions	226	-90
Change in effect of the limit on a defined benefit asset (asset ceiling under IAS 19.58)	2	28
<b>Gains and losses recognised directly in equity</b>	<b>-277</b>	<b>-229</b>
<b>Earnings after taxes on income</b>	<b>1,013</b>	<b>1,856</b>
<b>Total gains and losses recognised</b>	<b>736</b>	<b>1,627</b>
of which attributable to:		
Linde AG shareholders	675	1,609
Other shareholders	61	18



**Group cash flow statement**

in € million

See Note [32]

	2007	2006
Earnings before tax from continuing operations	1,375	363
<b>Adjustments to earnings before tax to calculate cash flow from operating activities:</b>		
Earnings after tax from discontinued operations	17	1,637
Amortisation of intangible assets/depreciation of tangible assets	1,279	783
Write-down of financial assets	-	11
Profit/loss on disposal of non-current assets	-664	-1,945
Net interest	376	219
Finance income arising from finance leases in accordance with IFRIC 4/IAS 17	56	57
Income from associates and joint ventures	-73	-31
Distributions/dividends received from operating associates and joint ventures	33	35
Income taxes paid	-336	-144
<b>Changes in assets and liabilities, adjusted for the effects of changes in Group structure:</b>		
Change in inventories	-178	-222
Change in trade accounts receivable	-74	-108
Change in provisions	-138	241
Change in trade payables	113	505
Change in other assets and liabilities	-44	-174
<b>Cash flow from operating activities</b>	<b>1,742</b>	<b>1,227</b>
of which from discontinued operations	-25	379
Payments for tangible and intangible assets and plants held under leases in accordance with IFRIC 4	-1,049	-1,033
Payments for investments in consolidated companies	-537	-11,866
Payments for investments in financial assets	-39	-31
Payments for investments in securities held as current assets	-7	-18
Proceeds on disposal of tangible and intangible assets and amortisation of receivables from financial services in accordance with IFRIC 4	185	172
Proceeds on disposal of consolidated companies	446	2,376
Proceeds on disposal of non-current assets held for sale and disposal groups	2,688	-
Proceeds on disposal of financial assets	399	122
<b>Cash flow from investing activities</b>	<b>2,086</b>	<b>-10,278</b>
of which from discontinued operations	-15	-174



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**Group cash flow statement**


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in € million

See Note [32]

	2007	2006
Dividend payments to Linde AG shareholders and minority shareholders	-281	-168
Increase in share capital	-	1,816
Interest received	131	79
Interest paid	-535	-245
Proceeds of benchmark bond and other loans	4,499	10,724
Proceeds from issue of employee shares	50	30
Cash outflows for the repayment of loans and bonds	-7,444	-3,475
Change in liabilities from financial services	-12	11
<b>Cash flow from financing activities</b>	<b>-3,592</b>	<b>8,772</b>
<b>Net cash inflow/outflow</b>	<b>236</b>	<b>-279</b>
<b>Opening balance of cash and cash equivalents</b>	<b>621</b>	<b>906</b>
Effects of currency translation and changes in Group structure	7	-4
Cash and cash equivalents disclosed as non-current assets held for sale and disposal groups	-6	-2
<b>Closing balance of cash and cash equivalents</b>	<b>858</b>	<b>621</b>

## Segment information

	Reportable segments					
	Total Gases Division			Engineering Division		
	2007	2006	2006 comparable (unaudited)	2007	2006	2006 comparable (unaudited)
in € million See Note [33]						
Segment assets	21,624	22,217		1,269	1,132	
of which investments in associates/joint ventures accounted for under the equity method	534	1,101		-	-	
Segment liabilities	2,597	2,362		2,386	2,107	
Sales to third parties	9,202	6,189		2,524	1,728	
Sales to other segments	7	6		226	135	
<b>Segment sales</b>	<b>9,209</b>	<b>6,195</b>	<b>8,421</b>	<b>2,750</b>	<b>1,863</b>	<b>1,958</b>
<b>Operating profit (before non-recurring items)</b>	<b>2,314</b>	<b>1,540</b>	<b>2,035</b>	<b>240</b>	<b>153</b>	<b>172</b>
of which share of profit/loss from associates/joint ventures	77	31		-	-	
Amortisation of intangible assets and depreciation of tangible assets	1,206	724		31	24	
of which amortisation of fair value adjustments identified in course of purchase price allocation	422	177		8	3	
Non-recurring items	-	-		-	-	
<b>EBIT (Earnings before interest and tax)</b>	<b>1,108</b>	<b>816</b>		<b>209</b>	<b>129</b>	
Capital expenditure (excluding financial assets)	1,062	808		46	31	

## Gases Division

	Gases Division					
	Western Europe			Americas		
	2007	2006	2006 comparable (unaudited)	2007	2006	2006 comparable (unaudited)
in € million						
Segment assets	9,115	9,328		4,377	5,384	
of which investments in associates/joint ventures accounted for under the equity method	29	38		-63	-36	
Segment liabilities	1,478	1,304		580	599	
Sales to third parties	4,007	2,988		2,307	1,851	
Sales to other segments	19	25		41	7	
<b>Segment sales</b>	<b>4,026</b>	<b>3,013</b>	<b>3,811</b>	<b>2,348</b>	<b>1,858</b>	<b>2,306</b>
<b>Operating profit (before non-recurring items)</b>	<b>1,097</b>	<b>845</b>	<b>1,037</b>	<b>447</b>	<b>329</b>	<b>403</b>
of which share of profit/loss from associates/joint ventures	-4	-2		30	3	
Amortisation of intangible assets and depreciation of tangible assets	478	316		318	234	
of which amortisation of fair value adjustments identified in course of purchase price allocation	115	49		145	63	
Non-recurring items	-	-		-	-	
<b>EBIT (Earnings before interest and tax)</b>	<b>619</b>	<b>529</b>		<b>129</b>	<b>95</b>	
Capital expenditure (excluding financial assets)	377	387		213	193	

Reportable segments									
Other activities			Reconciliation			Total Group			
2007	2006	2006 comparable (unaudited)	2007	2006	2006 comparable (unaudited)	2007	2006	2006 comparable (unaudited)	
754	791		1,308	3,778		24,955	27,918		
-	-		-18	-15		516	1,086		
97	116		10,665	15,108		15,745	19,693		
580	196		-	-		12,306	8,113		
-	4		-233	-145		-	-		
580	200	581	-233	-145	-157	12,306	8,113	10,803	
40	10	49	-170	-117	-203	2,424	1,586	2,053	
-	-		-4			73	31		
33	14		9	21		1,279	783		
16	-		-	6		446	186		
-	-		607	-198		607	-198		
7	-4		428	-336		1,752	605		
21	14		-94	-77		1,035	776		

Gases Division									
Asia & Eastern Europe			South Pacific & Africa			Total Gases Division			
2007	2006	2006 comparable (unaudited)	2007	2006	2006 comparable (unaudited)	2007	2006	2006 comparable (unaudited)	
4,699	3,968		3,543	3,604		21,624	22,217		
403	981		165	118		534	1,101		
429	280		220	246		2,597	2,362		
1,606	896		1,282	454		9,202	6,189		
12	4		2	-		7	6		
1,618	900	1,199	1,284	454	1,169	9,209	6,195	8,421	
467	255	313	303	111	282	2,314	1,540	2,035	
43	29		8	1		77	31		
216	107		194	67		1,206	724		
48	13		114	52		422	177		
-	-		-	-		-	-		
251	148		109	44		1,108	816		
334	157		138	71		1,062	808		

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**Entity-wide disclosures about geographical regions**


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in € million	2007	2006
<b>Sales by location of customer</b>		
Germany	1,255	1,187
Other Europe	4,790	3,339
North America	1,945	1,656
South America	506	423
Africa	635	264
Asia/Australia	3,175	1,244
<b>Sales by location of customer</b>	<b>12,306</b>	<b>8,113</b>

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**Non-current segment assets (including tax) by location of company**


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in € million	2007	2006
Germany	1,883	1,649
Other Europe	8,991	9,295
North America	3,044	4,181
South America	593	575
Africa	921	959
Asia/Australia	5,138	4,864
<b>Non-current assets</b>	<b>20,570</b>	<b>21,523</b>



## Notes to the Group financial statements: General principles

### [1] Basis of preparation

The consolidated financial statements of Linde AG for the year ended 31 December 2007 have been drawn up in accordance with International Financial Reporting Standards as adopted by the European Union and in accordance with the additional requirements of § 315 a (1) of the German Commercial Code (HGB). All the Standards which are currently in force have been applied and, in addition, those set out in Note [7] which have been applied early.

The Linde Group is an international technology group operating worldwide, with two divisions – Gases and Engineering.

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

The income statement has been prepared using the cost of sales method. The presentation of the income statement has been adjusted from that given in 2006, with discontinued operations no longer disclosed in a separate column, but in a separate line below the figure for earnings after taxes on income from continuing operations.

KPMG or other appointed auditors have either audited the financial statements which are included in the consolidated financial statements or have conducted an audit review of those financial statements. The annual financial statements of companies included in the consolidation 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. Assets, liabilities and contingent liabilities are identified and recognised at their fair values at the date of acquisition. Any remaining positive balance between the cost of the investment in the subsidiary and the share of net assets acquired stated at their fair values is allocated to one or more cash-generating units and recognised as goodwill. The cash-generating unit including the goodwill allocated to it is tested once a year for impairment and any impairment losses are recognised in the income statement.

Where minority interests are acquired, any remaining balance between the cost of the investment and the share of net assets acquired is offset immediately in equity if The Linde Group previously exercised control over the company.

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 same principles apply to the measurement of companies accounted for using the equity method as for the consolidation of subsidiaries.

### [3] Acquisitions and disposals

#### Acquisition of The BOC Group plc

On 6 March 2006, Linde AG submitted a recommended cash offer for The BOC Group plc, Windlesham, UK (BOC), for 1,600 pence per share in cash. Following the satisfaction of competition authority preconditions in the United States and in the European Union, the acquisition was also approved by the BOC shareholders and by the English Courts.

The Scheme of Arrangement came into effect on 5 September 2006, thus completing the acquisition of BOC by Linde.

Due to the size and complexity of the acquisition, BOC could only be included in the consolidated financial statements for the year ended 31 December 2006 on the basis of provisional fair values.

The following table shows the calculation of the final goodwill figure at 5 September 2007, once the purchase price allocation had been completed:

<b>Difference arising on the acquisition of The BOC Group</b>	
in € million	05.09.2006
Cost of shares outstanding	12,085
Cost of share options outstanding	188
Acquisition expenses	99
<b>Purchase cost of BOC</b>	<b>12,372</b>
<b>Provisional difference between cost and net assets acquired before purchase price allocation at 31 December 2006</b>	<b>9,366</b>
Change as a result of adjustment to cost	15
<b>Difference between cost and net assets acquired before purchase price allocation at 5 September 2007</b>	<b>9,381</b>
Customer relationships	2,858
Brand name	409
Technologies	217
Beneficial contracts	135
Other intangible assets	30
Technical equipment	393
Land and buildings	327
Other tangible assets	424
Investments in associates	724
Non-current assets held for sale and disposal groups	993
Other assets and other liabilities	-353
Other changes to the opening balance	17
Deferred taxes	-1,646
<b>Goodwill</b>	<b>4,853</b>

The assets, liabilities and contingent liabilities identified and remeasured in the course of the purchase price allocation comprise mainly – in accordance with BOC’s business model – customer relationships, the brand value of BOC and higher fair value adjustments on plants. In addition, technologies, beneficial contracts and in-process research and development costs have been recognised as intangible assets. Moreover, tangible assets have been recognised at their fair values, with significant fair value adjustments arising from land and buildings as well as from technical equipment and machinery. There were also fair value adjustments in respect of assets held for sale, investments in associates and inventories.

The goodwill arising on acquisition of EUR 4.9bn is due to expected synergies from combining the activities of the two groups and to assets which cannot be recognised (such as the quality and level of education of the BOC workforce).

There were amendments to the goodwill figure within the permitted twelve-month period due to the adjustment made to the fair value of assets held for sale and disposal groups once sale prices had become available for the joint ventures Japan Air Gases and Indura, the Asian joint ventures (Singapore Oxygen, Singapore; Eastern Industrial Gases, Thailand; Vietnam Industrial Gases, Vietnam; Brunei Oxygen, Brunei) and the BOC Edwards components business. Individual adjustments were also made to certain assets and liabilities as well as to the deferred tax figure. The prior year figures at 31 December 2006 have been adjusted to reflect the final results of the purchase price allocation. The adjustments comprised an increase in goodwill of EUR 50 m, an increase in other non-current assets of EUR 16 m, a reduction in current assets of EUR 144 m and a reduction in liabilities of EUR 78 m.

After the end of the twelve-month period relating to the provisional purchase price allocation, an error was identified regarding the disclosure of an asset. As a result, contractual rights which were previously disclosed as tangible assets were reclassified as intangible assets at 31 December 2007. The only change was the reclassification of the asset. There were no changes to deferred tax or to the goodwill figure. The prior year figures were adjusted accordingly.

On the finalisation of the purchase price allocation for the acquisition of The BOC Group plc, the goodwill acquired was allocated to the operating segments on the basis of the synergies it was expected to generate.

#### Acquisitions during the financial year

The main acquisitions in the course of the financial year were:

	Group holding in %	Cost in € million	Date first included
Malaysian Oxygen Berhad, Malaysia	100.0	438	01.06.2007
Hong Kong Oxygen, Hong Kong	100.0	111	01.05.2007
Birlesik Oksijen Sanayi A. S. (BOS), Turkey	100.0	89	17.07.2007
Entreprise Nationale de Gaz Industriels, Algeria	100.0	28	01.07.2007
Asia Union Electronic Chemical, Taiwan	100.0	21	01.04.2007



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**Provisional differences arising on other acquisitions**


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	Malaysian Oxygen Berhad	Hong Kong Oxygen	Birlesik Ok- sijen Sanayi A. S.	Entreprise Nationale de Gaz Industriels	Asia Union Electronic Chemical	Other
in € million						
Book value of investments under IAS 28	101	50	-	-	10	-
Cost of additional shares acquired	337	61	89	28	11	42
<b>Purchase cost in accordance with IFRS 3</b>	<b>438</b>	<b>111</b>	<b>89</b>	<b>28</b>	<b>21</b>	<b>42</b>
Share of net assets at book value	89	14	24	19	18	6
<b>Provisional difference before purchase price allocation in accordance with IFRS 3</b>	<b>349</b>	<b>97</b>	<b>65</b>	<b>9</b>	<b>3</b>	<b>36</b>
Customer relationships	167	26	15	-	-	6
Brand name	22	-	-	-	-	-
Other intangible assets	11	-	-	-	-	1
Air separation plants	43	4	12	-	-	-
Land and buildings	-	8	4	6	-	-
Other tangible assets	13	1	12	-	-	-
Investments in associates	24	29	-	-	-	-
Other assets and other liabilities	-	-	-	-	-	-
Deferred taxes	-76	-10	-8	-2	-	-1
<b>Provisional goodwill at 31 December 2007</b>	<b>145</b>	<b>39</b>	<b>30</b>	<b>5</b>	<b>3</b>	<b>30</b>

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**Impact of acquisitions on results of operations of The Linde Group from the date of acquisition**


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	Malaysian Oxygen Berhad	Hong Kong Oxygen	Birlesik Ok- sijen Sanayi A. S.	Entreprise Nationale de Gaz Industriels	Asia Union Electronic Chemical	Other	Total
in € million							
Sales	82	21	19	18	16	31	187
Cost of sales	-59	-13	-13	-15	-13	-23	-136
<b>Gross profit on sales</b>	<b>23</b>	<b>8</b>	<b>6</b>	<b>3</b>	<b>3</b>	<b>8</b>	<b>51</b>
Other income and other expenses	-15	-3	-4	-	-2	-4	-28
<b>Operating profit (EBIT)</b>	<b>8</b>	<b>5</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>4</b>	<b>23</b>
Financial result	-1	-1	1	-	-	-	-1
<b>Earnings before taxes on income (EBT)</b>	<b>7</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>4</b>	<b>22</b>
Taxes on income	-3	-1	-1	-	-	-1	-6
<b>Earnings after taxes on income</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>16</b>
attributable to minority interests	-	-	-	1	-	-	1
<b>attributable to Linde AG shareholders</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>15</b>

**Malaysian Oxygen Berhad, Malaysia**

Under the agreement concluded with Air Liquide on 27 April 2007 for the reorganisation of the joint ventures in Asia, Linde acquired a total of 22.5 percent of the shares in Malaysian Oxygen Berhad (MOX). Subsequently in July 2007, Linde made a public offer to acquire the remaining 55 percent of the shares at a price of MYR 17 per share. On the expiry of the term for acceptance on 14 July 2007, The Linde Group had a shareholding in MOX of around 98 percent. On 1 June 2007, Linde obtained control, on exceeding the 50 percent threshold of shares held, and from that date the company was included in the Group financial statements. The transaction was completed on 7 September 2007 and from that date The Linde Group has held 100 percent of the shares in MOX. Due to the complexity of the transaction, the results of the purchase price allocation are still provisional.

**Impact of acquisition of Malaysian Oxygen Berhad on net assets****Opening balance at 1 June 2007**

in € million	Book value	Adjustment	Fair value
Non-current assets	115	280	395
Inventories	6	-	6
Cash and cash equivalents	15	-	15
Non-current assets held for sale and disposal groups	-	-	-
Other current assets	31	-	31
Equity	89	204	293
Minority interests	-	-	-
Provisions for pensions and similar obligations	-	-	-
Other non-current liabilities	60	76	136
Current liabilities	18	-	18
Liabilities directly related to non-current assets held for sale and disposal groups	-	-	-

**Hong Kong Oxygen, Hong Kong**

In the course of the reorganisation of the joint ventures in Asia, The Linde Group also acquired on 27 April 2007 the remaining 50 percent of the shares in Hong Kong Oxygen and Acetylene Co. Ltd, Hong Kong, from Air Liquide. The cost of acquiring the 50 percent share in the company was EUR 61 m. The difference between the purchase price and the book value of the existing investment on the one hand and the net assets on the other hand was EUR 97 m. Due to the complexity of the acquisition, the results of the purchase price allocation set out in the table at the end of this section are still provisional.

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**Impact of acquisition of Hong Kong Oxygen on net assets**


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**Opening balance at 1 May 2007**

in € million	Book value	Adjustment	Fair value
Non-current assets	34	68	102
Inventories	3	-	3
Cash and cash equivalents	1	-	1
Non-current assets held for sale and disposal groups	-	-	-
Other current assets	12	-	12
Equity	14	58	72
Minority interests	-	-	-
Provisions for pensions and similar obligations	-	-	-
Other non-current liabilities	26	10	36
Current liabilities	10	-	10
Liabilities directly related to non-current assets held for sale and disposal groups	-	-	-

**Birlesik Oksijen Sanayi A. S. (BOS), Turkey**

Under an agreement dated 5 April 2007, which came into effect on 17 July 2007, Linde acquired 100 percent of the shares in the Turkish gases company Birlesik Oksijen Sanayi A. S. (BOS) at a price of EUR 89 m. BOS, a company with around 180 employees, operates in the industrial and specialty gases business and achieved sales of around EUR 30 m in the 2006 financial year. The purchase price allocation required by IFRS 3 has been carried out, but should still be regarded as provisional due to the complexity of the transaction.

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**Impact of acquisition of Birlesik Oksijen Sanayi A. S. on net assets**


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**Opening balance at 17 July 2007**

in € million	Book value	Adjustment	Fair value
Non-current assets	13	43	56
Inventories	3	-	3
Cash and cash equivalents	3	-	3
Non-current assets held for sale and disposal groups	-	-	-
Other current assets	12	-	12
Equity	24	35	59
Minority interests	-	-	-
Provisions for pensions and similar obligations	-	-	-
Other non-current liabilities	5	8	13
Current liabilities	2	-	2
Liabilities directly related to non-current assets held for sale and disposal groups	-	-	-

**Entreprise Nationale de Gaz Industriels (ENGI), Algeria**

Under an agreement dated 18 June 2007, Linde acquired a majority of the shares in the state-owned Algerian industrial and medical gases company ENGI. The company has been consolidated from 1 July, which is the date on which operational control of the company passed to Linde.

The purchase price allocation required by IFRS 3 has been carried out, but should still be regarded as provisional at the balance sheet date, due to the complexity of the transaction.

**Asia Union Electronic Chemical, Taiwan**

The newly-classified subsidiary BOC Lienhwa Industrial Gases, Taiwan, has entered into a separate contractual agreement with its business partner to acquire the outstanding 50 percent of the shares in Asia Union Electronic Chemical, Taiwan.

The purchase price allocation required by IFRS 3 was completed during the financial year. The goodwill arising from the transaction was EUR 3 m.

**[4] Scope of consolidation**

The Group financial statements comprise Linde AG and all the companies over which Linde AG exercises direct or indirect control by virtue of its power to govern their financial and operating policies.

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.

One of the changes in the Group structure was the inclusion in the consolidation for the first time of BOC Lienhwa Industrial Gases, Taiwan, which was previously accounted for as a joint venture. On 1 April 2007, Linde acquired control of this company on the basis of a separate contract. No additional purchase price was paid. Accounting for the company as a subsidiary rather than as a joint venture gave rise to a provisional figure for goodwill in accordance with IFRS 3 of EUR 35 m. In the course of the purchase price allocation required by IFRS 3, the assets, liabilities and contingent liabilities were measured at their fair values.

The equity method is used to account for 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 or has joint control. 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 Linde Group comprises the following companies:

	As at 31.12.2006	Additions	Disposals	As at 31.12.2007
<b>Consolidated subsidiaries</b>	<b>589</b>	<b>67</b>	<b>78</b>	<b>578</b>
of which within Germany	34	4	3	35
of which outside Germany	555	63	75	543
<b>Subsidiaries reported at acquisition cost</b>	<b>40</b>	<b>10</b>	<b>10</b>	<b>40</b>
of which within Germany	3	-	2	1
of which outside Germany	37	10	8	39
<b>Companies accounted for using the equity method</b>	<b>196</b>	<b>8</b>	<b>142</b>	<b>62</b>
of which within Germany	-	-	-	-
of which outside Germany	196	8	142	62

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
Cleaning Enterprises GmbH	Munich
Commercium Immobilien- und Beteiligungs-GmbH	Munich
Commercium Versicherungsvermittlung GmbH	Munich
Hydromotive GmbH & Co. KG	Leuna
Linde Gas Produktionsgesellschaft mbH & Co. KG	Pullach
Linde Gas Therapeutics GmbH & Co. KG	Unterschleißheim
Linde Medical Devices GmbH	Aschau i. Chiemgau
Linde Semicon GmbH & Co. KG	Pullach
Selas-Linde GmbH	Pullach
Tega – Technische Gase und Gasetechnik GmbH	Würzburg
Tega – Technische Gase und Gasetechnik GmbH & Co. KG	Hamburg
TV Kohlensäure Technik und Vertrieb GmbH + Co.	Pullach
Unterbichler GmbH & Co. KG	Munich
Werbung und Messebau GmbH	Wiesbaden
Linde Gas Healthcare GmbH	Unterschleißheim

A list of the complete shareholdings of The Linde Group and the Group financial statements and Group management report, together with the Report of the Supervisory Board, are filed in the electronic German Federal Gazette (Bundesanzeiger). Significant Group companies are listed in Note [44].

## [5] Foreign currency translation

Transactions in foreign currency have been translated into the relevant functional currency of the individual business unit on the transaction date. The financial statements of foreign subsidiaries, including any fair value adjustments identified in the course of the purchase price allocation, are translated in accordance with the functional currency concept set out in IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

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 for the financial year.

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

Goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation on or after 1 January 2005 are expressed in the functional currency of the foreign operation 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 losses of EUR 3 m (2006: losses of EUR 13 m) were recognised 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		Average rate for the year	
		31.12.2007	31.12.2006	2007	2006
Argentina	ARS	4.595500	4.036900	4.274272	3.864353
Australia	AUD	1.665800	1.673000	1.635303	1.667950
Brazil	BRL	2.596800	2.819600	2.664593	2.733147
Canada	CAD	1.453800	1.538400	1.468625	1.425529
China	CNY	10.656700	10.304000	10.423425	10.019640
Czech Republic	CZK	26.521000	27.497000	27.746850	28.326712
Hungary	HUF	252.990000	251.440000	251.387910	264.222521
Malaysia	MYR	4.824900	4.658700	4.709606	4.606901
Mexico	MXN	15.915900	14.255600	14.981348	13.712808
Norway	NOK	7.931600	8.229300	8.015810	8.047364
Poland	PLN	3.603100	3.831700	3.781393	3.895625
South Africa	ZAR	10.016100	9.246200	9.654526	8.677765
South Korea	KRW	1,365.480000	1,227.370000	1,274.013938	1,199.536593
Sweden	SEK	9.435600	9.025000	9.250103	9.251892
Switzerland	CHF	1.654000	1.607700	1.643115	1.573323
Turkey	TRY	1.703600	1.868100	1.786264	1.808592
UK	GBP	0.735100	0.674000	0.684914	0.681825
USA	USD	1.459000	1.319800	1.371784	1.256756

## [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 their fair values.

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 1 January 2007 where they had been adopted by the European Commission. Of these, the following standards are mandatory in the Group financial statements for the year ended 31 December 2007:

- IFRS 7 *"Financial Instruments: Disclosures"* and
- Amendment to IAS 1 *"Presentation of Financial Statements: Capital Disclosures"*.

These standards have no effect on the net assets, financial position and results of operations of The Linde Group, but lead to changes to the note disclosures given in the Group financial statements for the year ended 31 December 2007.

The following standards have been early adopted in the Group financial statements for the year ended 31 December 2007:

- IFRS 8 *"Operating Segments"*
- IFRIC 11 *"IFRS 2 – Group and Treasury Share Transactions"*.

In 2007, IFRS 8 *"Operating Segments"*, which relates to segment reporting, was applied for the first time. As a result of the requirements of this standard and the matrix organisation which was introduced during the financial year, the segment structure has changed. The prior year figures in the segment report have been adjusted accordingly. For the definition of the segments, see Note [33].

In addition, the following standards have been issued by the IASB or IFRIC in the course of the 2007 financial year, but have not been applied in the Group financial statements for the year ended 31 December 2007, as they are not yet effective or have not yet been adopted by the European Commission:

- IFRIC 12 *"Service Concession Arrangements"*
- IFRIC 13 *"Customer Loyalty Programmes"*
- IFRIC 14 *"The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"*.

These standards will not be applied by Linde AG until the 2008 financial year or later. The application of IFRIC 14 *"The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"* is expected to result in an increase in the provision for pension obligations, not affecting profit or loss, as Linde is obliged to make contributions to plan assets as a result of legal requirements or contractual agreements. It will, however, not lead to the recognition of an asset because of the asset ceiling described in IAS 19.58.

The impact of the standards which have not been applied on the presentation of the net assets, financial position and results of operations in the 2008 financial year is not expected to be significant overall.

**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 recognised when the risks of ownership have been transferred to the customer, the consideration can be reliably determined 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 recognised until the customer has accepted delivery. In the case of long-term service contracts, the sales are recorded on a straight-line basis over the period of the contract.

Revenue from long-term contracts is 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 recognised when the outcome of a construction contract can be estimated reliably.

For sales and earnings recognition relating 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 overheads including depreciation of production plants, amortisation of certain intangible assets and inventory write-downs. Cost of sales also includes additions to the provisions for warranties and provisions for onerous contracts. 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 capitalised are recognised in the income statement when they are incurred.

**Financial result**

The financial result includes the interest charge on liabilities, dividends received, interest income on receivables and gains and losses on financial instruments recognised in profit or loss. The interest cost relating to pension provisions and any loss on remeasurement of embedded derivatives are also included in financial expenses.

Interest income and interest charges are recognised in profit or loss on the basis of the effective interest rate method. Dividends are recognised in profit or loss when they have been declared. Finance income relating to finance leases is calculated using the effective interest rate method. In addition, the expected return on plan assets relating to pension provisions and any gain on remeasurement of embedded derivatives are disclosed in financial income.

**Intangible assets**

Intangible assets comprise goodwill, customer relationships, that portion of development costs which may be recognised as an asset, patents, software, licences and similar rights.

Purchased and internally-generated intangible assets are stated at acquisition cost or manufacturing cost less accumulated amortisation and any impairment losses. It is important to determine whether the intangible assets have finite or indefinite useful lives. From 1 January 2005, goodwill and intangible assets with indefinite useful lives



are no longer amortised, but are subject instead to an impairment test once a year, or more often if there is any indication that an asset may be impaired.

The impairment test in accordance with IAS 36 *Impairment of Assets* compares the carrying amount of the cash-generating unit or of the asset to be tested with the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

According to IAS 36 *Impairment of Assets*, goodwill is allocated to the cash-generating unit (CGU), the lowest level at which goodwill is monitored for internal management purposes, and tested for impairment at this level. The impairment test involves initially comparing the value in use of the cash-generating unit with its carrying amount. If the carrying amount of the cash-generating unit exceeds the value in use, an impairment test is performed to determine whether the fair value of the asset less costs to sell is higher than the carrying amount. Any impairment losses relating to goodwill or an intangible asset with an indefinite useful life are recognised in the income statement in operating profit.

The impairment test for goodwill is performed at the level of the cash-generating unit, the lowest level at which goodwill is monitored for internal management purposes. The CGU must not be larger than a segment. To calculate the value in use of the cash-generating units, post-tax future cash inflows and outflows are derived from corporate financial budgets approved by management which cover a detailed planning period of three years. The calculation of the terminal value is based on the future net cash flows from the latest available detailed planning period. The post-tax interest rates used to discount the cash flows take into account industry-specific and country-specific risks relating to the particular cash-generating unit. When the terminal value was calculated, declining growth rates were used, which are lower than the growth rates calculated in the detailed planning period and which serve mainly to compensate for a general inflation rate.

Intangible assets with finite useful lives are amortised over the estimated useful life of the assets and the amortisation expense is disclosed in functional costs. Customer relationships are stated at acquisition cost and amortised on a straight-line basis over their estimated useful life of between five and 40 years. The estimated useful life of customer relationships purchased is calculated on the basis of the term of the contractual relationship underlying the customer relationship, or on the basis of expected customer behaviour. If there are any indications of impairment in the intangible assets, an impairment test is performed.

If the reason for an impairment loss recognised in prior years no longer exists, the carrying amount of the intangible asset is increased to a maximum figure of the carrying amount that would have been determined had no impairment loss been recognised. This does not apply to goodwill.

Costs incurred in connection with the acquisition and in-house development of software used internally, including the costs of bringing the software to an operational state, are capitalised and amortised 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. 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 cost is reduced by government grants. For certain tangible assets, where the pur-

chase or manufacture takes more than one year, the borrowing costs during the construction period are also capitalised. Tangible assets are depreciated using the straight-line method and the depreciation expense is disclosed in functional costs. If a tangible asset comprises several components with different useful lives, the depreciation is calculated separately for the various components. Existing legal or de facto site restoration obligations are included in the cost of the components based on the discounted expected settlement. The depreciation method and the estimated useful lives of the assets are reviewed on an annual basis and adapted to prevailing conditions.

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 tangible asset, Linde reviews the recoverability of the carrying amount of the asset 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 fair value less costs to sell 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 exceeds the recoverable amount, an impairment loss is recognised. 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 an impairment test is carried out on tangible assets at the level of a cash-generating unit which also includes a portion of allocated goodwill, and an impairment loss is recognised, then impairment losses will be recognised first in respect of the goodwill and then in respect of the other assets based on their relative carrying amounts. If the reason for an impairment loss recognised in prior years no longer exists, the increased carrying amount of the asset should not exceed the carrying amount that would have been determined had no impairment loss been recognised.

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

#### Associates and joint ventures

Associates and joint ventures are accounted for under the equity method at cost at the date of acquisition. In subsequent periods, the carrying amount is adjusted to reflect Linde's share of the results of operations of the investee. Any distributions received from the investee reduce the carrying amount of the investment. If there are any indications of impairment in the investments in associates or joint ventures, the carrying amount of the relevant investment is subject to an impairment test. If the reason for an impairment loss recognised in prior years no longer exists, the carrying amount of the asset is increased to a maximum figure of the share of net assets in the associate or joint venture.

#### Inventories

Inventories are reported at the lower of acquisition or manufacturing cost and net realisable value. Net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale. Manufacturing cost includes both direct costs and appropriate indirect material and production

costs, as well as production-related write-downs, where these are directly attributable to the manufacturing process. Administrative expenses and social costs are included if they can be allocated to production. Inventories are generally valued on an average basis or using the FIFO (first in, first out) method.

#### **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 expected total cost (cost-to-cost method). When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of the contract costs incurred (zero profit method). If the cumulative contract output (costs incurred plus profits disclosed) exceeds payments on account on an individual contract, the construction contract is disclosed under Trade receivables. If there is a negative balance after deducting contract payments on account, the amount is disclosed under Trade payables. Anticipated losses on contracts are recognised in full, based on an assessment of identifiable risks.

The financial result from long-term construction contracts is shown at Group level in Other operating income.

#### **Other assets**

Receivables and other assets are stated at amortised cost or fair value.

Provisions are made for identifiable risks.

#### **Financial instruments**

In the normal course of events, purchases and sales of financial assets are accounted for on settlement day. This does not apply to derivatives, which are accounted for on the trading day.

The Linde Group conducts regular impairment reviews of the following categories of financial assets: loans and receivables, available-for-sale securities and held-to-maturity investments. The following criteria are applied:

- (a) significant financial difficulty of the issuer or obligor;
- (b) breach of contract, such as a default or delinquency in interest or principal payments;
- (c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that would not otherwise be considered;
- (d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) the disappearance of an active market for that asset because of financial difficulties;
- (f) a recommendation based on observable data from the capital market;
- (g) information about significant changes with an adverse effect that have taken place in the technological, economic or legal environment of a contracting party; or
- (h) a significant or prolonged decline in the fair value of the financial instrument.

According to IAS 39 *Financial Instruments: Recognition and Measurement*, securities must be categorised as assets held for trading (at fair value through profit and loss), available for sale or held to maturity. The Linde Group does not hold any securities for trading. Available-for-sale securities are generally stated at fair value. Unrealised gains and losses, including deferred tax, are recognised separately in equity until they are realised. If the fair value

cannot be reliably determined, securities are reported at cost. Held-to-maturity financial assets are measured at amortised 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, the loss is recognised in profit or loss.

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 recognised in profit or loss or, in the case of a cash flow hedge, in equity under Cumulative changes in equity not recognised 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 recognised immediately in profit or loss.

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 forecasted transactions. The hedge-effective portion of the changes in fair value of the derivatives is initially disclosed under Cumulative changes in equity not recognised through the income statement. A transfer is made to the income statement when the hedged underlying transaction is realised. The ineffective portion of the changes in fair value is recognised immediately in profit or loss.

If the requirements for hedge accounting are not met, the change in fair value of derivative financial instruments is recognised in profit or loss.

In the case of hedges of a net investment in a foreign operation, derivatives are used to hedge the exposure to translation risks arising from investments in a foreign functional currency. Unrealised gains and losses arising from these hedging instruments are accounted for in equity until the company is sold.

In accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, embedded derivatives which are components of hybrid financial instruments are separated from the host contract and accounted for as derivative financial instruments, if certain requirements are met.

For more information about risk management and the impact on the balance sheet of derivative financial instruments, see Note [31].

Financial debt is reported at amortised 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.

### 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 the 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 realised or the liability is settled, using tax rates and laws that have been enacted or substantively enacted in the individual countries by the balance sheet date.

### Provisions for pensions and similar 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 obligations. 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 assumptions. Actuarial gains and losses are recognised directly in equity.

The expense arising from additions to the pension provisions is allocated to functional costs in the income statement. The interest cost of the pension obligations and the expected return on plan assets are disclosed in the financial result.

#### **Other provisions and provisions for insurance contracts**

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

Provisions are recognised 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 estimate of the obligation includes any cost increases which need to be taken into account at the balance sheet date. Provisions which relate to periods of more than twelve months are discounted.

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

Site restoration obligations are capitalised 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 recognised in functional costs.

In addition, companies in The Linde Group act as reinsurers in respect of some of the above-mentioned insurance contracts and are 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 recognised in the Group financial statements in accordance with IFRS 4 in the form of a provision for unsettled claims. 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. 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.

#### **Accounting for leases**

Lease agreements are classified as finance leases if they transfer substantially all the risks and rewards incidental 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 tangible 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 recognised in the balance sheet as Liabilities from financial services. Depreciation charged on this tangible asset and the reduction of the lease 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 recognised 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. Lease income from operating leases is recognised in income on a straight-line basis.

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

According to IFRIC 4 *Determining whether an Arrangement contains a Lease*, if specific criteria are met, certain arrangements should be accounted for as leases that do not take the legal form of a lease. In particular, in the Gases Division, certain on-site and ECOVAR® plants are classified as embedded finance leases. These plants are disclosed in Receivables from financial services at the net investment in the lease, equivalent to the future minimum lease payments due from the customer. When the plant is completed and brought on stream, a one-off amount is shown in sales.

#### **Non-current assets held for sale and disposal groups and Discontinued operations**

Non-current assets and disposal groups are classified separately in the balance sheet as held for sale, if they are available for sale in their present condition and the sale is highly probable. Assets that are classified as held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. Liabilities classified as directly related to non-current assets held for sale are disclosed separately as held for sale in the liabilities section of the balance sheet. 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 realised may differ from these estimates. Estimates are required in particular for

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

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Any change in the key factors which are applied in the impairment review of goodwill may possibly result in impairment losses of different amounts being recognised.

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 EUR 344 m or EUR 360 m respectively. This change in parameters would have no effect on earnings, as actuarial gains and losses are recognised directly in equity.

The recognition and 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 in respect of unused tax losses are recognised on the basis of an assessment of their future recoverability, i.e. when there is sufficient taxable income or there are lower tax charges. The actual tax situation in future periods, and the extent to which tax loss carryforwards may be used, may differ from the assessment made at the date the deferred tax assets are recognised.

Discretionary decisions are required to be made, for example, in assessing whether leases can be defined as finance leases: i.e. leases which transfer substantially all the risks and rewards incidental to ownership of the asset.

## Notes to the Group income statement

### [8] Sales

Sales are analysed by activity in the segment information.

Sales are derived from the following activities:

in € million	2007	2006
Revenue from the sale of goods and services	10,367	6,703
Revenue from long-term construction contracts	1,939	1,410
<b>Continuing operations</b>	<b>12,306</b>	<b>8,113</b>

### [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, labour and energy costs, it also comprises indirect costs, including depreciation.

### [10] Other operating income and expenses

Other operating income		
in € million	2007	2006 <sup>1</sup>
Profit on disposal of non-current assets	32	17
Ancillary revenue	14	28
Financial result from long-term contracts	45	32
Exchange rate differences	43	33
Income from release of provisions	14	22
Miscellaneous operating income	60	61
<b>Continuing operations</b>	<b>208</b>	<b>193</b>

<sup>1</sup> Continuing operations of The Linde Group, i.e. excluding KION and BOC Edwards Equipment. Other BOC companies included for the four months from September 2006.

Other operating expenses		
in € million	2007	2006 <sup>1</sup>
Expenses related to pre-retirement part-time work schemes	6	8
Loss on disposal of non-current assets	9	14
Exchange rate differences	56	37
Doubtful debts, payment shortfalls and write-downs on other assets	11	21
Miscellaneous operating expenses	49	18
<b>Continuing operations</b>	<b>131</b>	<b>98</b>

<sup>1</sup> Continuing operations of The Linde Group, i.e. excluding KION and BOC Edwards Equipment. Other BOC companies included for the four months from September 2006.



## [11] Non-recurring items

Non-recurring items in the 2007 financial year comprise:

### **Profit on disposal of businesses**

Sales in the first quarter included our industrial and medical gases business in Mexico, which was conducted by our subsidiary AGA S.A. de CV, the Australian gases operations of our subsidiary Linde Gas Australia and our US bulk business. Our subsidiary INO Therapeutics LLC was also deconsolidated in the first quarter. Part of the purchase consideration for INO was in cash and part in the form of a 17 percent share in Ikaria Holdings. In the second quarter, we sold the investment in our subsidiary Linde Gas UK and our packaged gas business in the United States. The total gain on disposal of these businesses amounted to EUR 574m and was disclosed as a non-recurring item.

In 2007, Linde sold its investment in the joint venture Japan Air Gases in order to meet conditions imposed by the competition authorities in connection with the acquisition of BOC. It also sold its investment in the joint venture Indura in Chile and, in the second quarter of 2007, its investments in the Asian joint ventures Singapore Oxygen, Singapore; Eastern Industrial Gases, Thailand; Vietnam Industrial Gases, Vietnam and Brunei Oxygen, Brunei. All the assets and liabilities relating to the BOC Edwards components business were also disposed of and the sale of BOC's Polish gases operations (BOC Gazy Sp. z o. o.) was completed in the second quarter. Due to the fact that a purchase price allocation had already been made which resulted in the measurement of these investments at their fair values less costs to sell, no profits on disposal arose on these transactions.

An escalator clause which is subject to certain conditions applies to the sale price achieved for Linde Gas UK. No contingent liability has been recognised in respect of the sale of Linde Gas UK, as the probability of the occurrence of these conditions and the amount of the obligation cannot currently be measured with sufficient reliability. As a result of the contractual arrangements made in respect of the sale of the BOC Edwards components business, additional income of EUR 33 m was included in 2007 in non-recurring items, the result of the latest information on these arrangements coming to our notice as the financial statements were being prepared.

### **Costs arising from the transformation of The Linde Group**

In the course of the reorganisation of The Linde Group in the 2006 financial year, different types of costs were incurred which are shown separately for the sake of transparency. The main items included under this heading were the costs of integration, internal and external marketing expenses, consultancy fees, costs associated with the disposal of businesses, etc.

## [12] Income from associates and joint ventures (equity method)

Income from associates and joint ventures in the 2007 financial year was EUR 73 m (2006: EUR 31 m).

**[13] Financial income and expenses****Financial income**

in € million	2007	2006
Interest and similar income	112	70
Finance income from embedded finance leases	56	57
Income from investments	1	5
Investment income from pension plan assets	306	125
<b>Continuing operations</b>	<b>475</b>	<b>257</b>

**Financial expenses**

in € million	2007	2006
Interest and similar charges	567	369
Interest cost of pension obligations	285	129
Amortisation of financial assets	-	1
<b>Continuing operations</b>	<b>852</b>	<b>499</b>

**[14] Taxes on income**

Taxes on income in The Linde Group can be analysed as follows:

**Taxes on income**

in € million	2007	2006
Current tax expense and income	509	163
Tax expense and income relating to prior periods	-25	33
Deferred tax income and deferred tax expense	-105	-52
<b>Continuing operations</b>	<b>379</b>	<b>144</b>

The income tax expense disclosed for the 2007 financial year of EUR 379 m is EUR 135 m lower than the expected income tax expense of EUR 514 m, a theoretical figure arrived at by applying the German tax rate of 37.3 percent (2006: 37.9 percent) to Group earnings before taxes on income. Tax effects directly recognised in equity are shown in detail in Note [24].

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

in € million	2007	2006
Earnings before taxes on income	1,375	2,527
Income tax rate of Linde AG (including trade tax)	37%	38%
<b>Expected income tax expense</b>	<b>514</b>	<b>960</b>
Foreign tax rate differential	-72	-51
Effect of associates	-29	-
Reduction in tax due to tax-free income	-119	-489
Increase in tax due to non-tax-deductible expenses	91	71
Tax expense and income relating to prior periods	-25	33
Effect of changes in tax rate	-42	-2
Change in other permanent differences	61	106
Other	-	41
<b>Income tax expense disclosed</b>	<b>379</b>	<b>669</b>
Effective tax rate	28%	26%

In the reconciliation for the 2006 financial year, amounts were included in earnings before taxes on income and in the income tax expense disclosed which related to discontinued operations (earnings before taxes on income: EUR 2,164 m, income tax expense disclosed: EUR 525 m).

In the 2007 financial year, the corporate income tax rate in Germany was 25.0 percent (2006: 25.0 percent). Taking into account an average rate for trade earnings tax of 10.9 percent (2006: 11.5 percent) and the solidarity surcharge of 1.4 percent (2006: 1.4 percent), this gives a tax rate for German companies of 37.3 percent (2006: 37.9 percent). On 6 July 2007, the upper house of the German parliament, the Bundesrat, approved the German Corporate Tax Reform Bill. Based on the provisions of IAS 12 *Income Taxes*, the rates used to calculate deferred tax for German companies are those which apply from 2008 onwards. Given the German corporate income tax rate of 15.0 percent (2006: 25.0 percent), an average trade earnings tax rate of 12.3 percent (2006: 11.5 percent) and a solidarity surcharge of 0.8 percent (2006: 1.4 percent), the deferred tax rate for German companies is 28.1 percent (2006: 37.9 percent).

Income tax rates for Group companies outside Germany vary between 12.5 percent and 40.0 percent.

No deferred tax is calculated in respect of retained profits in subsidiaries, as the profits are reinvested indefinitely in these operations or are not subject to taxation.

The effects of changes in tax rates are mainly the result of tax rate reductions in Germany, the UK, the US and China. Due to its significance, the effect of changes in tax rates on associates and joint ventures is disclosed separately for the first time.

### Deferred tax assets and liabilities

in € million	2007		2006	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets and tangible assets	99	2,050	118	2,099
Financial assets	80	177	99	198
Current assets	202	323	658	468
Provisions	224	183	160	120
Liabilities	369	347	435	691
Tax loss carryforwards and tax credits	102	-	108	-
Valuation allowance	-9	-	-15	-
Amounts offset	-916	-916	-1,349	-1,349
	<b>151</b>	<b>2,164</b>	<b>214</b>	<b>2,227</b>

Deferred tax assets in respect of provisions include EUR 138 m (2006: EUR 30 m) which relates to entries recognised directly in equity. The change in the 2007 financial year was EUR 108 m. 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 utilised. The carrying amount of deferred tax assets which relate to potential reductions in the tax base of EUR 49 m (2006: EUR 43 m) was therefore reduced by EUR 9 m (2006: EUR 15 m), as it is not probable that the underlying tax loss carryforwards and tax credits of EUR 35 m (2006: EUR 26 m) and deductible temporary differences of EUR 14 m (2006: EUR 17 m) will be utilised. Of the revised figure for total potential reductions in the tax base of EUR 49 m (2006: EUR 43 m), EUR 31 m (2006: EUR 9 m) may be carried forward for up to ten years and EUR 4 m (2006: EUR 17 m) may be carried forward for longer than ten years.

### Tax loss carryforwards

in € million	2007	2006
May be carried forward for up to 10 years	46	24
May be carried forward for longer than 10 years	121	81
May be carried forward indefinitely	277	82
	<b>444</b>	<b>187</b>

The increase in tax loss carryforwards is mainly due to additions in Germany, the UK and the United States.

## [15] Earnings per share

in € million/Shares in thousands	January to December 2007			January to December 2006		
	Continuing operations	Discontinued operations	Group	Continuing operations	Discontinued operations	Group
Earnings after taxes on income attributable to Linde AG shareholders	935	17	952	201	1,637	1,838
Plus: increase in profit due to dilutive effect of convertible bond	8	-	8	14	-	14
Profit after adjusting for dilutive effects	943	17	960	215	1,637	1,852
Shares in thousands						
Weighted average number of shares outstanding	162,293	162,293	162,293	138,166	138,166	138,166
Dilution as a result of the Linde Management Incentive Programme	5,263	5,263	5,263	543	543	543
Effect of dilutive convertible bond	905	905	905	9,519	9,519	9,519
Weighted average number of shares outstanding – fully diluted	168,461	168,461	168,461	148,228	148,228	148,228
<b>Earnings per share in €</b>	<b>5.77</b>	<b>0.10</b>	<b>5.87</b>	<b>1.45</b>	<b>11.85</b>	<b>13.30</b>
<b>Earnings per share in € – fully diluted</b>	<b>5.60</b>	<b>0.10</b>	<b>5.70</b>	<b>1.45</b>	<b>11.04</b>	<b>12.49</b>

Included in the figure for diluted earnings per share is the issue of shares relating to the employee option schemes and the convertible bond, to the extent that these have not already been exercised or converted into equity.

See Note [43] for the calculation of the adjusted earnings per share.

Further information about the option schemes and the convertible bond is given in Notes [30] and [27].

## [16] Other information on the Group income statement

in € million	2007	2006 <sup>1</sup>
Cost of raw materials, supplies, finished and unfinished goods, and merchandise	4,208	5,396
Cost of external services	414	438
<b>Cost of materials</b>	<b>4,622</b>	<b>5,834</b>
Wages and salaries	2,031	2,189
Social security contributions	267	455
Pension costs and personnel welfare costs	151	165
of which pension costs € 141 million (2006: € 162 million)		
<b>Personnel costs</b>	<b>2,449</b>	<b>2,809</b>

<sup>1</sup> Prior year figures including discontinued operations, i. e. KION and BOC Edwards Equipment. Other BOC companies included for four months from September 2006.

## Notes to the Group balance sheet

### [17] Goodwill/Other intangible assets

Movements in the intangible assets of The Linde Group during the 2007 financial year and in the previous year were as follows:

Cost in € million	Goodwill	Capitalised development costs	Customer relationships	Other intangible assets	Total
<b>At 1 Jan. 2006</b>	<b>2,823</b>	<b>311</b>	<b>-</b>	<b>355</b>	<b>3,489</b>
Currency adjustments	-11	2	-20	18	-11
Additions due to acquisitions <sup>1</sup>	4,913	-	2,892	972	8,777
Additions	1	53	-	63	117
Disposals	33	366	-	158	557
Transfers	-	-	-	2	2
Reclassification as assets held for sale	-117	-	-	-97	-214
<b>At 31 Dec. 2006/1 Jan. 2007</b>	<b>7,576</b>	<b>-</b>	<b>2,872</b>	<b>1,155</b>	<b>11,603</b>
Currency adjustments	-250	-	-161	-41	-452
Additions due to acquisitions	252	-	326	52	630
Additions	33	-	-	44	77
Disposals	275	-	-	19	294
Transfers	-	-	-	4	4
Reclassification as assets held for sale	-	-	-12	-	-12
<b>At 31 Dec. 2007</b>	<b>7,336</b>	<b>-</b>	<b>3,025</b>	<b>1,195</b>	<b>11,556</b>

<sup>1</sup> Adjusted as a result of the final purchase price allocation.

	Goodwill	Capitalised development costs	Customer relationships	Other intangible assets	Total
Accumulated amortisation in € million					
<b>At 1 Jan. 2006</b>	-	181	-	172	353
Currency adjustments	-	1	-	-1	-
Additions due to acquisitions <sup>1</sup>	-	-	36	54	90
Amortisation	4	32	-	93	129
Disposals	-	214	-	83	297
Transfers	-	-	-	-	-
Reclassification as assets held for sale	-	-	-	-26	-26
<b>At 31 Dec. 2006/1 Jan. 2007</b>	<b>4</b>	<b>-</b>	<b>36</b>	<b>209</b>	<b>249</b>
Currency adjustments	-	-	-2	-13	-15
Additions due to acquisitions	-	-	-	4	4
Amortisation	-	-	116	93	209
Disposals	-	-	-	17	17
Transfers	-	-	-	4	4
Reclassification as assets held for sale	-	-	-1	-	-1
Write-downs	-	-	-	-	-
Write-backs	-	-	-	-	-
<b>At 31 Dec. 2007</b>	<b>4</b>	<b>-</b>	<b>149</b>	<b>280</b>	<b>433</b>
<b>Net book value at 31 Dec. 2007</b>	<b>7,332</b>	<b>-</b>	<b>2,876</b>	<b>915</b>	<b>11,123</b>
<b>Net book value at 31 Dec. 2006</b>	<b>7,572</b>	<b>-</b>	<b>2,836</b>	<b>946</b>	<b>11,354</b>

<sup>1</sup> Adjusted as a result of the final purchase price allocation.

In the balance sheet at 31 December 2007, the total figure for goodwill is EUR 7.332 bn (2006: EUR 7.572 bn). Of this amount, EUR 4.853 bn arose as a result of the acquisition of BOC, while EUR 244 m relates to other acquisitions in the 2007 financial year. The goodwill arising from the acquisition of the AGA Group in 1999 amounts to EUR 2.150 bn.

An impairment test of goodwill was carried out at 30 September 2007. No impairment losses were recognised as a result.

For the purpose of the impairment test, goodwill was allocated to operating segments. The operating segment is the lowest level at which goodwill is monitored for internal management purposes.

The recoverable amount was determined as the fair value of the goodwill less costs to sell. To calculate fair value less costs to sell, a discounted cash flow method was applied. The discounted cash flow method was based on the following assumptions:

- A detailed three-year plan was used as the basis for the calculation of the cash flows. The growth rates assumed for the detailed planning period varied from 5 to 12 percent per annum, depending on the segment. For subsequent periods, an annual growth rate equivalent to the expected inflation rate was assumed.

The following table provides a summary of the allocated goodwill, the parameters used and the sensitivity of the interest rate:

**Assumptions for the impairment test of goodwill**

	Western Europe	Americas	Asia & Eastern Europe	South Pacific & Africa	Engineering Division	Other activities
Book value of allocated goodwill	3,764	917	887	1,161	262	341
Book value of intangible assets with indefinite useful lives	128	7	47	125	6	-
Pre-tax WACC based on region-specific premiums and discounts	11.0%	13.1%	12.5%	11.8%	16.9%	13.0%
Post-tax WACC based on region-specific premiums and discounts	7.3%	8.3%	8.8%	7.7%	9.1%	8.2%

The carrying amount of intangible assets with indefinite useful lives consists principally of the BOC brand name acquired, which is disclosed at a figure of EUR 313 m (2006: EUR 409 m). As management intends to continue to use the BOC brand name and it is not possible to determine its useful life, the asset is included in intangible assets with an indefinite useful life for those countries in which the BOC brand name will continue to be used. An impairment test of the brand name was performed. No impairment losses were identified. In countries where the brand name will no longer be used, the portion of the intangible asset which relates to those countries will be amortised on a straight-line basis over five years.

No development costs have been recognised as assets in the 2007 financial year, as the conditions which apply to the recognition of development costs as assets were not met, as in 2006.



## [18] Tangible assets

Movements in the tangible assets of The Linde Group during the 2007 financial year and the previous year were as follows:

Acquisition/Manufacturing cost in € million	Land, land rights and buildings	Technical equipment and machinery	Fixtures, furniture and equipment	Plants under construction	Total
<b>At 1 Jan. 2006</b>	<b>1,978</b>	<b>4,969</b>	<b>4,085</b>	<b>280</b>	<b>11,312</b>
Currency adjustments	-29	-135	-24	-3	-191
Additions due to acquisitions <sup>1</sup>	963	7,146	147	350	8,606
Additions	91	222	411	390	1,114
Disposals	607	692	1,846	141	3,286
Transfers	39	-14	-19	-8	-2
Reclassification as assets held for sale	-30	-275	-298	-19	-622
<b>At 31 Dec. 2006/1 Jan. 2007</b>	<b>2,405</b>	<b>11,221</b>	<b>2,456</b>	<b>849</b>	<b>16,931</b>
Currency adjustments	-74	-460	-57	-31	-622
Additions due to acquisitions	75	623	33	26	757
Additions	29	384	79	480	972
Disposals	195	488	179	7	869
Transfers	43	1,443	-820	-666	-
Reclassification as assets held for sale	-1	-1	-2	-	-4
<b>At 31 Dec. 2007</b>	<b>2,282</b>	<b>12,722</b>	<b>1,510</b>	<b>651</b>	<b>17,165</b>

<sup>1</sup> Adjusted as a result of the final purchase price allocation.

	Land, land rights and buildings	Technical equipment and machinery	Fixtures, furniture and equipment	Plants under construction	Total
Accumulated depreciation in € million					
<b>At 1 Jan. 2006</b>	<b>956</b>	<b>3,310</b>	<b>2,592</b>	<b>-</b>	<b>6,858</b>
Currency adjustments	-12	-100	-10	-	-122
Additions due to acquisitions <sup>1</sup>	242	3,976	63	-	4,281
Write-backs	-	-	-	-	-
Depreciation for the year	72	504	326	-	902
Disposals	285	583	1,053	-	1,921
Transfers	-	1	-1	-	-
Reclassification as assets held for sale	-11	-179	-96	-	-286
<b>At 31 Dec. 2006/1 Jan. 2007</b>	<b>962</b>	<b>6,929</b>	<b>1,821</b>	<b>-</b>	<b>9,712</b>
Currency adjustments	-22	-343	-17	-	-382
Additions due to acquisitions	14	242	22	-	278
Write-backs	-	-	-	-	-
Depreciation for the year	68	868	134	-	1,070
Disposals	54	385	286	-	725
Transfers	5	570	-575	-	-
Reclassification as assets held for sale	-	-1	-	-	-1
<b>At 31 Dec. 2007</b>	<b>973</b>	<b>7,880</b>	<b>1,099</b>	<b>-</b>	<b>9,952</b>
<b>Net book value at 31 Dec. 2007</b>	<b>1,309</b>	<b>4,842</b>	<b>411</b>	<b>651</b>	<b>7,213</b>
<b>Net book value at 31 Dec. 2006</b>	<b>1,443</b>	<b>4,292</b>	<b>635</b>	<b>849</b>	<b>7,219</b>

<sup>1</sup> Adjusted as a result of the final purchase price allocation.

The assets disclosed as Leased assets in 2006 have been reclassified as tangible assets in 2007 due to their immateriality because of the disposal of the KION Group.

As a result of the purchase price allocation relating to the acquisition of BOC, there were significant increases in the carrying amounts of the BOC tangible assets. These are explained in detail in Note [3].

Impairment losses of EUR 0 m (2006: EUR 6 m) were recognised in respect of tangible assets in 2007 and reversals of impairment losses totalled EUR 1 m (2006: EUR 3 m).

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 EUR 9 m (2006: EUR 4 m) were capitalised, based on an interest rate of 5.4 percent (2006: 5.2 percent).

The acquisition/manufacturing cost of tangible assets was reduced in the financial year by grants for air separation plants of EUR 3 m (2006: EUR 6 m).

Land and buildings of EUR 41 m (2006: EUR 54 m) were pledged as security.

## [19] Investments in associates/Other financial assets

Movements in the financial assets of The Linde Group during the 2007 financial year and in the previous year were as follows:

Cost in € million	Investments in associates and joint ventures	Affiliated companies	Other investments	Non-current loans <sup>1</sup>	Total
<b>At 1 Jan. 2006</b>	<b>170</b>	<b>49</b>	<b>17</b>	<b>22</b>	<b>258</b>
Currency adjustments	1	-2	-1	-	-2
Additions due to acquisitions <sup>2</sup>	1,250	45	35	347	1,677
Additions	15	50	3	12	80
Disposals	187	126	20	8	341
Transfers	15	-4	-8	-3	-
Reclassification as assets held for sale	-	-	-	-	-
<b>At 31 Dec. 2006/1 Jan. 2006</b>	<b>1,264</b>	<b>12</b>	<b>26</b>	<b>370</b>	<b>1,672</b>
Currency adjustments	-95	-1	-1	-29	-126
Additions due to acquisitions	-	26	8	-4	30
Additions	40	1	51	12	104
Disposals	402	-	5	45	452
Transfers	-271	-22	-2	-1	-296
Reclassification as assets held for sale	-	-	-	-	-
<b>At 31 Dec. 2007</b>	<b>536</b>	<b>16</b>	<b>77</b>	<b>303</b>	<b>932</b>

<sup>1</sup> EUR 298 m (2006: EUR 326 m) of the non-current loans relates to loans to associates and joint ventures.

<sup>2</sup> Adjusted as a result of the final purchase price allocation.

	Investments in associates and joint ventures	Affiliated companies	Other investments	Non-current loans	Total
Accumulated write-downs in € million					
<b>At 1 Jan. 2006</b>	11	2	1	1	15
Currency adjustments	-	-	-	-	-
Additions due to acquisitions <sup>1</sup>	-	-	-	39	39
Write-backs	1	-	-	-	1
Write-downs	11	-	-	-	11
Disposals	-	1	-	-	1
Transfers	1	-	-1	-	-
Reclassification as assets held for sale	-	-	-	-	-
<b>At 31 Dec. 2006/1 Jan. 2007</b>	22	1	-	40	63
Currency adjustments	-	-	-	-	-
Additions due to acquisitions	-	-	-	-	-
Additions	-	-	-	-	-
Disposals	4	-	-	40	44
Transfers	2	-	-	-	2
Reclassification as assets held for sale	-	-	-	-	-
<b>At 31 Dec. 2007</b>	20	1	-	-	21
<b>Net book value at 31 Dec. 2007</b>	516	15	77	303	911
<b>Net book value at 31 Dec. 2006</b>	1,242	11	26	330	1,609

<sup>1</sup> Adjusted as a result of the final purchase price allocation.

Of the impairment losses recognised in respect of financial assets, EUR 11 m related to the Gases Division. Impairment losses are based on a revised estimate of the future results of operations of individual reporting units.

Principal associates and joint ventures are listed in Note [44]. The net assets and results of operations of the associates and joint ventures included are as follows:

Balance sheet	At equity companies 31.12.2007	At equity companies 31.12.2006
in € million		
Non-current assets	825	1,175
Inventories	29	105
Other current assets	71	153
Cash and cash equivalents	76	100
<b>Total assets</b>	<b>1,001</b>	<b>1,533</b>
Equity	172	450
Minority interests	-	28
Non-current liabilities	552	568
Current liabilities	277	487
<b>Total equity and liabilities</b>	<b>1,001</b>	<b>1,533</b>

Income statement	At equity companies 2007	At equity companies 2006
in € million		
Sales	752	550
Cost of sales	554	461
<b>Gross profit on sales</b>	<b>198</b>	<b>89</b>
Other income and other expenses	-35	-44
<b>Profit from operations (EBIT)</b>	<b>163</b>	<b>45</b>
Financial result	-37	-1
<b>Earnings before taxes on income (EBT)</b>	<b>126</b>	<b>44</b>
Taxes on income	48	14
<b>Earnings after taxes on income</b>	<b>78</b>	<b>30</b>

## [20] Inventories

in € million	31.12.2007	31.12.2006
Raw materials and supplies	165	202
Work in progress, unfinished goods and services	245	198
Finished goods	318	230
Merchandise	65	79
Payments in advance to suppliers	269	271
	<b>1,062</b>	<b>980</b>

Included in the total are inventories of EUR 154 m (2006: EUR 111 m) reported at their net realisable value. The write-down on the gross value was EUR 56 m (2006: EUR 19 m).

## [21] Receivables and other assets

in € million	Non-current		Current		Total	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
<b>Receivables from financial services</b>	<b>765</b>	<b>842</b>	<b>95</b>	<b>88</b>	<b>860</b>	<b>930</b>
Receivables from percentage-of-completion contracts	-	-	22	46	22	46
Receivables from affiliated companies	-	-	1	3	1	3
Receivables from other investments	-	-	3	2	3	2
Other trade receivables	1	-	1,583	1,523	1,584	1,523
<b>Trade receivables</b>	<b>1</b>	<b>-</b>	<b>1,609</b>	<b>1,574</b>	<b>1,610</b>	<b>1,574</b>
Tax claims	-	1	183	248	183	249
Receivables from affiliated companies	-	-	2	10	2	10
Receivables from other investments	-	-	1	4	1	4
Derivatives with positive fair values	13	4	122	131	135	135
Miscellaneous receivables and assets	393	280	296	382	689	662
<b>Other receivables and other assets</b>	<b>406</b>	<b>285</b>	<b>604</b>	<b>775</b>	<b>1,010</b>	<b>1,060</b>

### 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 investments in finance leases are recognised in receivables.

Since the disposal of the KION Group on 28 December 2006, Receivables from financial services in The Linde Group have related almost solely to arrangements which are classified as embedded finance leases in accordance with IFRIC 4.

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

in € million	31.12.2007	31.12.2006 <sup>1</sup>
<b>Gross investment</b>	<b>1,179</b>	<b>1,283</b>
Due within one year	137	140
Due within one to five years	476	520
Due in more than five years	566	623
<b>Present value of minimum lease payments</b>	<b>860</b>	<b>930</b>
Due within one year	95	88
Due within one to five years	319	331
Due in more than five years	446	511
<b>Unearned finance income</b>	<b>319</b>	<b>353</b>

<sup>1</sup> Adjusted.

#### Receivables from percentage of completion contracts

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

At the balance sheet date, costs incurred and profits recognised on long-term construction contracts amounted to EUR 2.703 bn (2006: EUR 1.801 bn), offset against advances received of EUR 3.743 bn (2006: EUR 2.811 bn), giving rise to receivables of EUR 22 m (2006: EUR 46 m) and liabilities of EUR 1.062 bn (2006: EUR 1.056 bn).

#### Other receivables and other assets

Other receivables and other assets comprise mainly other receivables and other assets due from third parties outside the Group of EUR 345 m (2006: EUR 341 m), other assets relating to pensions (i.e. prepaid pension costs) of EUR 344 m (2006: EUR 270 m) and the fair values of derivative financial instruments of EUR 135 m (2006: EUR 135 m).

#### Trade receivables

Trade receivables are due from a large number of customers in a wide variety of industry sectors and regions. To assess the recoverability of accounts receivable, the creditworthiness of customers is subject to constant review. Credit loss insurance is taken out if necessary.

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**Aged debts for which no bad debt provision has been made**


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2007, in € million	30–60 days	60–90 days	90–180 days	> 180 days
Trade receivables	111	71	20	15
Other receivables	3	1	–	6
Other financial assets	–	–	–	–

2006, in € million	30–60 days	60–90 days	90–180 days	> 180 days
Trade receivables	221	45	25	29
Other receivables	7	2	11	6
Other financial assets	13	–	–	–

**Counterparty risk**

Counterparty risk is the risk that a counterparty does not meet his or her contractual payment obligations and that this leads to a loss for The Linde Group. The counterparties we deal with have first-class credit ratings. Regular reviews are performed of the creditworthiness of counterparties and very clear limits have been set.

The Linde Group does not believe it has any significant exposure to counterparty risk arising from any individual counterparty. The concentration of the counterparty risk is limited due to our broad uncorrelated customer base. The counterparty risk from derivative financial instruments is limited due to the fact that the counterparties are banks which have very good credit ratings from international rating agencies.

The carrying amounts of financial assets reported in the balance sheet, less any impairment losses, represent the highest possible default risk, without taking into account the value of any collateral.

**[22] Securities**

Securities comprise available-for-sale securities of EUR 33 m (2006: EUR 37 m) and held-to-maturity investments of EUR 12 m (2006: EUR 5 m).

**[23] Cash and cash equivalents**

Cash and cash equivalents of EUR 858 m (2006: EUR 621 m) comprise cash in hand, cash at banks and commercial papers. The cash at banks and the commercial papers have maturities of three months or less.





## [24] Equity

The following comments also contain information which forms part of the Group management report in accordance with § 315 (4) of the German Commercial Code (HGB). This information is not repeated in the Group management report. The changes in equity in The Linde Group are shown in the Statement of changes in Group equity.

### Movements in Group equity

	Capital subscribed	Capital reserve	Retained earnings
in € million			
<b>At 1 Jan. 2006 – adjusted</b>	<b>307</b>	<b>2,704</b>	<b>1,680</b>
Dividend payments <sup>1</sup>	-	-	-168
Change in currency translation differences	-	-	-
Financial instruments	-	-	-
Amount arising from issue of convertible bond	8	163	-
Earnings after taxes on income	-	-	1,838
Changes as a result of share option scheme	1	40	-
Increase in share capital of Linde AG	95	1,741	-13
Other changes	-	-	-111
<b>At 31 Dec. 2006/1 Jan. 2007</b>	<b>411</b>	<b>4,648</b>	<b>3,226</b>
Dividend payments <sup>1</sup>	-	-	-241
Change in currency translation differences	-	-	-
Financial instruments	-	-	-
Amount arising from issue of convertible bond	13	240	-
Earnings after taxes on income	-	-	952
Changes as a result of share option scheme	2	60	-
Other changes	-	-	3
<b>At 31 Dec. 2007</b>	<b>426</b>	<b>4,948</b>	<b>3,940</b>

<sup>1</sup> See Note [35] on dividend per share.

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**Cumulative changes in equity not recognised 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
-46	-	-9	-212	4,424	49	4,473
-	-	-	-	-168	-3	-171
-182	-	-	-	-182	-	-182
-	1	14	-	15	-	15
-	-	-	-	171	-	171
-	-	-	-	1,838	20	1,858
-	-	-	-	41	-	41
-	-	-	-	1,823	-	1,823
-	-	-	149	38	159	197
-228	1	5	-63	8,000	225	8,225
-	-	-	-	-241	-40	-281
-677	-	-	-	-677	-9	-686
-	-1	182	-	181	-	181
-	-	-	-	253	-	253
-	-	-	-	952	61	1,013
-	-	-	-	62	-	62
-	-	-	228	231	212	443
-905	-	187	165	8,761	449	9,210

**Capital subscribed, authorised and conditionally authorised capital; subscription rights**

The company's subscribed capital at the balance sheet date amounts to EUR 425,849,415.68 and is fully paid up. It is divided into 166,347,428 shares at a par value of EUR 2.56 per share. The shares are bearer shares. Each share confers a voting right and is entitled to dividend. The entitlement to dividend can be excluded either by law (e.g. in the case of own shares) or by a provision of the Articles, or by a resolution at the Shareholders' Meeting (e.g. in respect of the commencement of the dividend entitlement of new shares in the year of issue if the shares are issued prior to the Shareholders' Meeting).

There has been an increase in share capital in the year ended 31 December 2007 of a total of EUR 14,365,140.48 from EUR 411,484,275.20 to EUR 425,849,415.68, divided into 166,347,428 shares. The increase in the financial year, which was outside the commercial register, consisted of the issue of 4,666,932 new shares arising from the exercise of the convertible bond issued by Linde Finance B.V. in 2004 as a result of the increase in conditionally authorised capital approved at the Shareholders' Meeting for this purpose on 17 May 2000, and the issue of 944,451 new shares out of 2002 conditionally authorised capital to service the Management Incentive Programme for executives in return for payment of the appropriate exercise price.

Authorised capital, comprising Authorised Capital I and Authorised Capital II, was EUR 105,106,534.40 at the balance sheet date.

The Executive Board was authorised, with the approval of the Supervisory Board, to increase subscribed capital by up to EUR 25,106,534.40 until 7 June 2010 against cash contributions by issuing, on one or more occasions, new bearer shares, at a par value of EUR 2.56 (Authorised Capital I). The shareholders are granted subscription rights as a result. However, the Executive Board is entitled, with the approval of 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 issued by Linde AG or by any of its direct or indirect majority-owned subsidiaries may be granted the subscription rights to new shares to which they are entitled when they exercise their rights of conversion or option rights or settle the conversion obligation, and exclude subscription rights for an amount of EUR 3,500,000 to the extent necessary to issue employee shares. In addition, the Executive Board can, with the approval of 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 Authorised Capital I, provided the issue price of the new shares is not significantly lower than the price of shares traded on the stock exchange at the time the issue price is finally determined, which should be as soon as possible after the placement of the shares. The upper limit of 10 percent of the share capital is reduced by that proportion of the subscribed capital which relates to own shares held by the company, which were sold after the creation of this Authorised Capital I while excluding the subscription rights of shareholders in accordance with §§ 71 (1) No. 8, sentence 5, 186 (3), sentence 4, of the German Stock Corporation Law (AktG), and that proportion of the subscribed capital which relates to rights to subscribe for shares which were created while excluding subscription rights in accordance with §§ 221 (4), 186 (3), sentence 4, of the German Stock Corporation Law (AktG). The Executive Board was also authorised to determine the remaining details of the capital increase and its implementation, with the approval of the Supervisory Board. The new shares can also be transferred to certain banks specified by the Executive Board, which assume the responsibility of offering them to shareholders (indirect subscription rights).

The Executive Board was further authorised, with the approval of the Supervisory Board, to increase subscribed capital by up to EUR 80,000,000 until 4 June 2012 against cash or non-cash contributions by issuing, on one or more occasions, up to 31,250,000 new bearer shares, at a par value of EUR 2.56 (Authorised Capital II). The new shares must be offered for subscription to the shareholders. However, the Executive Board is entitled, with the approval of 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 issued by Linde AG or by any of its direct or indirect subsidiaries may be granted the subscription rights to new shares to which they are

entitled when they exercise their rights of conversion or option rights or settle the conversion obligation. Moreover, the Executive Board is also authorised, with the approval of the Supervisory Board, to exclude the subscription rights of shareholders, if the new shares arising from a capital increase against cash contributions are issued at an issue price which is not significantly lower than the stock market price of shares quoted on the stock exchange on the date the issue price is finally determined, which should be as soon as possible after the placing of the shares, and the proportion of the subscribed capital constituted by the shares issued does not exceed 10 percent of the subscribed capital either when this authorisation becomes effective or when it is exercised. In determining the capital limit, account must be taken of that part of the subscribed capital which relates to those shares which are issued to service options and/or convertible bonds. This is only the case if the options and/or convertible bonds are issued in accordance with § 186 (3), sentence 4, of the German Stock Corporation Law (AktG) while excluding the subscription rights of shareholders during the lifetime of this authorisation. Account must also be taken of that part of the share capital which relates to those shares which are issued on the basis of authorised capital, or sold after being repurchased as own shares, during the lifetime of this authorisation in accordance or compliance with § 186 (3), sentence 4, of the German Stock Corporation Law (AktG). The Executive Board is also authorised, with the approval of the Supervisory Board, to exclude subscription rights in the case of capital increases against non-cash contributions, especially in the course of the acquisition of companies, businesses and investments, or mergers. The Executive Board is authorised to determine the remaining details of the capital increase and its implementation, with the approval of the Supervisory Board. The new shares can also be transferred to certain banks specified by the Executive Board, which assume the responsibility of offering them to shareholders (indirect subscription rights).

The conditionally authorised capital, which comprises the conditionally authorised capital based on a resolution passed at the Shareholders' Meeting on 17 May 2000, 2002 conditionally authorised capital, 2005 conditionally authorised capital and 2007 conditionally authorised capital, was EUR 98,882,127.36 at the balance sheet date.

At the Shareholders' Meeting on 17 May 2000, conditionally authorised capital of up to EUR 50,000,000 was approved, which will only be issued if the holders of the convertible bonds and warrant-linked bonds, to which were added convertible or warrant-linked bonds to be issued by Linde AG or its direct or indirect majority-owned subsidiaries by 16 May 2005, exercise their conversion or option rights or if the holders or debtors of convertible bonds to be issued by Linde AG or its direct or indirect majority-owned subsidiaries by 16 May 2005 settle the conversion obligation. The new shares participate in profit from the beginning of the financial year in which they arise as a result of the exercise of conversion or option rights or the settlement of 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 EUR 550,000,000 while excluding shareholders' subscription rights. Each bond had a nominal amount of EUR 100,000 and there were 5,500 bonds in total. Each bondholder is entitled to exercise the right during the exercise period to convert his or her bond into 1,770.4755 shares, subject to the provisions set out in the bond terms. The convertible bonds grant, subject to adjustments to the conversion rate, conversion rights to shares with a par value of up to EUR 24.93m with the issue of up to 9,737,615 shares. During the financial year, 4,666,932 new shares were issued with a nominal value of EUR 263,600,000 in total from 2,636 convertible bonds due to the exercise of conversion rights. As a result, conditionally authorised capital in accordance with the resolution passed at the Shareholders' Meeting on 17 May 2000 was reduced in the financial year by EUR 11,947,345.92 from EUR 41,764,646.40 to EUR 29,817,300.48. Issued share capital increased accordingly during the financial year. At the balance sheet date, there remained 1,047 convertible bonds, each with a nominal value of EUR 100,000 and each with the right to convert the bond into 1,770.4755 shares, for which the conversion right had not yet been exercised.

The issued share capital can be increased by up to EUR 10,064,826.88, divided into 3,931,573 new shares with a par value of EUR 2.56 if certain conditions are met (2002 conditionally authorised capital). At the Shareholders' Meeting on 14 May 2002, the Executive Board was authorised, with the approval of the Supervisory Board, to issue

by 14 May 2007 up to 6,000,000 subscription rights to shares to members of the Executive Board of the Company, members of the 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 14 May 2002 to create conditionally authorised capital of EUR 15,360,000, divided into 6,000,000 new shares (2002 conditionally authorised capital). The issued share capital will only be increased if the holders of option rights issued by the company, following the authorisation given to the Executive Board at the Shareholders' Meeting on 14 May 2002, use their option rights and the Company does not fulfil the option rights by transferring own shares or by making a payment in cash. The new shares issued as a result of the exercise of options are first entitled to dividend in the financial year in which, at the date of their issue, a resolution had not yet been passed at the Shareholders' Meeting regarding the appropriation of profit.

Following the exercise of options under the Management Incentive Programme in 2005 and 2006, 2002 conditionally authorised capital was reduced further in 2007 by EUR 2,417,794.56 from EUR 12,482,621.44 to EUR 10,064,826.88, divided into 3,931,573 shares. The issued share capital increased in 2007 as a result.

Conditionally authorised capital was increased by up to EUR 50,000,000 by the issue of up to 19,531,250 new shares with a par value of EUR 2.56 (2005 conditionally authorised capital). The increase in share capital will only take place if the holders of the convertible bonds and warrant-linked bonds, to which were added convertible or warrant-linked bonds to be issued by Linde AG or its direct or indirect majority-owned subsidiaries by 7 June 2010, as a result of the authorisation granted to the Executive Board by the resolution passed at the Shareholders' Meeting on 8 June 2005, exercise their conversion or option rights or if the holders or debtors of convertible bonds to be issued by Linde AG or its direct or indirect majority-owned subsidiaries settle the conversion obligation by 7 June 2010 as a result of the authorisation granted to the Executive Board by the resolution passed at the Shareholders' Meeting on 8 June 2005. The new shares are issued at the option or conversion price to be determined in each case in accordance with the resolution regarding authorisation referred to above. The new shares participate in profit from the beginning of the financial year in which they are issued as a result of the exercise of conversion or option rights or settlement of the conversion obligation.

Issued share capital can be increased by up to EUR 9,000,000 by the issue of up to 3,515,625 new bearer shares with a par value of EUR 2.56 subject to certain conditions (2007 conditionally authorised capital). The conditionally authorised increase in capital is approved solely for the purpose of granting subscription rights (share options) to members of the Executive Board of the company and other senior management in the company and in lower-level affiliated companies within Germany and outside Germany, including members of executive bodies in accordance with the provisions set out in the authorisation agreed at the Shareholders' Meeting on 5 June 2007. The conditionally authorised share capital will only be issued if subscription rights are exercised in accordance with the authorisation granted and the company does not meet its obligation in cash or with own shares. The new shares will participate in profit from the beginning of the financial year in which they are issued. If the issue takes place after the completion of a financial year, but before the meeting of the Supervisory Board at which the resolution is passed regarding the appropriation of profit, the new shares are also entitled to participate in the profit of the last completed financial year.

The company is also authorised by a resolution passed at the Shareholders' Meeting on 5 June 2007 to acquire up to 10 percent of capital subscribed through the purchase of own shares, expiring on 4 December 2008. At this meeting, the previous authorisation which was due to expire on 31 October 2007 was revoked.

in €	31.12.2007	31.12.2006
Capital subscribed	425,849,415.68	411,484,275.20
Authorised capital (total)	105,106,534.40	25,106,534.40
Authorised Capital I	25,106,534.40	25,106,534.40
Authorised Capital II (2007)	80,000,000.00	-
Conditionally authorised capital (total)	98,882,127.36	104,247,267.84
Conditionally authorised capital Shareholders' Meeting on 17.05.2000	29,817,300.48	41,764,646.40
Conditionally authorised capital 2002	10,064,826.88	12,482,621.44
Conditionally authorised capital 2005	50,000,000.00	50,000,000.00
Conditionally authorised capital 2007	9,000,000.00	-

### Notification of voting rights

In accordance with § 160 (2), sentence 8, of the German Stock Corporation Law (AktG), information is required to be given about notifiable interests as set out in § 21 (1) or (1 a) of the German Securities Trading Law (WpHG). These regulations require investors who have exceeded or fallen below certain threshold percentages of voting rights in companies listed on the stock exchange to notify the company. The contents of the notifications disclosed in accordance with § 26 (1) WpHG by the balance sheet date are set out below. These reflect the most recent notifications made to the company about the level of investments held:

#### 1. Allianz SE

Allianz SE, Munich, Germany, informed us in writing on 15 June 2007 in accordance with § 21 (1) WpHG in conjunction with § 24 WpHG that the share of voting rights in Linde AG, Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, Germany, held by Allianz Versicherungs-Aktiengesellschaft, Munich, Germany, fell below the 3 percent threshold on 14 June 2007 and now amounts to 2.84 percent (4,574,766 voting rights). 1.49 percent of the voting rights (2,391,821 voting rights) are attributable to Allianz Versicherungs-Aktiengesellschaft in accordance with § 22 (1), sentence 1, No. 1 WpHG. The share of voting rights held by Allianz SE in Linde AG has not changed sufficiently to require notification.

#### 2. Capital Research and Management Company/Europacific Growth Fund

Capital Research and Management Company, Los Angeles, USA, informed us in writing on 12 June 2007 in accordance with §§ 21 (1), 22 (1) WpHG, that the share of voting rights in Linde AG, Abraham-Lincoln-Strasse, 65189 Wiesbaden, Germany, held by Capital Research and Management Company fell below the 10 percent threshold on 6 June 2007. At that date, Capital Research and Management Company held 9.93 percent of all the voting rights in Linde AG (voting rights from 15,981,010 ordinary shares). The only shares issued by Linde AG are ordinary shares.

9.93 percent of all the voting rights in Linde AG (voting rights from 15,981,010 ordinary shares) were attributable to Capital Research and Management Company in accordance with § 22 (1), sentence No. 6 WpHG. Of these voting rights from 15,981,010 ordinary shares, voting rights from 8,066,708 ordinary shares (5.01 percent) are held by Europacific Growth Fund, Los Angeles, USA, which is therefore a shareholder with an interest of 3 percent or more of the voting rights in Linde AG.

Europacific Growth Fund, Los Angeles, USA, informed us in writing on 18 July 2007 in accordance with § 21 (1) WpHG that the share of voting rights in Linde AG, Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, Germany, held by Europacific Growth Fund fell below the 5 percent threshold on 9 July 2007 and now amounts to 4.99 percent (8,066,708 shares).

### 3. Commerzbank

Commerzbank Aktiengesellschaft, Frankfurt am Main, Germany, informed us in writing on 12 July 2006 in accordance with § 21 (1) WpHG that its share of voting rights in Linde AG, Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, Germany, fell below the 10 percent threshold on 5 July 2006 and was now 7.70 percent. 7.63 percent of the voting rights in Linde AG were attributable to Commerzbank Aktiengesellschaft, Kaiserstrasse 16, 60311 Frankfurt am Main, Germany, in accordance with § 22 (1), sentence 1, No. 1 WpHG. Following the exercise of subscription rights against cash contributions immediately prior to the date of the notification, the share of voting rights held at the date of the notification was 9.78 percent.

### 4. Deutsche Bank

Deutsche Bank AG, Frankfurt am Main, Germany, informed us in writing on 21 June 2007 in accordance with § 21 (1) WpHG in conjunction with § 24 WpHG that the share of voting rights in Linde AG, Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, Germany, held by DB Equity S.à r.l., Luxembourg, exceeded the 3 percent and 5 percent thresholds on 18 June 2007 and is now 5.41 percent (8,721,847 voting rights).

Deutsche Bank AG also informed us in accordance with § 21 (1) WpHG that, with effect from 18 June 2007, Deutsche Bank AG no longer had a direct holding of 5.41 percent of the voting rights in Linde AG, due to the repayment of an intra-group loan against securities, but now had an indirect holding of 5.41 percent in Linde AG (8,721,847 voting rights) due to shares being attributed to Deutsche Bank AG in accordance with § 22 (1), sentence 1, No. 1 WpHG.

The total share of voting rights in Linde AG held by the Deutsche Bank AG Group is now 5.41 percent (8,721,847 voting rights).

### 5. Fidelity International Limited

Fidelity International Limited, P.O. Box HM 670, Hamilton HMCX, Bermuda, informed us in writing on 14 February 2007 in accordance with § 21 (1) WpHG that the share of voting rights in Linde AG, Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, Germany, held by Fidelity International Limited fell below the 3 percent threshold on 13 February 2007 and is now 2.98 percent (4,697,792 voting rights). The voting rights are attributable to Fidelity International Limited in accordance with § 22 (1), sentence 1, No. 6 WpHG.

### 6. FMR Corp.

FMR Corp., Boston, Massachusetts, USA, informed us in writing on 18 June 2007 in accordance with § 21 (1) WpHG that the share of voting rights in Linde AG, Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, Germany, held by FMR Corp. exceeded the 3 percent threshold on 15 June 2007 and is now 3.01 percent (4,839,812 shares). The voting rights are attributable to FMR Corp. in accordance with § 22 (1), sentence 1, No. 6 in conjunction with § 22 (1), sentence 2 WpHG.

### 7. FMR LLC

FMR LLC, Boston, Massachusetts, USA, informed us in writing on 1 November 2007 in accordance with § 21 (1) WpHG that FMR Corp., Boston, Massachusetts, USA, had merged with FMR LLC with effect from 1 October 2007. FMR LLC thereby became the legal successor of FMR Corp. The share of voting rights in Linde AG, Leopoldstrasse 252, 80807 Munich, Germany, held by FMR LLC therefore exceeded the 3 percent threshold on 1 October 2007 and was 4.49 percent at that date (7,347,362 shares). The voting rights were attributable to FMR LLC in accordance with § 22 (1), sentence 1, No. 6, in conjunction with § 22 (1), sentence 2 WpHG.

Moreover, FMR LLC informed us in writing on 22 October 2007 in accordance with § 21(1) WpHG that the share of voting rights in Linde AG held by FMR LLC exceeded the 5 percent threshold on 17 October 2007 and is now 5.01 percent (8,201,712 shares). The voting rights are attributable to FMR LLC in accordance with § 22 (1), sentence 1, No. 6, in conjunction with § 22 (1), sentence 2 WpHG. Included in the 5.01 percent of voting rights is the share of voting rights in Linde AG held by Fidelity Management & Research Company, which is 4.19 percent.



#### 8. Franklin Mutual Series Fund Inc.

Franklin Mutual Series Fund Inc., Short Hill, USA, informed us in writing on 17 May 2007 in accordance with §§ 21 (1) WpHG that its share of voting rights in Linde AG, Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, Germany, fell below the 3 percent threshold on 16 May 2007, and the share of voting rights is now 2.51 percent, which corresponds to 4,034,186 voting shares.

#### 9. Massachusetts Financial Services

Massachusetts Financial Services (MFS), Boston, USA, informed us in writing on 25 May 2007 in accordance with §§ 21 (1) WpHG, that the share of voting rights in Linde AG, Abraham-Lincoln-Strasse, 65189 Wiesbaden, Germany, held by MFS exceeded the 3 percent threshold on 16 May 2007. The notifying party now holds 3.43 percent of the voting rights (5,515,200 votes).

These voting rights are attributable to the notifying party in accordance with § 22 (1) No. 6 WpHG. None of the shares of voting rights attributable to MFS in itself exceeds the 3 percent threshold of voting rights in Linde AG.

#### 10. Sun Life Financial Inc.

We were informed in writing on 2 August 2007 in accordance with § 21 (1) WpHG of a correction made to a disclosure dated 30 May 2007:

The share of voting rights in Linde AG, Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, Germany, held by Sun Life Financial Inc., Toronto, Canada, exceeded the 3 percent threshold on 16 May 2007 and is now 3.43 percent (5,515,200 voting rights). The voting rights are attributable to Sun Life Financial Inc. in accordance with § 22 (1), sentence 1, No. 6, in conjunction with § 22 (1), sentence 2 WpHG.

Moreover, we were informed on 2 August 2007 in accordance with § 21 (1) WpHG that:

1. The share of voting rights in Linde AG, Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, Germany, held by Sun Life Financial Corp., Toronto, Canada, exceeded the 3 percent threshold on 16 May 2007 and is now 3.43 percent (5,515,200 voting rights). The voting rights are attributable to Sun Life Financial Corp. in accordance with § 22 (1), sentence 1, No. 6, in conjunction with § 22 (1), sentence 2 WpHG.
2. The share of voting rights in Linde AG, Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, Germany, held by Sun Life Assurance Company of Canada – U.S. Operations Holdings, Inc., Wellesley Hills, USA, exceeded the 3 percent threshold on 16 May 2007 and is now 3.43 percent (5,515,200 voting rights). The voting rights are attributable to Sun Life Assurance Company of Canada – U.S. Operations Holdings, Inc., in accordance with § 22 (1), sentence 1, No. 6, in conjunction with § 22 (1), sentence 2 WpHG.
3. The share of voting rights in Linde AG, Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, Germany, held by Sun Life Financial (U.S.) Holdings, Inc., Wellesley Hills, USA, exceeded the 3 percent threshold on 16 May 2007 and is now 3.43 percent (5,515,200 voting rights). The voting rights are attributable to Sun Life Financial (U.S.) Holdings, Inc., in accordance with § 22 (1), sentence 1, No. 6, in conjunction with § 22 (1), sentence 2 WpHG.
4. The share of voting rights in Linde AG, Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, Germany, held by Sun Life Financial (U.S.) Investments LLC, Wellesley Hills, USA, exceeded the 3 percent threshold on 16 May 2007 and is now 3.43 percent (5,515,200 voting rights). The voting rights are attributable to Sun Life Financial (U.S.) Investments LLC in accordance with § 22 (1), sentence 1, No. 6, in conjunction with § 22 (1), sentence 2 WpHG.
5. The share of voting rights in Linde AG, Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, Germany, held by Sun Life of Canada (U.S.) Financial Services Holdings, Inc., Boston, USA, exceeded the 3 percent threshold on 16 May 2007 and is now 3.43 percent (5,515,200 voting rights). The voting rights are attributable to Sun Life of Canada (U.S.) Financial Services Holdings, Inc., in accordance with § 22 (1), sentence 1, No. 6, in conjunction with § 22 (1), sentence 2 WpHG.

#### Additional disclosures in accordance with § 315 (4) of the German Commercial Code (HGB)

There are no shares with special rights, nor is there voting control of employees with shares in the company who do not immediately safeguard their rights of control.

**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 31 December 1994, and adjustments not recognised through the income statement arising from the application of IFRS for the first time.

In the 2006 financial year, an amount of EUR 24 m was offset against retained earnings which arose from the purchase of a minority share in Linde BOC Process Plants LLC, Wilmington, USA, in the course of the BOC acquisition. The amount relates to the difference between the purchase price and the minority share of net assets acquired.

**Cumulative changes in equity not recognised 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 being accounted for in equity rather than being recognised in the income statement, as well as the effects of offsetting actuarial gains and losses on pension provisions after tax against equity.

Movements in Cumulative changes in equity not recognised through the income statement were as follows:

in € million	2007			2006		
	Before tax	Tax effect	Net	Before tax	Tax effect	Net
Movement in currency translation differences	-686	-	-686	-182	-	-182
Movement in unrealised gains/losses from remeasurement of securities to fair value						
Movement in accumulated unrealised gains/losses	-1	-	-1	1	-	1
Realised gains/losses	-	-	-	-	-	-
Unrealised gains/losses from available-for-sale securities	-1	-	-1	1	-	1
Movement in unrealised gains/losses on derivative financial instruments						
Movement in accumulated unrealised gains/losses	196	-15	181	15	-2	13
Realised gains/losses	1	-	1	2	-1	1
Unrealised gains/losses on derivative financial instruments	197	-15	182	17	-3	14
Movement in actuarial gains/losses on pension provisions	354	-126	228	229	-80	149

## Minority interests

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

in € million	31.12.2007	31.12.2006
BOC Lienhwa Industrial Gases Co. Ltd., Taiwan	164	-
African Oxygen Limited, South Africa	93	92
Abelló Linde S. A., Spain	27	27
BOC India Ltd., India	30	24
MIG Production Co. Ltd., Thailand	26	23
BOC Lienhwa (BVI) Holdings Co. Ltd., British Virgin Islands	15	-
Linde Nippon Sanso GmbH & Co. KG, Germany	12	-
Linde Gas Algérie S. p. A., Algeria	12	-
Linde Engineering Dalian Co. Ltd., China	10	11
Gases Industriales de Colombia S. A., Colombia	7	7
Various other companies	53	41
	<b>449</b>	<b>225</b>

## Capital employed

To ensure the medium-term and long-term success of the company, return on capital employed (or ROCE) is used as a key management performance measure. Capital employed is defined for this purpose as the average of the amounts shown in the balance sheet in the prior year and current financial year:

Capital employed	Equity	
		+
	Financial debt	
		+
	Liabilities from financial services	
		+
	Net pension obligations	
		-
	Liquid funds	
		-
	Receivables from financial services	

The return figure used in the calculation comprises EBIT before non-recurring items (including income from associates and joint ventures, excluding financing costs for pension obligations) plus the amortisation of fair value adjustments identified in the course of the purchase price allocation. See Note [43] for information about the calculation of ROCE.

## [25] Provisions for pensions and similar obligations

in € million	31.12.2007	31.12.2006
Provisions for pensions	720	1,260
Provisions for similar obligations	27	24
<b>Total provisions</b>	<b>747</b>	<b>1,284</b>
Pension assets	-344	-270

Pension provisions are recognised in accordance with IAS 19 *Employee Benefits* for obligations relating to future benefits and current benefits payable to eligible current 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 other obligations.

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 plans in 2007 was EUR 110 m (2006: EUR 27 m). Contributions to state pension schemes in 2007 totalled EUR 65 m (2006: EUR 88 m).

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.

For the external financing of pension obligations, The Linde Group uses standard international models for the transfer of pension assets (e.g. pension funds and contractual trust arrangements). Pension plans financed via external pension funds exist principally in Germany, the UK, the Netherlands, the United States, Australia, South Africa, Switzerland, Norway, Finland, Spain, New Zealand, Canada, Ireland 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		UK		Other Europe		USA & Canada		Other countries	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Discount rate	5.25%	4.25%	5.60%	5.10%	4.73%	4.00%	6.11%	5.70%	5.95%	6.75%
Expected return on plan assets	6.25%	5.25%	6.26%	6.60%	5.58%	5.10%	7.06%	7.10%	7.71%	8.15%
Growth in future benefits	2.50%	2.50%	4.90%	4.70%	3.15%	2.90%	3.30%	3.50%	4.64%	5.10%
Growth in pensions	2.00%	1.75%	3.40%	3.20%	1.41%	1.50%	1.67%	2.50%	3.03%	3.80%

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 be recognised where a defined benefit plan has been overfunded only if the Linde Group, 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 recognised under provisions for pensions.

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 with regard to risk trends of pension obligations or differences between the actual and expected return on plan assets.

Actuarial gains and losses are recognised 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 31 December 2007, a total gain of EUR 165 m (2006: loss of EUR 63 m), after deduction of deferred taxes, was recognised directly in equity.

## Reconciliation of the defined benefit obligation and the plan assets:

in € million	Germany		UK	
	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets
<b>At 1 Jan. 2006</b>	<b>1,171</b>	<b>267</b>	<b>407</b>	<b>357</b>
Acquisition of BOC	-	-	3,190	2,485
Current service cost	34	-	37	-
Interest cost	49	-	73	-
Expected return on plan assets	-	14	-	84
Employers' contributions	-	5	-	266
Employees' contributions	-	-	6	6
Actuarial gains/losses	43	13	-3	79
Effects of changes in exchange rates	-	-	13	11
Pension payments made	-49	-	-48	-48
Past service cost	-	-	1	-
Changes in Group structure/other changes	-1	-1	1	2
Plan curtailments	-	-	-	-
Plan settlements	-	-	-	-
Disposal of KION	-362	-23	-427	-408
<b>At 31 Dec. 2006</b>	<b>885</b>	<b>275</b>	<b>3,250</b>	<b>2,834</b>
Current service cost	16	-	69	-
Interest cost	36	-	161	-
Expected return on plan assets	-	13	-	182
Employers' contributions	-	-	-	234
Employees' contributions	3	4	13	13
Actuarial gains/losses	-82	-	-218	17
Effects of changes in exchange rates	-	-	-261	-258
Pension payments made	-42	-	-122	-122
Past service cost	-	-	4	-
Changes in Group structure/other changes	-12	-9	-	-
Plan curtailments	-1	-	-35	-
Plan settlements	-	-	-1	-
<b>At 31 Dec. 2007</b>	<b>803</b>	<b>283</b>	<b>2,860</b>	<b>2,900</b>

	Other Europe		USA & Canada		Other countries		Total	
	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets
	549	400	75	64	6	-	2,208	1,088
	72	52	424	557	461	476	4,147	3,570
	16	-	7	-	5	-	99	-
	23	-	12	-	11	-	168	-
	-	20	-	18	-	13	-	149
	-	11	-	2	-	5	-	289
	5	5	-	-	1	1	12	12
	7	6	-3	42	15	57	59	197
	-3	-5	-20	-23	-	1	-10	-16
	-27	-19	-23	-23	-9	-9	-156	-99
	-1	-	-	-	-	-	-	-
	-	-2	-	1	-2	-	-2	-
	-2	-	-	-	-	-	-2	-
	-	-	-	-	-	-	-	-
	-62	-38	-	-	-	-	-851	-469
	577	430	472	638	488	544	5,672	4,721
	15	-	18	-	18	-	136	-
	22	-	26	-	40	-	285	-
	-	22	-	43	-	46	-	306
	-	20	-	6	-	15	-	275
	5	5	1	1	4	3	26	26
	-28	-21	-20	13	15	36	-333	45
	-5	-2	-32	-55	-13	-18	-311	-333
	-27	-21	-61	-57	-28	-28	-280	-228
	-	-	3	-	-	-	7	-
	2	3	-8	-8	11	15	-7	1
	-3	-	-6	-	-	-	-45	-
	1	-	2	-	-	-	2	-
	559	436	395	581	535	613	5,152	4,813

Funding status of the defined benefit pension obligations:

in € million	Germany		UK	
	2007	2006	2007	2006
Actuarial present value of pension obligations (defined benefit obligation)	803	885	2,860	3,250
of which unfunded pension obligations	299	365	2	4
of which funded pension obligations	504	520	2,858	3,246
Fair value of plan assets	283	275	2,900	2,834
<b>Net obligation</b>	<b>520</b>	<b>610</b>	<b>-40</b>	<b>416</b>
Cumulative effect of asset ceiling	-	-	-	-
Past service cost	-	-	-	-
<b>At 31 December</b>	<b>520</b>	<b>610</b>	<b>-40</b>	<b>416</b>
of which pension provision (+)	520	610	2	416
or pension asset (-)	-	-	-42	-

#### Portfolio structure of pension assets

	31.12.2007	31.12.2006
Shares	45%	56%
Fixed-interest securities	38%	31%
Property	9%	11%
Insurance	1%	1%
Other	7%	1%
	<b>100%</b>	<b>100%</b>

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

in € million	Germany		UK	
	2007	2006	2007	2006
Current service cost	16	34	69	37
Interest cost	36	49	161	73
Expected return on plan assets	-13	-14	-182	-84
Amortisation of past service cost	-	-	4	1
Plan curtailments/settlements	-1	-	-36	-
	<b>38</b>	<b>69</b>	<b>16</b>	<b>27</b>



Other Europe		USA & Canada		Other countries		Total	
2007	2006	2007	2006	2007	2006	2007	2006
559	577	395	472	535	488	5,152	5,672
102	102	52	1	6	5	461	477
457	475	343	471	529	483	4,691	5,195
436	430	581	638	613	544	4,813	4,721
123	147	-186	-166	-78	-56	339	951
3	-	-	-	34	39	37	39
-	-	-	-	-	-	-	-
126	147	-186	-166	-44	-17	376	990
126	148	66	82	6	5	720	1,260
-	-1	-252	-248	-50	-21	-344	-270

Other Europe		USA & Canada		Other countries		Total	
2007	2006	2007	2006	2007	2006	2007	2006
15	16	18	7	18	5	136	99
22	23	26	12	40	11	285	168
-22	-20	-43	-18	-46	-13	-306	-149
-	-1	3	-	-	-	7	-
-2	-1	-4	-	-	-	-43	-1
13	17	-	1	12	3	79	117

Actual income on plan assets in external pension funds was EUR 309 m (2006: EUR 346 m). This meant that actual income was slightly higher than expected income on plan assets of EUR 306 m (2006: EUR 149 m).

Under IFRS, actuarial gains and losses should be divided into those arising from changes in assumptions and those not arising from changes in assumptions. Of the pension obligations at 31 December 2007 of EUR 5,152 m (2006: EUR 5,672 m), EUR –40 m (2006: EUR –6 m) of the actuarial gains and losses does not arise from changes in assumptions. Of the plan assets of EUR 4,813 m at 31 December 2007 (2006: EUR 4,721 m), EUR –45 m (2006: EUR –197 m) of the actuarial gains and losses does not arise from changes in assumptions.

Payments to increase plan assets in external pension funds in the 2008 financial year are expected to amount to EUR 164 m (2007: EUR 283 m). Of this amount, around EUR 90 m (2007: EUR 190 m) relates to special payments to the UK pension fund which Linde agreed to make as part of the BOC acquisition agreement.

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 during the year and the interest cost for each respective financial 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 percentage rate achieved in the prior year.

## [26] Other provisions

At the balance sheet date, Other provisions had the following maturity structure:

in € million	Non-current		Current		Total	
	2007	2006	2007	2006	2007	2006
<b>Provisions for taxes</b>	–	–	451	221	451	221
Obligations from delivery transactions	31	42	357	357	388	399
Warranty obligations and risks from transactions in course of completion	74	143	379	401	453	544
Obligations relating to personnel	33	73	475	500	508	573
Insurance obligations	–	–	34	55	34	55
Other obligations	103	152	333	209	436	361
<b>Miscellaneous provisions</b>	<b>241</b>	<b>410</b>	<b>1,578</b>	<b>1,522</b>	<b>1,819</b>	<b>1,932</b>
<b>Total other provisions</b>	<b>241</b>	<b>410</b>	<b>2,029</b>	<b>1,743</b>	<b>2,270</b>	<b>2,153</b>

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, restructuring, 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 provision for insurance contracts comprises the insurance risks from reinsurance by the subsidiary Linde-RE S.A., Luxembourg, and Priestley Dublin Reinsurance Company Limited, Ireland.

in € million	At 01.01.2007	Changes in Group structure <sup>1</sup>	Utilisation	Release	Addition	Transfer	At 31.12.2007
<b>Provisions for taxes</b>	221	22	58	20	286	-	451
Obligations from delivery transactions	399	-	196	46	231	-	388
Warranty obligations and risks from transactions in course of completion	544	1	159	19	86	-	453
Obligations relating to personnel	573	-2	285	29	251	-	508
Insurance obligations	55	-5	16	-	-	-	34
Other obligations	361	1	170	36	280	-	436
<b>Miscellaneous provisions</b>	<b>1,932</b>	<b>-5</b>	<b>826</b>	<b>130</b>	<b>848</b>	<b>-</b>	<b>1,819</b>
<b>Total other provisions</b>	<b>2,153</b>	<b>17</b>	<b>884</b>	<b>150</b>	<b>1,134</b>	<b>-</b>	<b>2,270</b>

<sup>1</sup> Including currency differences.

## [27] Financial debt

Financial debt comprises interest-bearing obligations of The Linde Group, analysed as follows:

in € million	Non-current				Current		Total	
	Due in 1 to 5 years		Due in more than 5 years		Due within 1 year		2007	2006
	2007	2006	2007	2006	2007	2006		
Subordinated bond	-	-	1,426	1,455	-	-	1,426	1,455
Convertible bond	101	345 <sup>1</sup>	-	-	-	-	101	345 <sup>1</sup>
Other bonds	1,384	759 <sup>1</sup>	1,795	445 <sup>1</sup>	314	664	3,493	1,868 <sup>1</sup>
Commercial papers (CP)	-	-	-	-	580	224	580	224
Bank loans and overdrafts	1,316	6,499	5	1	409	204	1,730	6,704
	<b>2,801</b>	<b>7,603<sup>1</sup></b>	<b>3,226</b>	<b>1,901<sup>1</sup></b>	<b>1,303</b>	<b>1,092</b>	<b>7,330</b>	<b>10,596</b>

<sup>1</sup> Prior year figures adjusted.

Of the bank loans and overdrafts, EUR 1.2 m (2006: EUR 1.6 m) is secured by mortgages.

In the 2007 and 2006 financial years, there were no defaults or breaches of loans payable.

The bonds are analysed as follows:

#### Fixed-interest bonds

Issuer	Nominal volume in relevant currency	€ million <sup>1</sup>	Average weighted residual term (in years)	Average weighted effective interest rate <sup>2</sup> in %
Linde Finance B. V., Amsterdam	3,445 million EUR	3,398	6.41	5.5
Linde Finance B. V., Amsterdam	1,050 million GBP	1,421	9.13	6.9
Linde Finance B. V., Amsterdam	7,000 million JPY	43	0.64	1.1
Linde Finance B. V., Amsterdam	510 million SKK	15	0.07	8.0
Afrox Limited, Johannesburg	190 million ZAR	19	4.12	10.0
		<b>4,896</b>		

#### Variable-interest bonds

Issuer	Nominal volume in relevant currency (ISO code)	€ million <sup>1</sup>	Average weighted residual term (in years)	Average weighted effective interest rate <sup>2</sup> in %
Linde Finance B. V., Amsterdam	500 million CZK	19	0.47	4.4
Linde Finance B. V., Amsterdam	80 million EUR	80	1.48	5.3
Afrox Limited, Johannesburg	250 million ZAR	25	1.28	11.6
		<b>124</b>		

<sup>1</sup> Includes adjustments relating to hedging transactions.

<sup>2</sup> Effective interest rate in relevant currency.

The bonds issued by Linde Finance B. V. and BOC are classified as financial liabilities.

Of these, bonds with a value of EUR 1,242m (2006: EUR 1,255 m) are in a fair value hedge and bonds with a value of EUR 0m (2006: EUR 0m) in a cash flow hedging relationship.

#### Subordinated bonds

In July 2006, subordinated bonds for EUR 700m and GBP 250m were issued, with a final maturity date of 14 July 2066. There is a right to call the loan from 14 July 2016. 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 +4.125 percent for the euro bond and 3 month Libor +4.125 percent for the bond in pounds sterling). The right to call the loan will then be available every quarter on the due date for interest payment. If the outstanding 2004/2009 convertible bond is converted into shares, there is a special right to call the loan at a certain discounted market price (the special make-whole price), but this applies only to the euro bond.

The coupon payment may be suspended on any due date for interest payment. Coupon payments not made will be made up if the Linde Group makes payments for securities pari passu, subordinated securities or shares.

In July 2003, a subordinated bond for EUR 400m was issued. It has no final maturity date, although there is a right to call the loan from 3 July 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 +3.375 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 dividend payment, or makes other payments for securities *pari passu* or subordinated securities, before a period of five years has elapsed, all the cancelled coupon payments are made up.

#### **Convertible bond**

In May 2004, a convertible bond with a nominal amount of EUR 550 m was issued. It has a maturity period of five years and an interest rate of 1.25 percent. The terms and conditions of the bond are described in more detail in Note [24] on equity. Due to the positive trend in the Linde AG share price, a total nominal amount of EUR 264 m of the convertible bond was converted into equity in the 2007 financial year (2006: EUR 182 m). This is equivalent to 4,666,932 shares (2006: 3,216,935 shares). The conversions also resulted in a reversal of equity not affecting net income of EUR 11 m (2006: EUR 11 m) of the part of the convertible bond recognised in equity. The nominal amount outstanding at the end of the financial year was EUR 105 m (2006: EUR 369 m).

#### **Other bonds**

In April 2007, benchmark bonds were issued by Linde Finance B. V. with an issue volume of more than EUR 2.4 bn. The transaction comprised a EUR 1 bn five-year fixed-interest bond at 4.375 percent, a EUR 1 bn ten-year fixed interest bond at 4.75 percent and a GBP 300 m 16-year sterling tranche at 5.875 percent.

In December 2007, the capital market liabilities issued by BOC Group plc were transferred to Linde Finance B. V. The bonds transferred were as follows: GBP 100 m at 12.25 percent due in 2012/2017, GBP 200 m at 6.5 percent due in 2016, GBP 200 m at 5.875 percent due in 2009 and JPY 5 bn at 0.6125 percent due in 2008. The liabilities assumed by Linde Finance B. V. are guaranteed by The BOC Group plc.

In the 2007 financial year, one bond with an issue volume of EUR 637 m (2006: EUR 203 m) was unwound on schedule. In December, one of the bonds issued by BOC with an issue volume of JPY 6 bn was unwound early.

In 2007, the Debt Issuance Programme was increased from EUR 5 bn to EUR 10 bn. Under the Debt Issuance Programme, there were issues outstanding at the year-end of around EUR 2.7 bn (2006: EUR 1 bn) in five different currencies.

#### **Bank loans and overdrafts**

The acquisition of The BOC Group plc was secured through credit facilities arranged in March 2006 for GBP 8.9 bn and EUR 2 bn (revolver) provided by five banks. This loan undertaking was then syndicated to 50 banks worldwide. The syndicated credit line also serves as back-up for our EUR 1 bn Commercial Paper Programme and replaces the EUR 1.8 bn syndicated credit line agreed in 2005. Linde currently has an agreed unused credit line of around EUR 1.4 bn (2006: EUR 1.6 bn), provided by the international banking consortium. Of this amount, EUR 557 m (2006: EUR 224 m) relates to commercial papers issued by Linde Finance B. V. under the Commercial Paper Programme.

As a result of sales proceeds, the issue of benchmark bonds and cash flow from operating activities, the amount drawn on the syndicated credit facility at the year-end had been reduced to around EUR 1.2 bn.

## [28] Liabilities from financial services

In the 2007 financial year, there are liabilities from financial services of EUR 36 m (2006: EUR 49 m).

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

### Liabilities from financial services

in € million	31.12.2007	31.12.2006
<b>Total minimum lease payments (gross)</b>	<b>41</b>	<b>55</b>
Due within one year	14	14
Due in one to five years	18	32
Due in more than five years	9	9
<b>Present value of minimum lease payments</b>	<b>36</b>	<b>49</b>
Due within one year	12	12
Due in one to five years	16	29
Due in more than five years	8	8
<b>Finance charge included in the minimum lease payments</b>	<b>5</b>	<b>6</b>

## [29] Trade payables, Other liabilities

in € million	Non-current		Current		Total	
	2007	2006	2007	2006	2007	2006
Percentage-of-completion (PoC)	-	-	1,062	1,056	1,062	1,056
Other	8	3	1,005	893	1,013	896
<b>Trade payables</b>	<b>8</b>	<b>3</b>	<b>2,067</b>	<b>1,949</b>	<b>2,075</b>	<b>1,952</b>
Advance payments received from customers	12	3	102	68	114	71
Taxes	101	15	203	335	304	350
Social security	-	-	11	16	11	16
Liabilities due to affiliated companies	-	-	6	-	6	-
Liabilities due to related companies	-	-	1	1	1	1
Derivates with negative fair values	-	6	108	70	108	76
Sundry liabilities	49	94	479	389	528	483
<b>Other liabilities</b>	<b>162</b>	<b>118</b>	<b>910</b>	<b>879</b>	<b>1,072</b>	<b>997</b>
	<b>170</b>	<b>121</b>	<b>2,977</b>	<b>2,828</b>	<b>3,147</b>	<b>2,949</b>

Percentage of completion trade payables of EUR 1,062 m (2006: EUR 1,056 m) relate to advance payments received on construction contracts, where these exceed the state of completion of the contract.

Of the sundry liabilities, EUR 43 m (2006: EUR 41 m) are secured by mortgages.

## Other information

### [30] Share option scheme

#### Linde Performance Share Programme 2007

It was resolved at the Shareholders' Meeting of Linde AG held on 5 June 2007 to introduce a performance share scheme for management (Long Term Incentive Plan 2007 – LTIP 2007), under which up to 3.5 million options can be issued over a total period of five years.

The aim of LTIP 2007 is to present Linde management worldwide with meaningful performance criteria and to encourage the long-term loyalty of our management personnel.

Participants are granted options on an annual basis to subscribe to Linde shares, each with a maximum term of three years, two months and two weeks. The Supervisory Board determines the allocation of options to the members of the Executive Board of Linde AG. Otherwise, the Executive Board determines the participants in the scheme and the number of options to be issued.

Each option confers the right to purchase one share in Linde AG at the exercise price, which is equivalent in each case to the lowest issue price of EUR 2.56 per share. Linde AG may decide at any time, at its own discretion, that the option entitlements of the option holders may be met by providing own shares or by making a payment in cash instead of issuing new shares out of the share capital conditionally authorised for this purpose. These arrangements allow for flexibility in the exercise of options. It may make economic sense to use own shares where these are available, rather than increasing share capital or making a payment in cash. The decision as to how the option entitlements will be met will be made in each case by the appropriate executive bodies of the company.

Certain conditions apply to the exercise of the options. First of all, the option conditions provide for a qualifying period (vesting period) for the share options of three years from their date of issue. At the end of this period, the options can be exercised within a period not exceeding two months and two weeks, on condition that the member of the plan is still employed by Linde AG or by a Group company under a service or employment agreement and that he or she is not under notice. In special cases where a member of the scheme leaves Linde's employ prematurely, an exception to the above rules may be made. Options in a tranche may only be exercised at the end of the vesting period if and to the extent that the three performance targets laid down have been met. A performance target may be met irrespective of whether the other performance targets have been met. Included in the definition of the performance targets are minimum targets and stretch targets, the fulfilment of which results in a different number of exercisable options in the tranche.

A 40 percent weighting applies to the "adjusted earnings per share" performance target. The minimum target is reached if the adjusted diluted earnings per share achieves a compound annual growth rate (CAGR) of 7 percent during the vesting period. The stretch target is reached if a CAGR of 12 percent is achieved. If the minimum target is reached, 10 percent of the options in a tranche may be exercised and, if the stretch target is reached, 40 percent of the options in a tranche. If the CAGR is between these two target figures, the number of options that may be exercised is determined on a straight-line basis between these two percentage rates. Details of the calculation of "adjusted earnings per share" are given in Note [43]. The "adjusted earnings per share" performance target is regarded as a *performance condition* under IFRS 2.

A 30 percent weighting applies to the "absolute total shareholder return" performance target. The minimum target is reached if the total shareholder return during the vesting period is 20 percent of the initial value. The stretch target is reached if the total shareholder return is 40 percent. If the minimum target is reached, 7.5 percent of the options in a tranche may be exercised and, if the stretch target is reached, 30 percent of the options in a tranche. If the total shareholder return is between these two target figures, the number of options that may be exercised is determined on a straight-line basis between these two percentage rates. The first component of total shareholder return over the three-year period is the change in the share price of Linde AG over the vesting period, which is determined by comparing the average closing price of Linde shares on the last 20 stock exchange trading days in the XETRA trading system of the Frankfurt Stock Exchange before the issue date of the options in the relevant tranche and the average closing price of Linde shares on the last 20 stock exchange trading days in the XETRA trading system before the third last stock exchange trading day before the exercise period. The other components of total shareholder return are dividends paid and the value of any statutory subscription rights relating to the share (e.g. as a result of increases in share capital). The "absolute total shareholder return" performance target is regarded as a *market condition* under IFRS 2 and is included in the measurement of the option price.

A 30 percent weighting applies to the “relative total shareholder return” performance target. The minimum target is reached if the total shareholder return of the Linde AG share exceeds the median of the control group (DAX 30) during the vesting period. The stretch target is reached if the total shareholder return of the Linde AG share is in the upper quartile of the control group (DAX 30) during the vesting period. If the minimum target is reached, 7.5 percent of the options in a tranche may be exercised and, if the stretch target is reached, 30 percent of the options in a tranche. If the total shareholder return is between these two target figures, the number of options that may be exercised is determined on a straight-line basis between these two percentage rates. When total shareholder return is calculated, the same comments apply as for the “absolute total shareholder return” performance target. The “relative total shareholder return” performance target is regarded as a *market condition* under IFRS 2 and is included in the measurement of the option price.

In accordance with IFRS 2 *Share-based Payment*, the total value of share options granted to management is determined at the issue date using an option pricing model. The total value calculated of the share options at the issue date is allocated as a personnel expense over the period in which the company receives service in return from the employee. This period is generally the same as the agreed vesting period. The other side of the entry is made directly in equity (in the capital reserve).

Movements in the options issued in the first tranche of the Long Term Incentive Plan 2007 were as follows:

Options	
	1st tranche
<b>At 1 January 2007</b>	-
Options granted	526,380
Exercised in 2007	-
Forfeited in 2007	-
Expired in 2007	-
<b>At 31 December 2007</b>	<b>526,380</b>
Of which exercisable in 2007	-
<b>Options originally issued</b>	
Executive Board	83,726
Other senior management	442,654
<b>Total</b>	<b>526,380</b>

No options could be exercised in 2007, as the three-year vesting period had not yet elapsed.



The calculation of the expense is based on the fair value of the options issued, using a Monte Carlo Simulation for the fair value calculation. The following measurement parameters were used:

#### Monte Carlo simulation model

	1st tranche
Date of valuation	02.08.2007
Expected share volatility (%)	20.26
Risk-free interest rate (%)	4.31
Expected dividend yield (%)	1.90
Initial value of Linde share	88.45
Exercise price in €	2.56
Number of participants	840

#### Options per exercise hurdle

	Option price	Weighting	Total value	Probability	Value on allocation
Earnings per share	81.30 €	40%	32.52 €	40%	13.01 €
Absolute total shareholder return	36.34 €	30%	10.90 €		10.90 €
Total shareholder return	43.69 €	30%	13.11 €		13.11 €
<b>Total</b>		<b>100%</b>	<b>56.53 €</b>		<b>37.02 €</b>

The volatility figure underlying the valuation is based on the historical volatility of the Linde share. The expected volatility is calculated on the basis of the historical values in the three years preceding the issue date of the options.

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

#### Options

	31.12.2007 € million
1st tranche (2007)	3
<b>Total</b>	<b>3</b>

### Linde Management Incentive Programme 2002

It was resolved at the Shareholders' Meeting of Linde AG held on 14 May 2002 to introduce a share option scheme for management (Linde Management Incentive Programme 2002), under which up to six million subscription rights can be issued. The Linde Management Incentive Programme 2002 expired in the 2006 financial year.

The aim of this share option scheme is to allow around 539 members of the worldwide management team to participate in price rises in Linde shares and thereby in the increase in value of the company. Participants were granted options to subscribe to Linde shares, each with a term of seven years. 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 fulfils 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 the 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 financial year until two days after the announcement of the annual results, and 14 weeks before 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 authorised 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. The decision 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 guided 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 the 2006 and 2007 financial years.

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.

In accordance with IFRS 2 *Share-based Payment*, the total value of share options granted to management will be determined at the issue date using an option pricing 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 is generally the same as the qualifying period. The other side of the entry is made directly in equity (in the capital reserve).

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

<b>Options</b>						
	1st tranche 2002	2nd tranche 2003	3rd tranche 2004	4th tranche 2005	5th tranche 2006	Total
<b>At 1 January 2006</b>	<b>954,600</b>	<b>468,928</b>	<b>991,700</b>	<b>1,105,700</b>	–	<b>3,520,928</b>
Options granted	–	–	–	–	1,336,500	1,336,500
Exercised in 2006	297,550	66,104	223,650	–	–	587,304
Forfeited in 2006	1,000	9,300	4,000	6,000	3,000	23,300
Expired in 2006	–	–	–	–	–	–
<b>At 31 December 2006/1 January 2007</b>	<b>656,050</b>	<b>393,524</b>	<b>764,050</b>	<b>1,099,700</b>	<b>1,333,500</b>	<b>4,246,824</b>
Options granted	–	–	–	–	–	–
of which to the Executive Board	–	–	–	–	–	–
of which to other senior management	–	–	–	–	–	–
Exercised in 2007	429,100	119,901	206,750	188,700	–	944,451
Forfeited in 2007	–	–	1,000	9,000	11,000	21,000
Expired in 2007	–	–	–	–	–	–
<b>At 31 December 2007</b>	<b>226,950</b>	<b>273,623</b>	<b>556,300</b>	<b>902,000</b>	<b>1,322,500</b>	<b>3,281,373</b>
of which exercisable in 2006	656,050	393,524	764,050	–	–	1,813,624
of which exercisable in 2007	226,950	273,623	556,300	902,000	–	1,958,873
<b>Options originally issued</b>						
Executive Board	240,000	240,000	240,000	230,000	250,000	1,200,000
Other senior management	760,000	777,600	764,500	875,700	1,086,500	4,264,300
<b>Total</b>	<b>1,000,000</b>	<b>1,017,600</b>	<b>1,004,500</b>	<b>1,105,700</b>	<b>1,336,500</b>	<b>5,464,300</b>

As a result of the exercise of 944,451 options (2006: 587,304), capital subscribed increased in 2007 by EUR 2 m (2006: EUR 1 m) and the capital reserve rose by EUR 48 m (2006: EUR 30 m).

The calculation of the expense is based on the fair value of the subscription rights issued, using the Black-Scholes option pricing model. At the date of issue, the value of the options in the first tranche was calculated as EUR 9.84, in the second tranche EUR 7.16, in the third tranche EUR 7.92, in the fourth tranche EUR 6.92 and in the fifth tranche EUR 11.24.

The following measurement parameters were used:

#### Black-Scholes option pricing model

	1st tranche	2nd tranche	3rd tranche	4th tranche	5th tranche
Date of valuation	22.07.2002	06.06.2003	27.05.2004	18.07.2005	12.05.2006
Exercise price (€) <sup>1</sup>	56.90	32.38	47.91	64.88	81.76
Expected share volatility (%)	21	32	23	18	22
Risk-free interest rate (%)	4.76	3.20	4.11	3.04	3.83
Term to end of performance period (years)	7	7	7	7	7
Expected dividend yield (%)	2.27	3.72	2.76	2.15	2.15

<sup>1</sup> Adjusted as a result of the increase in share capital.

The volatility figure underlying the valuation is based on historical, implicit volatility, taking the remaining terms of the share options into account.

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

#### Options

	Value of option rights € <sup>1</sup>	31.12.2002 € million	31.12.2003 € million	31.12.2004 € million	31.12.2005 € million	31.12.2006 € million	31.12.2007 € million
1st tranche (2002)	9.84	2	5	2	-	-	-
2nd tranche (2003)	7.16	-	2	4	1	-	-
3rd tranche (2004)	7.92	-	-	2	4	1	-
4th tranche (2005)	6.92	-	-	-	2	4	3
5th tranche (2006)	11.24	-	-	-	-	5	6
<b>Total</b>	-	<b>2</b>	<b>7</b>	<b>8</b>	<b>7</b>	<b>10</b>	<b>9</b>

<sup>1</sup> At issue date.



### [31] Derivative financial instruments

The following table shows the fair values of financial instruments by category, and includes a comparison of the fair values with their carrying amounts.

#### Financial assets

	Financial instruments			
	Fair value	Carrying amount		
		Cash and cash equivalents	Loans and receivables	Held-to-maturity financial assets
2007, in € million				
Investments and securities	127	-	4	12
Receivables from financial services	828	-	-	-
Trade receivables	1,610	-	1,610	-
Derivatives with positive fair values	135	-	-	-
Other financial receivables	692	-	281	-
Cash and cash equivalents	858	858	-	-
<b>Total</b>	<b>4,250</b>	<b>858</b>	<b>1,895</b>	<b>12</b>

#### Financial liabilities

	Financial instruments
	Fair value
2007, in € million	
Financial debt	7,703
Liabilities from financial services	36
Trade payables	1,013
Derivatives with negative fair values	108
Other financial liabilities	535
<b>Total</b>	<b>9,395</b>

Financial instruments				Balance sheet figures	
Carrying amount					
Freestanding derivatives	Derivatives designated as hedging instruments	Available-for-sale financial assets	Total	Financial instruments outside scope of IAS 39	Total
-	-	111	127	-	127
-	-	-	-	860	860
-	-	-	1,610	-	1,610
46	89	-	135	-	135
-	-	-	281	411	692
-	-	-	858	-	858
<b>46</b>	<b>89</b>	<b>111</b>	<b>3,011</b>	<b>1,271</b>	<b>4,282</b>

Financial instruments				Balance sheet figures	
Carrying amount					
Financial liabilities at amortised cost	Freestanding derivatives	Derivatives designated as hedging instruments	Total	Financial instruments outside scope of IAS 39	Total
7,330	-	-	7,330	-	7,330
-	-	-	-	36	36
1,013	-	-	1,013	-	1,013
-	85	23	108	-	108
507	-	-	507	28	535
<b>8,850</b>	<b>85</b>	<b>23</b>	<b>8,958</b>	<b>64</b>	<b>9,022</b>

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**Financial assets**


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	Financial instruments			
	Fair value	Carrying amount		
		Cash and cash equivalents	Loans and receivables	Held-to-maturity financial assets
2006, in € million				
Investments and securities	72	-	2	5
Receivables from financial services	890	-	-	-
Trade receivables	1,574	-	1,574	-
Derivatives with positive fair values	135	-	-	-
Other financial receivables	676	-	384	-
Cash and cash equivalents	621	621	-	-
<b>Total</b>	<b>3,968</b>	<b>621</b>	<b>1,960</b>	<b>5</b>

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**Financial liabilities**


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	Financial instruments
	Fair value
2006, in € million	
Financial debt	11,003
Liabilities from financial services	49
Trade payables	896
Derivatives with negative fair values	76
Other financial liabilities	484
<b>Total</b>	<b>12,508</b>



Financial instruments				Balance sheet figures	
Carrying amount					
Freestanding derivatives	Derivatives designated as hedging instruments	Available-for-sale financial assets	Total	Financial instruments outside scope of IAS 39	Total
-	-	65	72	-	72
-	-	-	-	930	930
-	-	-	1,574	-	1,574
85	50	-	135	-	135
-	-	-	384	292	676
-	-	-	621	-	621
<b>85</b>	<b>50</b>	<b>65</b>	<b>2,786</b>	<b>1,222</b>	<b>4,008</b>

Financial instruments				Balance sheet figures	
Carrying amount					
Financial liabilities at amortised cost	Freestanding derivatives	Derivatives designated as hedging instruments	Total	Financial instruments outside scope of IAS 39	Total
10,596	-	-	10,596	-	10,596
-	-	-	-	49	49
896	-	-	896	-	896
-	41	35	76	-	76
425	-	-	425	59	484
<b>11,917</b>	<b>41</b>	<b>35</b>	<b>11,993</b>	<b>108</b>	<b>12,101</b>

The fair value of financial instruments is generally determined using stock exchange prices. If stock exchange prices are not available, the fair value is determined using measurement methods customary in the market, based on market parameters specific to the instrument.

Fair value is calculated using the discounted cash flow method, taking into account individual credit standing and other market circumstances in the form of credit and liquidity spreads generally applied in the market when determining present value.

The fair value of derivative financial instruments is determined as follows: Options are valued by external partners using Black-Scholes pricing models. Futures are measured with recourse to the stock exchange price in the relevant market. All other derivative financial instruments are measured by discounting expected future cash flows using the net present value method. As far as possible, the entry parameters used in these models are relevant observable market prices and interest rates on the balance sheet date, obtained from recognised external sources.

These calculations are based on the following interest curves:

#### Interest curves

	EUR	USD	GBP	JPY	PLN	CZK	SKK
Interest for six months	4.58%	4.61%	5.83%	0.92%	5.87%	4.00%	4.21%
Interest for one year	4.64%	4.26%	5.62%	1.03%	6.07%	4.05%	4.29%
Interest for five years	4.52%	4.35%	5.18%	1.21%	6.01%	4.34%	4.50%
Interest for ten years	4.69%	4.83%	5.11%	1.68%	5.80%	4.55%	4.66%

Derivative financial instruments are generally recognised on the trading day.

For loans and receivables which are measured at amortised cost, there are no liquid markets. For current loans and receivables, it is assumed that the fair value corresponds to the carrying amount. For all other loans and receivables, the fair value is determined by discounting future expected cash flows. The interest rates applied to the loans are the same as those that would apply to new loans secured with the same risk structure, original currency and maturity.

Net gains or net losses from financial instruments result from changes in fair value, impairment and reversal of such, derecognition and foreign currency. 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.

In the 2007 financial year, net gains or net losses arose on financial instruments as follows:

in € million	2007	2006
From freestanding derivatives	-29	27
From held-to-maturity investments	3	1
From loans and receivables	17	14
From available-for-sale financial assets	-1	1
of which: transfers to profit or loss	-	-2
of which: transfers to cumulative changes in equity	-1	3
From financial liabilities measured at amortised cost	56	-4
<b>Continuing operations</b>	<b>45</b>	<b>40</b>

The net gains and losses include valuation gains and losses but exclude interest and dividends.

Freestanding derivatives comprise all those derivatives which are not designated as hedging instruments. They include those derivatives in economic hedging relationships not designated as hedges in respect of which gains and losses arising from the underlying transaction and the hedged item are recognised at the same time in the income statement.

The financial result includes fees and other costs of capital of EUR 13 m (2006: EUR 22 m) relating to financial instruments not at fair value through profit or loss.

In the 2007 and 2006 financial years, no interest income has been accrued which relates to impaired financial assets, especially receivables.

Impairment loss on financial assets:

2007, in € million	Carrying amount before impairment	Cumulative impairment loss	Carrying amount after impairment	Of which impairment loss for 2007 financial year
Investments and securities	127	-	127	-
Receivables from financial services	860	-	860	-
Trade receivables	1,748	138	1,610	17
Derivatives	135	-	135	-
Other financial receivables	693	1	692	-
Cash and cash equivalents	858	-	858	-

2006, in € million	Carrying amount before impairment	Cumulative impairment loss	Carrying amount after impairment	Of which impairment loss for 2006 financial year
Investments and securities	72	-	72	-
Receivables from financial services	930	-	930	-
Trade receivables	1,718	144	1,574	22
Derivatives	135	-	135	-
Other receivables	677	1	676	1
Cash and cash equivalents	621	-	621	-

The interest income and interest expense from financial instruments not measured at fair value through profit or loss were as follows:

Interest income/expense from financial instruments not measured at fair value		
in € million	2007	2006
Interest income	140	117
Interest expense	532	346
<b>Continuing operations</b>	<b>-392</b>	<b>-229</b>

Not included here are the interest income and expense from derivatives and the interest income and expense from assets and liabilities which are outside the scope of IFRS 7.

### Risk positions and risk management

Due to its global operations, The Linde Group is exposed to a number of financial risks. In particular, these include credit risk and risks arising from movements in interest rates and exchange rates.

Interest rate risk arises as a result of fluctuations in interest rates caused by the markets. On the one hand, they have an impact on the level of the interest expense borne by The Linde Group, and on the other hand they affect the fair values of financial instruments.

In the case of exchange rate risk, it is important to distinguish between operational transaction risks, which are the result of supply contracts for individual projects spread across different currency zones, and translation risks, which arise from currency translation relating to individual companies at different cut-off dates.

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 a supervisory unit which is independent from the trading department, to ensure compliance with all the limits set.

In the Treasury, the principle of functional separation between the front, middle and back offices is observed and monitored throughout the risk management process. This means that there is a strict personal and organisational separation between the dealing and the processing and verification of a financial transaction. We use a treasury management system to implement, record and measure our transactions. The treasury management system is subject to regular reviews by our internal and external auditors, generally once a year.

The basic risk strategies for interest, currency and liquidity management, and the objectives and principles governing our financing are determined by the Treasury committee under the overall control of the Chief Financial Officer, which generally meets once a month.

We make financing and hedging decisions on the basis of the financial information which we receive from the treasury management system and from our financial and liquidity forecasts, which include all the main business units in The Linde Group.

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 transaction risks themselves and agree appropriate hedging transactions with the Group Treasury, based on predetermined minimum hedging rates, provided that no country-specific restrictions or other reasons not to hedge apply. Specific risks are aggregated by currency at Group level and the resulting net foreign currency position per currency for The Linde Group is limited by predetermined security quotas. Furthermore, we regularly run value-at-risk scenarios on the nominal position using the variance/covariance method, assuming a one-year holding period and a confidence level of 95 percent.

Hedging decisions are made according to the risk strategies of the Treasury committee. Forward exchange deals, currency swaps and vanilla currency options are all used here. The main currencies are the US dollar (USD), the British pound (GBP), the Australian dollar (AUD) and some Eastern European, South American and Asian currencies. Translation risks were also hedged for the first time in 2006 as, following the acquisition of The BOC Group, the focus of our currency management expanded from currency transactions to include currency translation.

In the Gases and Engineering Divisions, we also use financial instruments to hedge against exposure to changes in the price of electricity. In our project business in the 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 over and above this are immediately hedged fully when they arise, generally by entering into forward exchange transactions.

Interest rate risks are also centrally managed. We evaluate potential interest rate risks, ascertain the interest risk position in the major currencies and conduct sensitivity analyses. The Treasury committee then determines the range for the hedging rates in which Treasury concludes the transactions with the banks. Interest rate risks are hedged using long-term fixed-interest bonds, loans and interest rate derivatives.

In the 2007 and 2006 financial years, The Linde Group did not hold any material collateral.

The Linde Group has financial assets with a carrying amount of EUR 9 m (2006: EUR 7 m) which are pledged as security for liabilities or contingent liabilities.

### Financing principles and objectives

The aim of external financing and measures to safeguard liquidity is to ensure that the Group has adequate liquidity at all times. Our external financial margin is maintained primarily by an international banking group and the capital markets.

Within the Group, the principle of internal financing applies: i. e. the financing requirements of subsidiaries are covered wherever possible by intra-Group loans.

As a result, the subsidiaries were again financed in 2007 mainly by our Dutch finance company Linde Finance B.V. and our Corporate Centre. Centralised 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 (which exist in Germany, the UK, France, Italy, Switzerland, Scandinavia, the United States, the Benelux countries and other countries), or by Group loans from Linde Finance B. V. or BOC. Occasionally, the Group Treasury also agrees credit facilities with local banks, to take account of particular legal, fiscal or other circumstances.

### Hybrid bonds

Hybrid bonds are included in the calculation of equity by rating agencies, depending on the terms of the bond. Against this background, we were able to make a successful placing of an innovative bond with an issue volume of EUR 700 m and GBP 250 m in a volatile market environment. Due to the terms of the bond, the rating agencies, for their own purposes, are including 50 percent of the nominal value of our hybrid bonds in the calculation of equity. Given that Linde had issued the first institutional corporate hybrid bond in Europe back in 2003 (EUR 400 m; 6 percent), we were the first to be active in this market segment with a second issue, and also the first to issue a corporate hybrid bond in GBP.

### Liquidity risks

The undiscounted expected future cash flows from financial liabilities are shown in the table below:

2007, in € million	Due within 1 year	Due in 1 to 5 years	Due in more than 5 years
Cash outflows from non-derivative financial liabilities	3,140	3,963	4,314
Cash outflows from derivatives with negative fair values	23	44	4
of which settled gross	13	44	-
related cash inflows as a result of gross settlement	11	38	-
2006, in € million	Due within 1 year	Due in 1 to 5 years	Due in more than 5 years
Cash outflows from non-derivative financial liabilities	2,757	8,467	2,588
Cash outflows from derivatives with negative fair values	41	72	3
of which settled gross	37	61	-
related cash inflows as a result of gross settlement	31	50	-

In the case of derivative financial instruments, only those with negative fair values are included, in accordance with IFRS 7.39(a). In the case of derivatives settled gross, both the cash outflow and the cash inflow on the liquidation of the derivative are included in the analysis to avoid distortions in the presentation.

### Interest rate risks

As a result of its financing activities, The Linde Group is exposed to the risk of interest rate changes. At 31 December 2007, The Linde Group held interest-bearing instruments (net, including interest rate derivatives/hedges) totaling EUR 6,510 m (2006: EUR 10,021 m). Of these, EUR 2,065 m (2006: EUR 5,317 m) related to instruments bearing interest at variable rates and EUR 4,445 m (2006: EUR 4,704 m) to instruments bearing interest at fixed rates.

The Linde Group sees British pounds, euro, Australian dollars and US dollars as the currencies which have a significant impact on our financing activities. At the balance sheet date, The Linde Group had total holdings of interest-bearing instruments in sterling of GBP 1,030 m (2006: GBP 1,756 m) (fixed-rate ratio: 83 percent (2006: 48 percent)), in euro of EUR 3,994 m (2006: EUR 5,181 m) (fixed-rate ratio 68 percent (2006: 57 percent)), in Australian dollars of AUD 1,035 m (2006: AUD 1,404 m) (fixed-rate ratio: 35 percent (2006: 0 percent)) and in US dollars of USD 696 m (2006: USD 1,753 m) (fixed-rate ratio: 55 percent (2006: 35 percent)).

Based on instruments bearing interest at variable rates and financial instruments hedging interest rate risks which The Linde Group holds at 31 December 2007 or has issued by that date, a hypothetical change in the interest rates applicable to the respective instruments would have had the following effects (assuming constant exchange rates):

2007, in € million	Change	Income statement	OCI
<b>Currency</b>			
EUR	+ 100 bp	-7	-
	- 100 bp	7	-
GBP	+ 100 bp	-2	-
	- 100 bp	2	-
USD	+ 100 bp	14	-
	- 100 bp	-15	-
AUD	+ 100 bp	4	-
	- 100 bp	-5	-
<b>2006, in € million</b>	<b>Change</b>	<b>Income statement</b>	<b>OCI</b>
<b>Currency</b>			
EUR	+ 100 bp	23	34
	- 100 bp	-12	-37
GBP	+ 100 bp	-9	19
	- 100 bp	12	-21
USD	+ 100 bp	-3	13
	- 100 bp	6	-15
AUD	+ 100 bp	-8	-
	- 100 bp	8	-

### Exchange rate risks

As a result of its Group activities, The Linde Group is exposed to exchange rate risks in around 100 countries. This broad spread of activities over many different currency areas results in a low concentration of risk for the Group.

The Linde Group monitors and manages its exchange rate risk, which has an impact on its operations. The gross exchange rate risk comprises all the operating activities of the Group. The gross exchange rate risk is reduced by around 84 percent (2006: 82 percent) as a result of hedging operations. At the balance sheet date, The Linde Group is exposed to a net exchange rate risk of 16 percent of the total of all operating activities involving the purchase of foreign currency (2006: 18 percent).

The risk of exchange rate movements is monitored for internal management purposes on the basis of value-at-risk, which relates to positions in currencies other than the relevant functional currency.

The value-at-risk is calculated on the basis of historical data in accordance with international banking standards. The value-at-risk presents the maximum potential loss on the basis of a probability of 95 percent for a holding period of twelve months. The calculation takes into account correlations between the transactions being considered – the risk of a portfolio is generally lower than the total of the respective individual risks.

At 31 December 2007, the value-at-risk was EUR 38 m (2006: EUR 39 m).

### Other market price risks

As a result of its energy purchases, The Linde Group is exposed to risks arising from the change in commodity prices. The Linde Group monitors and controls these commodity price risks arising from the purchase of electricity for use in production. These hedging operations are set out in strict risk management guidelines, compliance with which is constantly being monitored. Commodity price risks are hedged principally by long-term supply contracts or reduced by the form and structure of sales contracts. Derivatives are also used to a much lesser extent to hedge against the exposure to price changes. The commodity price risk from financial instruments is therefore immaterial.

## Hedge accounting

### Cash flow hedges

The Linde Group hedges cash flows at both Group and company levels, based on agreed minimum hedging rates. At the company level, future transactions which are highly probable are hedged against foreign exchange rate risks. A rolling 15-month budget is used for this purpose. The foreign exchange rate risks from off-balance sheet commitments are also hedged.

In general, these hedges are accounted for as cash flow hedges in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The effective portion of the hedge is recognised directly in equity and released to the income statement when the hedged cash flows are also recognised in the income statement or the designated hedging relationship becomes ineffective or if a hedged transaction is no longer expected to occur.

The Linde Group also hedges the exposure to commodity price risks which arise in the normal course of business from its procurement transactions and results in open risk positions. Usually, hedging relationships of this type are also designated as cash flow hedge accounting relationships, if this accords with the facts. To reduce the extent of the risk, The Linde Group uses electricity derivatives to a small extent.

If the hedged future transactions (*forecast transactions* in IAS 39) result in the recognition of a non-financial asset or a liability, the initial carrying amounts of these are adjusted for the amount recorded in equity. This is usually the case for inventories and other purchase transactions. In all other cases, the amount recognised in equity is released once the hedged transaction is recognised in the income statement, when the hedging relationship becomes ineffective in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* or if the hedged transaction is no longer expected to occur.



The following table presents a reconciliation of the reserve for cash flow hedges:

in € million	2007	2006
<b>At 1 January</b>	<b>2</b>	<b>-14</b>
Additions	42	-28
Transfers to the income statement	2	2
<i>of which relating to sales</i>	-8	-
<i>of which relating to manufacturing cost</i>	7	2
<i>of which relating to income from financing activities</i>	3	-
<i>of which relating to expenses from financing activities</i>	-	-
Reclassifications as book values of non-financial assets/liabilities	-	42
<b>At 31 December</b>	<b>46</b>	<b>2</b>

In 2007, an amount of EUR 3 m was transferred from equity to the income statement, as the form and extent of the actual debt instruments issued differed from the form and extent of the debt instrument issues which had been hedged. In 2006, every forecast transaction did indeed occur.

An amount of EUR 0 m (2006: EUR 2 m) was recognised as a result of ineffectiveness in cash flow hedges in 2007.

Anticipated cash flows from such hedging instruments and their contribution to the gain or loss are expected to be as follows:

2007, in € million	Within 1 year	Between 1 and 5 years	In more than 5 years	Total
Cash flows from underlying transactions	26	16	-	42
Cash flows from hedging instruments	33	12	-	45
Gain/loss	20	26	-	46

2006, in € million	Within 1 year	Between 1 and 5 years	In more than 5 years	Total
Cash flows from underlying transactions	-62	-237	-239	-538
Cash flows from hedging instruments	15	-4	-10	1
Gain/loss	5	8	-11	2

#### Fair value hedges

The Linde Group uses interest rate swaps to hedge the exposure to changes in the fair value of financial assets and financial liabilities as a result of interest rate changes. If the hedge is determined to be effective, the carrying amount of the hedged item is adjusted for changes in the fair value attributable to the hedged risk.

in € million	2007	2006
From derivatives used as hedging instruments	-15	21
From hedged transactions	17	-20
<b>Ineffectiveness</b>	<b>2</b>	<b>1</b>

#### Hedges of net investments in foreign operations

The Linde Group hedges its exposure to translation risk, which has increased as a result of the BOC acquisition, by taking out loans in foreign currency and by entering into forward exchange contracts. These hedges generally qualify as *hedges of net investments in foreign operations* (referred to below as *net investment hedges*) in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and hence the effective portion of the hedge is transferred to equity. If the foreign operation is subsequently sold or relinquished, the amount recognised in equity is reversed and transferred to the income statement.

Fair value of financial instruments designated as hedges:

in € million	2007	2006
<b>Cash flow hedges</b>		
Forward exchange transactions	28	13
Interest rate swaps	-	-11
Commodities	12	4
<b>Fair value hedges</b>		
Interest rate swaps	11	8
<b>Net investment hedges</b>		
Forward exchange transactions	15	1
Loans in foreign currencies	1,440	-
<b>Total</b>	<b>1,506</b>	<b>15</b>

### [32] Group cash flow statement

The cash flow statement shows the source and application of funds in the 2007 and 2006 financial years. 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, cash at banks and commercial papers with a maturity of three months or less. The cash and cash equivalents are not subject to any drawing restrictions.

The cash flows from investing and financing activities are calculated directly, whereas the cash flow from operating activities is derived indirectly from net income before taxes on income. As a result of the change in the calculation of cash flow from operating activities which is based on earnings before taxes on income the prior year figures have been adjusted.

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.

Distributions and income taxes paid included in the cash flow from operating activities are disclosed separately. Cash inflows from associates and joint ventures have been disclosed in cash inflows from operating activities. Finance income received from embedded finance leases (IFRIC 4) has been included in cash inflow from operating activities, due to the fact that such income is clearly related to the operating activities of The Linde Group. All other types of interest payments are included in cash flow from financing activities.

See Note [3] of the Notes to the Group financial statements with regard to the cash outflows for consolidated companies. The other acquisitions which are not described in detail resulted in cash outflows of EUR 58 m.

Cash inflows from the disposal of consolidated companies relate to the sale of the company Linde US-INOL.

The total increase in cash and cash equivalents as a result of acquisitions was EUR 34 m. The total decrease in cash and cash equivalents as a result of disposals was EUR 10 m.

Investing activities comprise additions to tangible assets, financial assets and intangible assets. Additions and disposals have been translated at average rates.

### [33] Segment information

At 31 December 2007, IFRS 8 *Operating Segments* was applied for the first time. As a result of the requirements of this standard, which defines segments primarily on the basis of the internal management of an entity, and the introduction of the matrix organisation in the 2007 financial year, the presentation of the segments has changed when compared with previous years. In the Gases Division, the organisational structure is based on management at a regional level. In contrast, the Engineering Division, and Other activities (Gist and FRED BUTLER®) are managed at a global level. Included in the adjustments column are not only corporate activities and adjustments to arrive at the consolidated figure, but also the discontinued operations of the Group.

In accordance with IFRS 8, The Linde Group comprises a total of 6 operating segments, which are briefly described below:

**Gases Division:** 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, specialised services and the necessary hardware to use the various gases. The Gases Division comprises 4 operating segments based on the regional structure of The Linde Group:

- Western Europe
- Americas
- Asia & Eastern Europe
- South Pacific & Africa

**Engineering Division:** Conception and realisation 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 the construction of air separation and pharmaceutical plants. This division also develops and manufactures plant components and offers specialised services. From the 2006 financial year, the Engineering Division has included the company Cryostar, which became part of The Linde Group as a result of the acquisition of BOC.

**Other activities:** Other activities includes Group activities which cannot be allocated to any other segment. In particular, they include Gist, a leading supplier of logistics and supply chain solutions with substantial business operations in the UK, and FRED BUTLER®, a provider of environmentally friendly cleaning services for the end consumer. As none of these activities have ever exceeded the quantitative thresholds which apply for separate disclosure, they are disclosed together under other activities.

## Segment accounting policies

For the operating segments, the same accounting policies apply as those set out in Note [7]. Exceptions relate in particular to Group financing, which is allocated to Corporate and included in the following reconciliation as Liabilities in Corporate activities. Pension obligations are generally allocated to the segment in which the relevant employees work. The entire provision for pension obligations outstanding in the UK has been allocated to Corporate in the reconciliation, with only the service cost charged to Western Europe, Other activities and Corporate segments. Transactions between the operating segments are generally conducted under the same conditions as for non-related third parties.

To arrive at the figure for the Gases Division as a whole from the figures for the operating segments in the Gases Division, consolidation adjustments of EUR 67 m (2006: EUR 30 m) have been applied to sales and consolidation adjustments of EUR 110 m (2006: EUR 67 m) have been applied to segment assets and segment liabilities. Therefore, it is not possible to arrive at the figures for the Gases Division as a whole by merely adding together the operating segments in the Gases Division.

Segment profit is calculated on the basis of operating profit, which is defined as earnings before tax, interest, depreciation and amortisation (EBITDA), including the share of net profit from joint ventures and associates.

The reconciliations of segment sales to Group sales, segment operating profit to Group earnings before taxes on income, segment assets to Group assets and segment liabilities to Group liabilities are shown below:

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**Reconciliations of segment sales, segment result, segment assets and segment liabilities**


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in € million	31.12.2007	31.12.2006
<b>Segment sales</b>		
Sales in the reportable segments	12,539	8,258
Consolidation	-233	-145
<b>Group sales (Continuing operations)</b>	<b>12,306</b>	<b>8,113</b>
<b>Operating profit</b>		
Operating profit from the reportable segments	2,594	1,703
Operating profit from Corporate activities	-151	-87
Amortisation and depreciation	1,279	783
including fair value adjustments identified in the course of the purchase price allocation	446	186
Non-recurring items	607	-198
Financial income	475	257
Financial expenses	852	499
Consolidation	-19	-30
<b>Group earnings before taxes on income</b>	<b>1,375</b>	<b>363</b>
<b>Assets</b>		
Assets in the reportable segments	23,647	24,140
Assets in Corporate activities	1,911	4,052
Consolidation	-603	-274
<b>Group assets</b>	<b>24,955</b>	<b>27,918</b>
<b>Liabilities</b>		
Liabilities in the reportable segments	5,080	4,585
Liabilities in Corporate activities	11,146	15,269
Consolidation	-481	-161
<b>Group liabilities</b>	<b>15,745</b>	<b>19,693</b>

### [34] Employees

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

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	2007	2006
<b>Employees by division</b>		
Gases Division	38,394	28,362
Engineering Division	5,425	4,897
Other/Corporate	5,546	3,588
<b>Continuing operations</b>	<b>49,365</b>	<b>36,847</b>
Discontinued operations	1,280	21,988
<b>Group</b>	<b>50,645</b>	<b>58,835</b>

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	2007	2006
<b>Gases Division – Employees by region</b>		
Western Europe	12,831	10,678
Americas	8,281	7,791
Asia & Eastern Europe	10,536	6,799
South Pacific & Africa	6,746	3,094
<b>Total (Continuing operations)</b>	<b>38,394</b>	<b>28,362</b>

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

The unappropriated profit of Linde AG was EUR 864,510,883.31.

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 in the electronic German Federal Gazette.

#### Balance sheet of Linde AG – Assets

in € million	31.12.2007	31.12.2006
Intangible assets	49	56
Tangible assets	315	302
Financial assets	12,807	18,376
<b>Non-current assets</b>	<b>13,171</b>	<b>18,734</b>
Inventories	2,152	1,414
Less advance payments received from customers	-2,152	-1,414
Receivables and other assets	596	499
Cash and cash equivalents	47	27
<b>Current assets</b>	<b>643</b>	<b>526</b>
<b>Prepaid expenses and deferred charges</b>	<b>7</b>	<b>37</b>
<b>Total assets</b>	<b>13,821</b>	<b>19,297</b>

#### Balance sheet of Linde AG – Equity and liabilities

in € million	31.12.2007	31.12.2006
Capital subscribed	426	411
Conditionally authorised capital of €99 million (2006: €104 million)		
Capital reserve	4,903	4,614
Revenue reserves	1,328	1,328
Unappropriated profit	864	737
<b>Equity</b>	<b>7,521</b>	<b>7,090</b>
Special tax-allowable reserves	16	14
Provisions for pensions and similar obligations	771	761
Other provisions	812	735
<b>Provisions</b>	<b>1,583</b>	<b>1,496</b>
<b>Liabilities</b>	<b>4,701</b>	<b>10,697</b>
<b>Total equity and liabilities</b>	<b>13,821</b>	<b>19,297</b>

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**Income statement of Linde AG**


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in € million	2007	2006
<b>Sales</b>	<b>1,885</b>	<b>2,711</b>
Cost of sales	1,391	2,060
<b>Gross profit on sales</b>	<b>494</b>	<b>651</b>
Marketing and selling expenses	173	239
Research and development costs	44	68
General administration expenses	314	360
Other operating income	390	203
Other operating expenses	249	456
Investment income	211	1,277
Income from other securities and loans in financial assets	-	1
Other interest and similar income	134	45
of which from affiliated companies €23 million (2006: €12 million)		
Amortisation of financial assets and securities held as current assets	1	349
Interest and similar charges	565	376
of which from affiliated companies €221 million (2006: €79 million)		
<b>Profit on ordinary activities</b>	<b>-117</b>	<b>329</b>
Non-recurring items		
Profit on disposal of investments	433	1,444
Taxes on income	-53	336
<b>Net income</b>	<b>369</b>	<b>1,437</b>
Transfer to revenue reserves	-	700
Profit brought forward from prior periods	495	-
<b>Unappropriated profit</b>	<b>864</b>	<b>737</b>

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 11 March 2008, the appropriation of the profit of EUR 864,510,888.31 be voted on at the Shareholders' Meeting on 3 June 2008: the distribution of a dividend of EUR 1.70 per share entitled to dividend (2006: EUR 1.50).

The amount to be distributed will therefore be EUR 282,790,627.60 (2006: EUR 241,104,067.50), based on 166,347,428 (2006: 160,736,045) shares entitled to dividend. The remaining amount of EUR 581,720,260.71 (2006: EUR 495,499,928.18) will be carried forward to the following year.

### [36] Approval of the Group financial statements

On 28 February 2008, 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.



### [37] 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 large number of affiliated but not consolidated companies, joint ventures and associates. The business relationships with these companies are conducted under the same conditions as for non-related third parties. 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 electronic German Federal Gazette.

The volume of transactions of The Linde Group with these related parties was as follows:

Services provided by the Group to related parties:

	2007				2006			
	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
in € million								
Sale of engineering services	-	29	-	29	1	26	-	27
Revenue from the sale of industrial gases	-	1	-	1	-	3	-	3
Other revenue from the sale of finished or unfinished goods or services <sup>1</sup>	2	4	-	6	7	122	1	130
Other income from the sale of property and other non-current assets	-	1	-	1	-	2	-	2

<sup>1</sup> Prior year figures including discontinued operations, i.e. KION and BOC Edwards Equipment.

## Services provided by related parties to the Group:

in € million	2007				2006			
	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
Industrial gases purchased from related parties	-	25	7	32	3	4	4	11
Material handling services purchased from related parties	-	-	-	-	-	4	-	4
Finished or unfinished goods or services purchased from related parties <sup>1</sup>	1	12	3	16	4	33	1	38

<sup>1</sup> Prior year figures including discontinued operations, i.e. KION and BOC Edwards Equipment.

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 of these companies. The sale of goods 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 SE, 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.

One member of the Executive Board acquired a property during the financial year at its market value as determined by an expert valuation report.

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

in € million	2007				2006			
	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
Receivables from related parties	7	296	1	304	-	383	-	383
Liabilities to related parties	3	22	3	28	4	2	5	11

## [38] Additional information about the Supervisory Board and Executive Board

### Supervisory Board

In the 2007 financial year, the total emoluments of the members of the Supervisory Board for discharging their duties in the parent company and in the subsidiaries, including VAT, amounted to EUR 2,506,837 (2006: EUR 2,289,750). Of this amount, EUR 1,259,449 (2006: EUR 918,964) related to fixed emoluments and EUR 1,199,788 (2006: EUR 1,307,565) to variable emoluments.

In the past two financial 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 €	2007	2006
Fixed emoluments	4,000,814	4,011,749
Variable emoluments	9,786,435	7,826,005
<b>Total cash emoluments</b>	<b>13,787,249</b>	<b>11,837,754</b>

In the 2007 financial year, under the 2007 Performance Share Programme approved at the Shareholders' Meeting, a total of 83,726 subscription rights (2006: 250,000 options from the 2002 share option scheme) were granted to members of the Executive Board as part of their total emoluments. These had a value on the grant date of EUR 37.02 (2006: EUR 11.24) per subscription right, which gives a total of EUR 3,099,537 (2006: EUR 2,810,000).

Total remuneration paid to former members of the Executive Board and their dependants amounted to EUR 4,534,599 (2006: EUR 5,380,252).

A provision of EUR 35,088,368 (2006: EUR 39,062,290) 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 EUR 37,648,981 (2006: EUR 37,982,947) was 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 026 to 031 of the 2007 annual report.

## [39] Declaration of compliance with the Corporate Governance Code

On 11 March 2008, 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/Corporate Governance](http://www.linde.com/InvestorRelations/Corporate%20Governance).

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

**[40] Contingent liabilities/Other financial commitments****Contingent liabilities**

in € million	31.12.2007	31.12.2006
Guarantees	5	13
Warranties	41	80
	<b>46</b>	<b>93</b>

**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	31.12.2007	31.12.2006
Obligations under non-cancellable operating leases	402	440
Capital expenditure commitment	74	114
Other	57	148
	<b>533</b>	<b>702</b>

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

in € million	Procurement leases	
	31.12.2007	31.12.2006
Nominal future minimum lease payments (disbursements)		
Due within one year	94	129
Due in one to five years	194	206
Due in more than five years	114	105
	<b>402</b>	<b>440</b>

The future minimum lease payments relate to leased buildings, technical equipment, fixtures, furniture and equipment (procurement leases).

The Engineering Division regularly enters into contracts with consortium partners to build turnkey industrial plants, under which the consortium partners assume joint and several liability to the customer for the total volume of the contract. There are clear internal rules here as to how the liability should be split between the partners. At present, there are plant construction orders with our consortium partners totalling EUR 713 m. Linde currently anticipates that there will be no claim on the joint and several liability and has therefore not disclosed any contingent liability in respect of these contracts.

#### [41] Auditors' fees and services

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

in € million	2007	2006
Audit (including expenses)	11	10
Other reports	1	4
Tax consultancy	2	1
Other services	1	2
	<b>15</b>	<b>17</b>

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

in € million	2007	2006
Audit (including expenses)	-	2
Other reports	-	-
Tax consultancy	-	-
Other services	-	1
	<b>-</b>	<b>3</b>

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 comprise mainly reviews of the quarterly reports, the issue of a comfort letter, due-diligence reviews, confirmations of compliance with specific contractual agreements and other review procedures.

Tax consultancy costs relate mainly to the preparation of tax returns, analyses of transfer prices and advising employees who work outside their home country, and tax advice relating to current or proposed business transactions.

#### **[42] Discontinued operations, non-current assets held for sale and disposal groups and related liabilities**

The acquisition of BOC was approved by the EU and US competition authorities on 6 June 2006 and 18 July 2006 respectively, subject to certain conditions. In addition, other parts of the Group's business were disposed of in the course of the strategic reorganisation of The Linde Group. Now that almost all the sale transactions have been completed, and following the sale of the BOC Edwards components business, the remaining assets and liabilities at 31 December 2007 relating to BOC Edwards Pharmaceutical Systems have been disclosed as assets held for sale and disposal groups. Also disclosed as assets held for sale and disposal groups are the assets and liabilities relating to the subsidiary Gases Industriales de Colombia S. A. (Cryogas S. A.), Colombia, acquired as a result of the BOC deal.

Taking into account the subsidiaries and investments already sold (see Note [13]), the investment in Cryogas S. A., Colombia, of EUR 50 m and the assets and liabilities of BOC Edwards Pharmaceutical Systems (non-current assets of EUR 12 m, current assets of EUR 32 m, provisions of EUR 2 m, current liabilities of EUR 40 m) were disclosed as assets held for sale and liabilities related to assets held for sale at 31 December 2007.

##### **KION Group**

The Material Handling business segment, renamed the KION Group, was classified as a discontinued operation on 15 September 2006, after fulfilling all the requirements of IFRS 5. The profit on deconsolidation for the 2006 financial year was EUR 1.929 bn, which is disclosed in discontinued operations. Transformation costs of EUR 117 m have also been taken into account.

##### **BOC Edwards (components business)**

In the course of the BOC acquisition, the components business of BOC Edwards was classified as a discontinued operation of Linde in the opening balance sheet at 5 September 2006.

The effect of the classification of the KION Group and the BOC Edwards components business as discontinued operations can be seen from the following table:

.....  
**Discontinued operations**  
 .....

in € million	January to December 2007		January to December 2006	
	KION Group	BOC Edwards	KION Group	BOC Edwards
Sales	-	364	4,020	306
Cost of sales	-	262	2,952	203
<b>Gross profit on sales</b>	<b>-</b>	<b>102</b>	<b>1,068</b>	<b>103</b>
Other income and other expenses	-	-84	-707	-83
Non-recurring items	-	5	1,812	-
Financial income	-	-	67	-
Financial expenses	-	2	95	1
Taxes on income	-	4	509	16
<b>Earnings after taxes on income</b>	<b>-</b>	<b>17</b>	<b>1,636</b>	<b>3</b>
attributable to minority interests	-	-	2	-
Cash flow from operating activities	-	-25	343	36
Cash flow from investing activities	-	-15	-159	-15

### [43] Reconciliation of key financial figures

To provide better comparability, the key financial figures relating to The Linde Group have been adjusted below for the effects of the purchase price allocation in accordance with IFRS 3 on the acquisition of BOC and the acquisitions directly related to the BOC transaction, as well as for non-recurring items.

#### Adjusted financial figures

in € million	31.12.2007			31.12.2006		
	As reported	Non-GAAP adjustments	Key financial figures	As reported	Non-GAAP adjustments	Key financial figures
Sales	12,306	-	12,306	8,113	-	8,113
Cost of sales	-8,276	277	-7,999	-5,392	124	-5,268
<b>Gross profit on sales</b>	<b>4,030</b>	<b>277</b>	<b>4,307</b>	<b>2,721</b>	<b>124</b>	<b>2,845</b>
Research and development costs, marketing, selling and administration expenses	-3,035	169	-2,866	-2,044	62	-1,982
Other operating income and expenses	77	-	77	95	-	95
Income from associates	73	-	73	31	-	31
Non-recurring items	607	-607	-	-198	198	-
<b>EBIT</b>	<b>1,752</b>	<b>-161</b>	<b>1,591</b>	<b>605</b>	<b>384</b>	<b>989</b>
Financial result	-377	-	-377	-242	-	-242
Taxes on income	-379	23	-356	-144	-150	-294
<b>Earnings after taxes on income from continuing operations</b>	<b>996</b>	<b>-138</b>	<b>858</b>	<b>219</b>	<b>234</b>	<b>453</b>
<b>Earnings after taxes on income from discontinued operations</b>	<b>17</b>	<b>-</b>	<b>17</b>	<b>1,637</b>	<b>-1,428</b>	<b>209</b>
<b>Earnings after taxes on income - Group</b>	<b>1,013</b>	<b>-138</b>	<b>875</b>	<b>1,856</b>	<b>-1,194</b>	<b>662</b>
Attributable to minority interests	61	-	61	18	-	18
<b>Attributable to Linde AG shareholders</b>	<b>952</b>	<b>-138</b>	<b>814</b>	<b>1,838</b>	<b>-1,194</b>	<b>644</b>
Equity including minority interests	9,210	-1,332	7,878	8,225	-1,194	7,031
Plus: Financial debt	7,330	-	7,330	10,596	-	10,596
Plus: liabilities from financial services	36	-	36	49	-	49
Less: receivables from financial services	860	-	860	930	-	930
Less: cash and cash equivalents	903	-	903	663	-	663
<b>Balance of financial debt</b>	<b>5,603</b>	<b>-</b>	<b>5,603</b>	<b>9,052</b>	<b>-</b>	<b>9,052</b>
Net pension obligations	403	-	403	1,014	-	1,014
<b>Capital employed</b>	<b>15,216</b>	<b>-1,332</b>	<b>13,884</b>	<b>18,291</b>	<b>-1,194</b>	<b>17,097</b>
Earnings per share in €	5.87	-0.85	5.02	13.30	-8.64	4.66
Earnings per share in € - fully diluted	5.70	-0.82	4.88	12.49	-8.06	4.44
<b>Return on capital employed (ROCE) in %</b>	<b>10.4</b>	<b>-</b>	<b>10.3</b>	<b>22.1<sup>1</sup></b>	<b>-</b>	<b>11.4<sup>1</sup></b>

<sup>1</sup> ROCE has not been adjusted, despite the adjustments to capital employed and the revised presentation of the income statement, to ensure comparability.



#### [44] Significant Group companies

The full list of shareholdings in accordance with the provisions of § 313 (2), No. 4, of the German Commercial Code (HGB) is filed in the electronic German Federal Gazette.

##### Companies included in the Group financial statements (in accordance with IAS 27)

	Registered office	Country	Group holding
BOC AIP (a limited partnership)	North Ryde	AUS	100.00
BOC Australia Pty Ltd.	North Ryde	AUS	100.00
Priestley Company Ltd.	Hamilton	BMU	100.00
Linde Holding AG	Lucerne	CHE	100.00
Commercium Immobilien-u. Beteiligungs-GmbH	Munich	DEU	100.00
Linde Grundstücks- und Verpachtungsgesellschaft mbH	Munich	DEU	100.00
BOC Group SAS, The	Hesingue	FRA	100.00
BOC AMERICA HOLDINGS	Guildford	GBR	100.00
BOC Chile Holdings Ltd.	Guildford	GBR	100.00
BOC Dutch Finance	Guildford	GBR	100.00
BOC Group plc, The	Guildford	GBR	100.00
BOC Investment Holdings Ltd.	Guildford	GBR	100.00
BOC Japan	Guildford	GBR	100.00
BOC Japan Holdings Ltd.	Guildford	GBR	100.00
BOC Korea Holdings Ltd.	Guildford	GBR	100.00
BOC LUXEMBOURG FINANCE	Guildford	GBR	100.00
BOC Netherlands Holdings Ltd.	Guildford	GBR	100.00
BOC Overseas Finance Ltd.	Guildford	GBR	100.00
BOC Overseas Finance No. 2 Ltd.	Guildford	GBR	100.00
Gist Ltd.	Guildford	GBR	100.00
Handigas Ltd.	Guildford	GBR	100.00
Linde UK Holdings Limited	Guildford	GBR	100.00
BOC Holdings	Guildford	GBR	100.00
BOC Holland Finance	Guildford	GBR	100.00
BOC Investments No. 3 Ltd.	Guildford	GBR	100.00
BOC Investments No. 1 Ltd.	Guildford	GBR	100.00
Indonesia Power Holdings Ltd.	Guildford	GBR	100.00
BOC IRELAND FINANCE	Guildford	GBR	100.00
BOC Limited	Guildford	GBR	100.00
BOC No. 1 Ltd.	St. Peter Port	GGY	100.00
BOC Investments Ireland	Dublin	IRL	100.00
BOC Investments No. 5	Dublin	GBR	100.00
BOC Australian Finance Ltd.	St. Helier	JEY	100.00
BOC Europe Holdings BV	Dongen	NLD	100.00
BOC Group BV, The	Dongen	NLD	100.00

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**Companies included in the Group financial statements (in accordance with IAS 27)**


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	Registered office	Country	Group holding
Linde Finance B. V.	Amsterdam	NLD	100.00
Linde Holdings Netherlands B. V.	Schiedam	NLD	100.00
Linde Holdings New Zealand Limited	Auckland	NZL	100.00
BOC Intressenter AB	Helsingborg	SWE	100.00
LindeGas Holding Sweden AB	Lidingö	SWE	100.00
The BOC Group, Inc. (Delaware)	Wilmington	USA	100.00
BOC, LLC	Wilmington	USA	100.00
Linde Holdings LLC	Wilmington	USA	100.00
Linde Kryotechnik AG	Pfungen	CHE	100.00
Linde Engineering (Dalian) Co. Ltd.	Dalian	CHN	56.00
Linde Engineering (Hangzhou) Co. Ltd.	Hangzhou	CHN	75.00
Linde-KCA-Dresden GmbH	Dresden	DEU	100.00
Cryostar SAS	Hesingue	FRA	100.00
Linde CryoPlants Ltd.	Basingstoke	GBR	100.00
Linde Engineering India Pvt. Limited	Baroda	IND	100.00
LPM, S. A. de C. V.	Mexico City	MEX	100.00
LINDE Arabian Contracting Company Ltd.	Riad	SAU	100.00
Linde BOC Process Plants LLC	Wilmington	USA	100.00
Linde Process Plants, Inc.	Tulsa	USA	100.00
Selas Fluid Processing Corp.	Blue Bell	USA	100.00
VN Corporation	Wilmington	USA	100.00
AGA S. A.	Buenos Aires	ARG	100.00
BOC Limited – AUS	North Ryde	AUS	100.00
Linde Gas GmbH	Stadl-Paura	AUT	100.00
BOC Bangladesh Ltd	Dhaka	BGD	60.00
Hydrogen Company of Paraguana Ltd, The	Hamilton	BMU	100.00
Linde Gases Ltda.	Barueri	BRA	100.00
Botswana Oxygen Company (Pty) Ltd.	Gaborone	BWA	100.00
BOC Canada Ltd.	Mississauga Ontario	CAN	100.00
PanGas	Dagmersellen	CHE	100.00
AGA S. A.	Santiago de Chile	CHL	100.00
BOC DE CHILE S. A.	Santiago de Chile	CHL	100.00
BOC (China) Holdings Co. Ltd.	Shanghai	CHN	100.00
BOC Gases (Suzhou) Co. Ltd.	Suzhou	CHN	100.00
BOC Gases (Wuhan) Co. Ltd.	Wuhan	CHN	100.00
Linde Electronics & Specialty Gases (Suzhou) Co Ltd.	Suzhou	CHN	100.00
Linde Gas Ningbo Ltd.	Ningbo	CHN	100.00
Linde Gas Xiamen Ltd.	Xiamen	CHN	100.00

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**Companies included in the Group financial statements (in accordance with IAS 27)**


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	Registered office	Country	Group holding
AGA FANO, Fabrica Nacional de Oxigeno S. A.	Bogotá	COL	100.00
Gases Industriales de Colombia SA	Medellin	COL	73.95
Linde Gas a. s.	Prague	CZE	100.00
Linde Spravcovska s. r. o.	Prague	CZE	100.00
Linde Sokolovská s. r. o.	Prague	CZE	100.00
Eibl Homecare GmbH	Mahlow	DEU	100.00
AGA Holding GmbH	Pullach	DEU	100.00
Linde Gas Produktionsgesellschaft mbH & Co. KG	Pullach	DEU	100.00
Linde Gas Therapeutics GmbH	Unterschleißheim	DEU	100.00
Tega-Technische Gase und Gasetechnik GmbH	Würzburg	DEU	100.00
WENO Verwaltungsgesellschaft mbH	Munich	DEU	100.00
AGA A/S	Copenhagen	DNK	100.00
Linde Gas Algérie S. p. A.	Algiers	DZA	66.00
AGA S. A.	Quito	ECU	100.00
Abelló Linde, S. A.	Barcelona	ESP	74.79
AS Eesti AGA	Tallinn	EST	100.00
Oy AGA Ab	Espoo	FIN	100.00
Linde Gas S. A.	Saint-Priest	FRA	99.75
AGA Médical S. A.	Rueil Malmaison	FRA	99.97
BOC Helex Ltd	Guildford	GBR	100.00
Fluorogas Ltd	Guildford	GBR	100.00
Linde Hellas E. P. E.	Athens	GRC	100.00
Hong Kong Oxygen & Acetylene Co Ltd	Kowloon	HKG	100.00
Linde Gas (Hong Kong) Limited	Hong Kong	HKG	100.00
Linde Gas Ungarn AG	Répcelak	HUN	100.00
P. T. GRESIK GASES INDONESIA	East Java	IDN	90.00
BOC India Ltd	Kolkata	IND	54.80
BOC Gases Ireland Holdings Ltd	Dublin	IRL	100.00
BOC Gases Ireland Ltd	Dublin	IRL	100.00
BOC (Trading) Ltd	Dublin	IRL	100.00
ISAGA h. f.	Reykjavik	ISL	100.00
Linde Gas Italia S. r. l.	Arluno	ITA	100.00
LINDE MEDICALE srl	Rome	ITA	100.00
BOC Japan Ltd	Tokyo	JPN	98.67
BOC Kenya Ltd	Nairobi	KEN	65.38
BOC Gases Korea Co Ltd	Pohang	KOR	100.00
Linde Gas Malaysia Sdn. Bhd.	Kuala Lumpur	MYS	100.00
MOX Gases Sdn Berhad	Selangor	MYS	100.00

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**Companies included in the Group financial statements (in accordance with IAS 27)**


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	Registered office	Country	Group holding
Malaysian Oxygen Berhad	Selangor	MYS	100.00
IGL (Pty) Ltd.	Windhoek	NAM	100.00
Beheermaatschappij De Econoom B.V.	Oud-Beijerland	NLD	100.00
nv Linde Gas Benelux	Schiedam	NLD	100.00
Linde Gas Benelux B.V.	Schiedam	NLD	100.00
Hoek Loos Deelnemingen B.V.	Schiedam	NLD	100.00
Hoek Loos Holding B.V.	Schiedam	NLD	100.00
Holox (USA) B.V.	Schiedam	NLD	100.00
AGA International B.V.	Amsterdam	NLD	100.00
Linde Gas Therapeutics Benelux B.V.	Eindhoven	NLD	100.00
Linde Homecare Benelux B.V.	Nuland	NLD	100.00
Mecomfa SPC B.V.	Schiedam	NLD	100.00
AGA AS	Oslo	NOR	100.00
BOC Limited – NZ	Auckland	NZL	100.00
BOC New Zealand Holdings Ltd.	Auckland	NZL	100.00
BOC Pakistan Ltd.	Karachi	PAK	59.94
BOC Papua New Guinea Pty Ltd.	Lae	PNG	74.00
LINDE GAZ POLSKA Spolka z o. o.	Krakau	POL	99.97
LINDE SOGÁS. LDA	Lisbon	PRT	100.00
LINDE GAZ ROMANIA S. R. L.	Timisoara	ROU	100.00
Linde Syngas Singapore Pte. Ltd.	Singapore	SGP	100.00
Linde Gas k. s.	Bratislava	SVK	100.00
AGA AB	Lidingö	SWE	100.00
MIG Production Co Ltd.	Bangplee	THA	53.58
SKTY (Thailand) Ltd.	Bangkok	THA	100.00
TIG Air Chemicals Ltd.	Bangplee	THA	98.67
TIG HyCo Ltd.	Bangplee	THA	100.00
Thai Industrial Gases Public Co Ltd.	Bangplee	THA	99.72
Linde Gaz A.S.	Istanbul	TUR	100.00
Asia Union Electronic Chemical Corporation	Taipei	TWN	100.00
BOC Lienhwa Industrial Gases Co Ltd.	Taipei	TWN	50.00
United Industrial Gases Co Ltd.	Hsin Chu	TWN	56.21
AGA S. A.	Montevideo	URY	100.00
BOC Americas. Inc.	Murray Hill	USA	100.00
Linde Holdings N. A. LLC	Murray Hill	USA	100.00
Linde Global Helium. Inc.	Wilmington	USA	100.00
BOC Hydrogen. Inc.	Wilmington	USA	100.00
Holox Inc.	Atlanta	USA	100.00
Linde Gas LLC	La Porte	USA	100.00

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**Companies included in the Group financial statements (in accordance with IAS 27)**


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	Registered office	Country	Group holding
Linde Gas North America LLC	Independence	USA	100.00
BOC Americas (PGS). Inc.	Murray Hill	USA	100.00
Spectra Gases. Inc.	Branchburg	USA	100.00
AGA Gas C. A.	Santa Fe Norte	VEN	100.00
BOC Lienhwa (BVI) Holding Co Ltd.	Tortola	VGB	99.76
Afrox African Investments (Pty) Ltd.	Johannesburg	ZAF	100.00
African Oxygen Ltd.	Johannesburg	ZAF	60.47
Afrox Safety (Pty) Ltd.	Johannesburg	ZAF	99.92
Isas Trust	N. A.	ZAF	100.00

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**Investments accounted for using the equity method (in accordance with IAS 28 and IAS 31)**


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	Registered office	Country	Group holding
Auscom Holdings Pty Ltd.	Milsons Point	AUS	50.00
BOC TISCO Gases Co Ltd.	Taiyuan	CHN	50.00
Guangkong Industrial Gases Co Ltd.	Guangzhou	CHN	50.00
Guangzhou Pearl River Industrial Gases Co Ltd.	Guangzhou	CHN	50.00
Shanghai Hualin Industrial Gases Co. Ltd.	Shanghai	CHN	50.00
Maanshan BOC-Ma Steel Gases Co Ltd.	Maanshan City	CHN	50.00
Nanjing BOC-YPC Gases Co Ltd.	Nanjing	CHN	50.00
ZIBO BOC-Qilu Gases Co. Ltd.	Zibo City	CHN	50.00
BOC SPC Gases	Shanghai	CHN	50.00
HELISON PRODUCTION S. p. A.	Skikda	DZA	51.00
Shinil Cryogenic Materials Ltd.	Dangjin	KOR	49.00
COMPANIA DE NITROGENO DE CANTARELL, S. A. DE C. V.	Santa Fe	MEX	65.00
Tlf Tjeldbergoddens Luftgassfabrik DA	Trondheim	NOR	37.82
EAST COAST OXYGEN COMPANY	Bethlehem	USA	50.00

**[45] Events after the balance sheet date**
**Sale of the pharmaceutical systems business of BOC Edwards**

On 31 January 2008, The Linde Group completed the sale of that part of the BOC Edwards components business which had remained in the Group – BOC Edwards Pharmaceutical Systems Group. The parts of the business to be sold had already been disclosed at 31 December 2007 as non-current assets held for sale and liabilities related to those assets. The expected book profit on this transaction will be recognised in the first quarter of 2008.

**The Linde Group increases its shareholding in BOC India Ltd**

On 19 January 2008, the Board of Directors of BOC India Ltd issued and allotted on a preferential basis 36,200,000 new shares for cash at a price of Rs. 165 per share to The BOC Group plc, a Group company of The Linde Group. As a result, The BOC Group's shareholding increased from 54.80 percent to 73.99 percent. Furthermore, The BOC Group plc entered into a trust agreement whereby the allotted shares are held by Linde Holdings Netherlands B.V. on a beneficial basis. Following this preferential allotment, The BOC Group plc is required to make a mandatory public takeover offer to acquire up to 20 percent of the outstanding share capital of BOC India Ltd. The public announcement regarding the mandatory takeover offer was made on 22 January 2008.

Other than the events mentioned above, there have been no significant events for The Linde Group between the balance sheet date and 28 February 2008.



## 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) as adopted in the European Union. The 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 Centre 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.

Munich, 28 February 2008

Professor Dr Wolfgang Reitzle  
Chief Executive Officer  
of Linde AG

Georg Denoke  
Member of the Executive Board  
of Linde AG

Dr Aldo Belloni  
Member of the Executive Board  
of Linde AG

J. Kent Masters  
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, the income statement, statement of recognised income and expense, cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the business year from 1 January to 31 December 2007. 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 § 315 a (1) of the German Commercial Code (HGB) are the responsibility of the parent 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.

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 § 315 a (1) of the German Commercial Code (HGB), 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, 28 February 2008

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Professor Dr Rolf Nonnenmacher  
Wirtschaftsprüfer

Michael Gewehr  
Wirtschaftsprüfer

# Further Information

## Other Board memberships

### Supervisory Board

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

#### Dr Manfred Schneider

Chairman of the Supervisory Board of Linde AG

→ External offices:

Bayer AG (Chairman)  
Daimler AG  
Metro AG  
RWE AG  
TUI AG

#### Hans-Dieter Katte

Deputy Chairman of the Supervisory Board of Linde AG  
Chairman of the Pullach Works Council, Engineering Division,  
Linde AG

#### Michael Diekmann

Second Deputy Chairman of the Supervisory Board of Linde AG,  
Chairman of the Board of Management of Allianz SE

→ External offices:

BASF SE (until 13 January 2008 BASF Aktiengesellschaft)  
Deutsche Lufthansa AG  
Siemens AG (appointed on 24 January 2008)

→ Group offices:

Allianz Deutschland AG (Chairman)  
Allianz Global Investors AG (Chairman)  
Dresdner Bank AG (Chairman)

→ Group offices:

Allianz S.p.A.  
(Vice-President of the Management Board)  
Assurances Générales de France  
(Vice-President of the Management Board)

→ Membership of other German supervisory boards.

→ Membership of comparable German and foreign boards.

#### Dr Karl-Hermann Baumann

Former Chairman of the Supervisory Board of Siemens AG

→ External offices:

E.ON AG  
Bayer Schering Pharma AG

#### Dr Gerhard Beiten

Lawyer

#### Dr Clemens Börsig

Chairman of the Supervisory Board of Deutsche Bank AG

→ External offices:

Bayer AG  
Daimler AG  
Deutsche Bank AG (Chairman)  
Deutsche Lufthansa AG

#### Siegried Friebe

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

#### Gerhard Full

Former Chairman of the Executive Board of Linde AG

## Supervisory Board

### Gernot Hahl

Chairman of the Worms Works Council,  
Gases Division, Linde AG

### Thilo Kämmerer

Trade Union Secretary on the Executive Board  
of IG Metall Frankfurt

- External offices:  
KION GROUP GmbH  
KION Holding 1 GmbH

### Klaus-Peter Müller

Chairman of the Board of Managing Directors  
of Commerzbank AG

- External offices:  
Steigenberger Hotels AG
- Group offices:  
Eurohypo AG (Chairman of the Supervisory Board)
- External offices:  
Assicurazioni Generali S.p.A.  
(Member of the Management Board)  
KfW Kreditanstalt für Wiederaufbau  
(Member of the Management Board)  
Liquiditäts-Konsortialbank GmbH  
(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)

### Jens Riedel

(appointed on 22 January 2007)  
Chairman of the Leuna Works Council,  
Gases Division, Linde AG

### Josef Schregle

(appointed on 22 January 2007)  
Manager responsible for finance and financial control,  
Engineering Division, Linde AG

### Josef Schuhbeck

(appointed on 22 January 2007)  
Chairman of the Schalchen Works Council,  
Engineering Division, Linde AG

### Professor Dr Jürgen Strube

Chairman of the Supervisory Board of BASF SE

- External offices:  
Allianz Deutschland AG  
BASF SE (until 13 January 2008 BASF Aktiengesellschaft)  
(Chairman)  
Bayerische Motorenwerke Aktiengesellschaft  
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 (Deputy Chairman)
- External offices:  
RAG Trading GmbH (Advisory Board)

- Membership of other German supervisory boards.
- Membership of comparable German and foreign boards.

## Executive Board

In addition to their individual management functions in affiliated companies and companies in which an investment is held, members of the Executive Board are members of the following German supervisory boards and comparable German and foreign boards:

### Professor Dr Wolfgang Reitzle

Chief Executive Officer

- External offices:
  - Deutsche Telekom AG
  - KION GROUP GmbH
  - KION Holding 1 GmbH
- Group offices:
  - The BOC Group plc, UK
  - (Chairman of the Board of Directors)

### Dr Aldo Belloni

Member of the Executive Board

### Trevor Burt

Member of the Executive Board  
(retired on 31 December 2007)

### Georg Denoke

Member of the Executive Board

- Group offices:
  - The BOC Group plc, UK
  - (Member of the Board of Directors)

### J. Kent Masters

Member of the Executive Board

- External offices:
  - Rockwood Holdings, Inc., USA
  - (Member of the Board of Directors)
- Group offices:
  - African Oxygen Limited, South Africa
  - (Chairman of the Board of Directors)
  - The BOC Group plc, UK
  - (Member of the Board of Directors)

## Members of the Executive Board who retired in the 2007 financial year:

(The information provided relates to the date of retirement.)

### Hubertus Krossa

Member of the Executive Board (retired on 31 January 2007)

- External offices:
  - Bauknecht Hausgeräte GmbH
  - Linde Material Handling Verwaltungs-GmbH
  - STILL GmbH

→ Membership of other German supervisory boards.

→ Membership of comparable German and foreign boards.

## Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Munich, 28 February 2008

Professor Dr Wolfgang Reitzle  
Chief Executive Officer  
of Linde AG

Georg Denoke  
Member of the Executive Board  
of Linde AG

Dr Aldo Belloni  
Member of the Executive Board  
of Linde AG

J. Kent Masters  
Member of the Executive Board  
of Linde AG



## Management organisation

(As at 11 March 2008)

Executive Board	Regional/operational responsibilities	Global and central functions
Professor Dr Wolfgang Reitzle, Chief Executive Officer	Gist, non-core businesses	Communications & Investor Relations, Corporate Strategy, Group Human Resources, Group Information Services, Group Legal, Innovation Management, Internal Audit, SHEQ (Safety, Health, Environment, Quality), Six Sigma
Dr Aldo Belloni	Operating segments Western Europe and Asia & Eastern Europe, Global Business Unit Tonnage (on-site), Business Area Electronics (electronic gases), Engineering Division	
J. Kent Masters	Operating segments Americas and South Pacific & Africa, Global Business Unit Healthcare, Business Area Merchant & Packaged Gases (liquefied and cylinder gases)	
Georg Denoke		Capital Expenditure, Financial Control, Group Accounting & Reporting, Group Treasury, Growth & Performance, Mergers & Acquisitions, Procurement, Risk Management, Tax

### Divisions

Gases Division	Engineering Division	Gist
See diagram below for organisation	Werner Schwarzmeier, Chairman	Martin Gwynn
	Dr Markus Raab	
	Dr Bruno Ziegler	
	Dr Samir Serhan	

### Gases Division

Operating segment Western Europe	Operating segment Americas	Operating segment Asia & Eastern Europe	Operating segment South Pacific & Africa
RBU <sup>1</sup> Continental & Northern Europe Peter Stocks	RBU North America Pat Murphy	RBU Greater China Steven Fang	RBU South Pacific Colin Isaac
RBU UK & Ireland Mike Huggon	RBU South America Clemis Miki	RBU South & East Asia Sanjiv Lamba	RBU Africa Tjaart Kruger
		RBU Eastern Europe & Middle East Dr Hans-Hermann Kremer	
		Asia Joint Venture Management Peter Owen	

### Global Business Units (GBUs) and Business Areas (BAs)

GBU Tonnage (on-site) Dr Rainer Schlicher	GBU Healthcare Dr Walter Koppensteiner	BA Electronics Noel Leeson	BA Merchant & Packaged Gases Alan Watkins
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<sup>1</sup> RBU: Regional Business Unit.



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**Global and central functions**

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Communications & Investor Relations	Dr Harry Roegner
Corporate Strategy	Dr Christian Wojczewski
Financial Control, Capital Expenditure	Jürgen Nowicki
Group Accounting & Reporting	Björn Schneider
Group Human Resources	Werner Boekels
Group Information Services	Ronald Geiger
Group Legal	Dr Christian Rau
Group Treasury	Erhard Wehlen
Growth & Performance	Mark Motter
Innovation Management	Dr Andreas Opfermann
Internal Audit	Thomas Müller
Mergers & Acquisitions	Jens Lühring
Procurement	Christoph Clausen
Risk Management	Peter Petz
SHEQ (Safety, Health, Environment, Quality)	Phil Graham
Six Sigma	Hanns-Jürgen Nick
Tax	Michael Weißberg

# Review of the year

## January

The Linde Group acquires the Russian company SaKiZ (ZAO Samarsky Oxygen Plant), a regional supplier of industrial gases located in Samara in southern Russia. The company, which has more than 200 employees, produces and distributes air gases (nitrogen, oxygen, carbon dioxide, helium and argon), in both liquefied and gaseous states. SaKiZ is the market leader in the fast-growing economy of the Volga region. With this acquisition, Linde strengthens its leading position in Eastern Europe.

## February

Linde receives an award for its innovative Hydrogen Centre in Lohhof near Munich from the federal initiative "Germany – Land of Ideas". On 21 February 2007, the Linde Hydrogen Centre, which combines the functions of a hydrogen filling station with those of a technology test centre, a training centre and a presentation platform, is officially designated one of the "365 Landmarks in the Land of Ideas". "This award is an incentive for us to continue working hard on sustainable mobility based on hydrogen," says Professor Dr Wolfgang Reitzle, CEO of Linde AG.

## March

The Linde Group sells the components business of its subsidiary BOC Edwards at a price of around EUR 685 m (GBP 460 m) to the international private equity company CCMP Capital. After its acquisition of The BOC Group plc and subsequent focus on the international industrial gases and plant construction business, Linde offers the BOC Edwards components business (vacuum pumps and components for the semiconductor industry) for sale. However, Linde retains the liquefied gases and electronic gases business.

## April

Linde acquires the Turkish industrial gases company Birlesik Oksijen Sanayi A. S. (BOS), a company in the Koc Group, at an enterprise value of around EUR 92 m. BOS is in the industrial gases and specialty gases business and in the 2007 financial year achieved sales of some EUR 19 m with around 190 employees. The acquisition of BOS is the second-largest transaction ever effected by Linde in Turkey, second only to the acquisition of Karbogaz A. S. in July 2006.

## May

The Linde Group intensifies its cooperation with the leading Hungarian chemical company BorsodChem Zrt. to supply industrial gases to BorsodChem's principal site in Kazincbarcika, Hungary. "With new investment of around EUR 100 m, we will add to the three existing plants in Kazincbarcika," says Dr Aldo Belloni, a member of the Executive Board of Linde AG. "As a result, this site will become one of the five most important Linde production sites for hydrogen and carbon monoxide worldwide."

## June

The Linde Group acquires a majority of the shares in the state-owned Algerian industrial and medical gases company ENGI (Entreprise Nationale de Gaz Industriels). ENGI, which has 10 production sites, is the leading gases company in Algeria and achieved sales in the 2006 financial year of some EUR 32 m with around 700 employees. After Egypt, Algeria is the second-largest market for industrial gases in North Africa. The current market volume in the whole region is EUR 200 m. The annual growth rate in the market is estimated to be 15 percent.

## July

Linde is awarded a contract for the turnkey construction of a natural gas liquefaction plant in Risavika near Stavanger in Norway by Skangass AS, a joint venture between the utility company Lyse Gass and the financial investor Celsius Invest. The contract value is around EUR 100 m. The natural gas liquefaction plant has a capacity of 300,000 tons per year and will supply liquefied natural gas (LNG) to customers in Scandinavia and in the Baltic region from 2010. The Linde subsidiary AGA Gas AB, the market leader for industrial gases in Sweden, will take delivery of one-sixth of the total production and distribute it itself.

## August

Linde embarks on a research project which will take several years, in collaboration with the University of Glasgow, Scotland, and the Gesellschaft für Unternehmensgeschichte, Frankfurt (GUG, a company for the promotion of research in business history), on the economic and technological significance of the international industrial gases sector. A team of scientists led by the American corporate historian, Ray Stokes, will examine sources and material worldwide and consult major companies in the industry sector. To support the project, Linde is also funding a doctoral scholarship at the University of Glasgow.

### September

Linde inaugurates a new air separation plant and Germany's second hydrogen liquefaction plant officially at its Leuna site. The additional investment at Linde's largest gases production site in Germany is around EUR 52 m.

Linde receives the 2007 Image Award. The prize, which is awarded jointly by the market research institute PRIME research international, the FAZ Institute (a subsidiary of Frankfurter Allgemeine Zeitung) and Deutsche Public Relations Gesellschaft, is for the best corporate media image in international opinion leader media in the previous twelve months. The jury justifies its choice on the basis of the successful restructuring and positioning of The Linde Group as a world-leading gases and engineering company, the sustained professionalism of its communications and the credible and comprehensive dialogue it has established with the public.

Europe's largest natural gas liquefaction plant on the Norwegian island of Melkøya near Hammerfest commences production. Over the last five and a half years or so, the Linde Group has been responsible for engineering, procurement and supervision of the assembly of the plant. The total value of the contract to Linde is some EUR 900 m.

The Linde Group enters into an agreement with RWE Power and BASF AG to develop new processes for the separation of CO<sub>2</sub> from combustion gases from coal-fired power stations. The collaboration will involve the construction and operation of a pilot plant at RWE Power AG's lignite-fired power station in Niederaußem, Germany, in which BASF's newly developed technologies and solvents for CO<sub>2</sub> separation, or CO<sub>2</sub> wash, will be tested. Linde is responsible for the engineering and construction of the pilot plant.

### October

The Linde Group achieves double-digit growth in sales and operating profit for the nine months to 30 September 2007, continuing its positive performance from the first six months of the year. "More than a year after our acquisition of BOC, I am pleased to say we are robustly placed and prepared for all eventualities," says Professor Dr Wolfgang Reitzle, CEO of Linde AG, at the presentation of the nine-month figures. "The Group reorganisation has been successful and we are much stronger now as we approach the tasks ahead." Linde gives a more precise forecast for the whole year 2007: "At a Group level, we are expecting to achieve sales of around EUR 12 bn and

operating profit of EUR 2.3 to 2.4 bn," explains CEO Reitzle. These figures represent a double-digit growth rate. Linde's medium-term objective remains the achievement of operating earnings of over EUR 3 bn in the 2010 financial year.

### November

The Chinese government opens the first hydrogen filling station in Shanghai. The Shanghai Anting Hydrogen Filling Station was designed and built through a collaboration between Tongji, the Chinese elite university, Linde and Shell Hydrogen. The filling station is part of the National 863 programme. This initiative, set up by the Chinese Ministry of Science and Technology, is driving forward the commercialisation of fuel cell vehicles.

### December

The Linde Group sets up a joint venture with The Abu Dhabi National Oil Corporation (ADNOC), United Arab Emirates, for the production and long-term supply of industrial gases to customers in Abu Dhabi. ADNOC Linde Industrial Gases Company Ltd is established under the name Elixir and will have ADNOC (51 percent of the shares) and Linde (49 percent of the shares) as shareholders. This joint venture is of major strategic importance to Linde, as ADNOC has access to around 90 percent of Abu Dhabi's oil and gas reserves, which are considered to be the fourth-largest oil and gas reserves in the world. The first phase of the new Elixir joint venture will be the construction of a USD 65 m air separation plant in the Industrial Zone of Ruwais, Abu Dhabi. The new air separation plant will supply nitrogen from the end of 2009 to industrial customers in Ruwais and will also produce liquefied nitrogen and oxygen.

# Imprint

## Imprint

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The Financial Report of The Linde Group, the Linde Annual and the financial statements of Linde AG are available in both German and English and can be downloaded from our website at [www.linde.com](http://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.

# Financial Calendar

## Financial Calendar

### Press Conference on Annual Results

17 March 2008

The Charles Hotel, Munich

### Analysts' Conference

17 March 2008

The Charles Hotel, Munich

### Interim Report

January – March 2008

9 May 2008

### Shareholders' Meeting 2008

3 June 2008, 10 a.m.

International Congress Center, Munich

### Dividend Payment

4 June 2008

### Interim Report

January – June 2008

1 August 2008

### Autumn Press Conference

3 November 2008

Munich

### Interim Report

January – September 2008

3 November 2008

### Shareholders' Meeting 2009

15 May 2009, 10 a.m.

International Congress Center, Munich

## Statements relating to the future

This annual report contains statements relating to the future which are based on management's current estimates about future developments. These statements are not to be understood as guarantees that these expectations will prove to be true. The future development and the results actually achieved by The Linde Group and its affiliated companies are dependent on a number of risks and uncertainties and may therefore deviate significantly from the statements relating to the future. Linde has no plans to update its statements relating to the future, nor does it accept any obligation to do so.



## Five-year summary

		2003	2004	2005	2006	2007
<b>Sales</b>	€ million	8,992	9,421	9,511	8,113	12,306
In Germany	%	22.9	21.4	20.1	14.6	10.2
Outside Germany	%	77.1	78.6	79.9	85.4	89.8
<b>Earnings</b>						
Operating profit <sup>1</sup>	€ million	1,444	1,541	1,705	1,586	2,424
EBIT <sup>2</sup>	€ million	544	785	953	989	1,591
Earnings before taxes on income (EBT)	€ million	287	518	808	363	1,375
Earnings after tax attributable to Linde AG shareholders	€ million	108	266	514	1,838	952
Earnings per share (continuing operations) <sup>3</sup>	€	0.91	2.23	4.30	1.45	5.77
Dividend	€ million	135	149	168	241	283
Dividend per share	€	1.13	1.25	1.40	1.50	1.70
No. of shares (at 31 December)	in 000s	119,262	119,327	119,864	160,736	166,347
<b>Asset structure</b>						
Non-current assets	€ million	7,702	7,675	7,832	20,182	19,247
Inventories	€ million	1,107	942	1,050	980	1,062
Trade receivables <sup>4</sup>	€ million	1,760	1,668	2,125	2,504	2,470
Liquid funds and securities	€ million	561	567	911	663	903
Other assets	€ million	785	739	700	3,589	1,273
Total assets	€ million	11,915	11,591	12,618	27,918	24,955
<b>Capital structure</b>						
Equity	€ million	3,886	4,081	4,473	8,225	9,210
Provisions	€ million	2,227	2,124	2,598	3,437	3,017
Financial debt	€ million	2,991	2,535	2,416	10,596	7,330
Other liabilities	€ million	2,811	2,851	3,131	5,660	5,398
Total equity and liabilities	€ million	11,915	11,591	12,618	27,918	24,955
<b>Cash flow statement</b>						
Cash flow from operating activities (continuing operations)	€ million	1,281	1,249	1,501	848	1,767
<b>Employees as of 31 December</b>						
In Germany	%	37.3	35.4	34.6	14.1	14.1
Outside Germany	%	62.7	64.6	65.4	85.9	85.9
<b>Key ratios</b>						
Capital expenditure	€ million	608	735	864	776	1,035
Equity ratio	%	32.6	35.2	35.4	29.5	36.9
Return on capital employed (ROCE)	%	7.7	10.8	13.7	11.4	10.3
EBIT margin <sup>2</sup>	%	7.6	8.2	10.0	12.2	12.9
Cash flow from operating activities as percentage of sales	%	14.2	13.3	15.8	10.5	14.4

<sup>1</sup> EBITDA before non-recurring items including share of income from associates and joint ventures.

<sup>2</sup> EBIT before non-recurring items and before amortisation of fair value adjustments identified in the course of the purchase price allocation.

<sup>3</sup> Based on the weighted average number of shares.

<sup>4</sup> Includes receivables from financial services.

# Glossary

## **Cold box**

Completely encased and fully equipped, ready-to-use unit comprising heat exchangers to separate gases at low temperatures.

## **Commercial Paper Programme**

Programme for short-term notes on the capital market.

## **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.

## **CR road-map**

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

## **Currency swaps**

Swaps of capital amounts denominated in different currencies.

## **Defined benefit plan**

A pension plan under which an enterprise/employer defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or remuneration. In consequence, actuarial risks and financial risks fall on the employer.

## **Defined contribution plan**

A pension plan under which an enterprise's/employer's legal or constructive obligation is limited to the amount that it agrees to contribute to a separate entity (e.g. an insurance company). Thus, the level of benefits received by the employee is determined by the level of contributions paid by the enterprise (and if applicable also by the employee) together with investment returns arising from the contributions. In consequence, actuarial risks and investment risks fall on the employee.

## **EBITDA**

Abbreviation for Earnings before Interest, Tax, Amortisation of intangible assets and Depreciation of tangible assets.

## **Fischer-Tropsch synthesis**

A process used to produce synthetic fuels. The raw material for Fischer-Tropsch synthesis (FTS) is synthesis gas, a mixture of carbon monoxide and hydrogen. The synthesis gas can be produced from coal and natural gas (and in principle also from oil fractions such as heavy oil) and is – in some cases after purification – completely sulphur-free. Therefore, the fuels produced by the subsequent use of FTS are also completely free from impurities.

## **HSE**

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

## **HyCO plants**

Collective name for plants which produce hydrogen, carbon monoxide and synthesis gas. These HyCO plants include, in particular, steam reformers, partial oxidation plants and methanol crackers.

## **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.

## **Multi-Stage Mixed-Refrigerant Process**

A process used for liquefaction of natural gas in small to medium-sized plants (< 3 million tons LNG per annum). The cooling down and liquefaction of the natural gas takes place in spiral wound heat exchangers by using a mixed refrigerant (typically nitrogen, methane, ethane and butane). The refrigerant is compressed to different pressure levels, partially condensed and divided into separate streams to provide refrigeration power at different temperature levels in the spiral wound heat exchanger which allows for an energy-efficient liquefaction process.

## **Net foreign currency position**

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

## **Partial oxidation plant (POX)**

Plant used to produce synthesis gas or hydrogen. This very sophisticated technical process uses heavy hydrocarbons, in preference, such as naphtha or refinery residue, mixed with oxygen or air. As in steam reforming, waste steam is added and the hydrocarbons are converted at very high temperatures into carbon monoxide (CO) and hydrogen (H<sub>2</sub>).

## **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 building, and as varnishes and adhesives etc.

## **Rectisol® plant**

The Linde Rectisol® process is being used more and more often in the production of synthesis gases by partial oxidation/gasification of heavy oil and coal. This process is a physical acid gas wash, which uses an organic solvent (typically methanol) at low temperatures. In this way, most hydrogen sulphide and carbon dioxide is removed from the synthesis gas.

## **RFID**

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

## **Scope 1 and 2**

Categories for emissions of greenhouse gases based on the GHG Protocol Initiative, an internationally recognised standard for CO<sub>2</sub> reporting. Scope 1 refers to all direct CO<sub>2</sub> emissions, Scope 2 refers to indirect emissions as a result of the purchase of energy from outside. Other indirect greenhouse gas emissions which relate to the relevant upstream and downstream processes are included in Scope 3.

## **Steam reformer**

Plant used to produce synthesis gas, a mixture of carbon monoxide (CO) and hydrogen (H<sub>2</sub>). The process uses light hydrocarbons, in preference, such as natural gas, which are mixed with hot steam via a catalyst and converted into CO and H<sub>2</sub>. The next stage of the process involves the conversion of the CO to carbon dioxide (CO<sub>2</sub>) using steam, which enables additional hydrogen to be recovered. This gas mixture is then purified, with the CO<sub>2</sub> and other unwanted parts of the mixture being removed.

## **Treasury**

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

## **Value at Risk, Variance/Covariance method**

Value at Risk measures the worst expected loss on a portfolio, over a specific time interval at a given confidence level. Normal market conditions are assumed to apply. The Variance/Covariance method supposes a logarithmic normal distribution of changes in market prices. Market price volatility is derived from historical time series.



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