Facts and Figures.
The Linde Financial Report 2006.

LeadIng.

THE LINDE GROUP

2006

Linde Financial Highlights

in € million		2006	2005[1]	Change
Share				
Closing price[2]	€	78.26	62.81	24.6%
Year high[2]	€	79.56	63.36	25.6%
Year low[2]	€	56.32	45.55	23.6%
Market capitalisation		12,579	7,529	67.1%
Earnings per share				
Group	€	13.30	4.30	209.3%
Continuing operations	€	1.45	3.06	−52.6%
Discontinued operations	€	11.85	1.24	855.6%
Number of shares outstanding (in 000s)		160,736	119,864	34.1%
Sales				
Group		12,439	9,511	30.8%
Group excluding BOC		10,516	9,511	10.6%
Continuing operations		8,113	5,884	37.9%
Discontinued operations		4,326	3,627	19.3%
EBITDA before non-recurring items				
Group		2,216	1,705	30.0%
Group excluding BOC		1,876	1,705	10.0%
Continuing operations		1,586	1,132	40.1%
Discontinued operations		630	573	9.9%
EBIT before amortisation of fair value adjustments and non-recurring items				
Group		1,371	953	43.9%
Continuing operations		990	702	41.0%
Discontinued operations		381	251	51.8%
Earnings after taxes on income				
Group		1,858	523	255.3%
Continuing operations		219	373	−41.3%
Discontinued operations		1,639	150	992.7%
Number of employees at 31 December				
Group		55,445	42,229	31.3%
Continuing operations		51,038	22,906	122.8%
Discontinued operations		4,407	19,323	−77.2%
Gases Division				
Sales		6,195	4,448	39.3%
EBITDA		1,540	1,104	39.5%
Number of employees		39,142	17,783	120.1%
Engineering Division				
Sales		1,863	1,623	14.8%
EBITDA		153	117	30.8%
Number of employees		5,166	4,408	17.2%

1 Adjusted for amendments to accounting standards.

2 Prices adjusted for capital increase.

Corporate profile

The Linde Group

The Linde Group is a world-leading industrial gases and engineering group which operates in more than 70 countries and has over 51,000 employees. Following the acquisition of the British company The BOC Group, we restructured The Linde Group, and achieved sales in the 2006 financial year of €8.113 billion based on the new portfolio. This figure includes our interest in BOC from the date it was first consolidated on 5 September 2006 to the year-end.

Our strategy is geared towards earnings-based growth and focuses on the expansion of our international business, based on forward-looking gases applications and plant construction solutions. With our Gist Division, we are also one of the leading providers of logistics services.

Gases Division

The Linde Group is a world leader in the international industrial gases market. We offer a wide range of compressed and liquefied gases as well as chemicals, and we are therefore an important partner for a huge variety of industries. Linde gases are used, for example, in steel production, refining, 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.

The Linde Financial Report 2006. Facts and Figures.

Contents

004–009
Executive Board

004 Members of the Executive Board
006 Letter to shareholders

010–019
Supervisory Board

010 Members of the Supervisory Board
012 Report of the Supervisory Board

020–029
Corporate Governance

021 Corporate governance report
025 Remuneration report

030–033
Linde Shares

034–081
Group Management Report

035 Macroeconomic environment
037 Sector-specific background
038 Value-based and operational management

040 The Linde Group
042 Gases Division
047 Engineering Division
051 Other activities
052 Discontinued operations and disposals

053 Net assets and financial position
055 Cash flow statement
056 Financing and measures to safeguard liquidity
058 Capital expenditure
059 Purchasing

061 Research and development
061 Linde
061 Gases Division
063 Engineering Division

065 Corporate responsibility
071 Risk report
077 Events after the balance sheet date
078 Dividends
079 Outlook

082–181
Group Financial Statements

083 Group income statement
084 Group balance sheet
086 Group statement of recognised income and expense
088 Group cash flow statement
090 Segment information

Notes to the Group Financial Statements

094 General principles
113 Notes to the Group income statement
119 Notes to the Group balance sheet
154 Other information
178 Declaration of the Executive Board
180 Auditors' report

182–192
Further Information

183 Other Board memberships
183 Membership of the Supervisory Board
186 Membership of the Executive Board

188 Management organisation
190 Review of the year

192 Imprint and Contact details
C[1] Financial calendar
C[1] Five-year summary
C[1] Glossary

[1] C equals for cover.

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

Executive Board

Professor Dr Wolfgang Reitzle

Born 1949
Doctorate in Engineering (Dr.-Ing.)
Chief Executive Officer
Member of the Executive Board since 2002

Dr Aldo Belloni

Born 1950
Doctorate in Chemical Engineering (Dr.-Ing.)
Responsible for: Europe and Middle East, Global Business Unit Healthcare, Innovation Management, Engineering Division
Member of the Executive Board since 2000

J. Kent Masters

Born 1960
BS Chemical Engineering,
MBA Finance
Responsible for: Americas and Africa, Global Business Unit Tonnage (On-site), Business Area Bulk
Member of the Executive Board since 2006

Trevor Burt

Born 1958
Bachelor of Science (BS)
Responsible for: Asia/Pacific, Business Areas Packaged Gases and Electronics Gases
Member of the Executive Board since 2006

Georg Denoke

Born 1965
Degree in Information Science,
Degree in Business Administration
Responsible for: Finance,
Labour Director
Member of the Executive Board since 2006

The following members have retired from the Executive Board:

Dr Peter Diesch

Born 1954
Doctorate in Economics (Dr. rer. pol.),
Degree in Economics (Dipl.-Volkswirt)
Responsible for: Finance,
Labour Director
Member of the Executive Board since 2004
Retired on 31 December 2006

Hubertus Krossa

Born 1947
Degree in Business (Dipl.-Kaufmann)
Responsible for: KION Group
Member of the Executive Board since 2000
Retired on 31 January 2007

Letter to shareholders

Ladies and Gentlemen,

The 2006 financial year has seen the most significant process of change our company has undergone in its 128 year history. Nothing is the same as it was before. As a result of the merger with the British company The BOC Group and our simultaneous divestment of the Material Handling business segment, we have made Linde into a globally-oriented, world-leading gases and plant construction group, thus ensuring our independence in the long term. We have renamed our restructured company The Linde Group. This name takes into account the longstanding traditions and origins of both the merged companies. At the same time, it stands for the internationalism of a group which is active throughout the world.

The business logic behind our reorganisation is incontrovertible. The market for industrial gases is in every sense a growth market, with a predicted average increase in demand of 7 percent over the next four years. The key companies in this industry sector are achieving high operating margins and have improved their earnings per share in the past ten years by an average of 8 percent per annum. The industrial gases business is characterised by long-term supply contracts and diversified customer segments. This ensures stable and reliable cash flow trends. As a leading company in the industry, we have also created the best conditions for achieving sustainable and disproportionate earnings-based growth.

This is even more true now, because Linde and BOC complement each other almost perfectly. Linde, for example, has strong market positions in Europe and South America, while BOC is particularly well-placed in the Asia/Pacific region. Together, we are in a leading position in around 70 countries worldwide.

However, the merger does not only make sense in geographical terms, but also in terms of the major product areas. Following the acquisition of BOC, we have risen to become the undisputed number one in the cylinder gas business, and we have become the current market leader in three out of the six major customer segments – the manufacturing industry, the food industry and metallurgy. The Linde Group is also extremely well-positioned in the main growth markets in the international gases industry. In three out of six of these we are the market leader, i. e. in the regional markets of Eastern Europe and Asia and, on the product side, in the market for specialty gases.

The BOC acquisition was undoubtedly a financial tour de force. The requisite funds of €15 billion were provided in a financial package by an international banking consortium via a credit agreement. To refinance this credit, we have taken various capital measures, successfully completing an increase in share capital in July 2006, the proceeds of which were around €1.8 billion. In addition, we issued a hybrid bond worth just over €1 billion, which was extremely well-received by the capital market.

To repay the loan, we are also using the profits arising on the disposal of certain business activities, where the disposals were made in order to comply with conditions imposed by the competition authorities, as well as the profit on the sale of our forklift truck division at the end of the year. We were able to fulfil most of these conditions promptly. Due to a good market environment, I am delighted to report that we achieved good prices which exceeded our original expectations.

We will continue to work to ensure that we gradually reduce the level of our debt, while still making targeted investments which will support our strategy of earnings-based growth.

Despite the numerous additional challenges we had to overcome as a result of the BOC transaction, we have continued to develop our operating activities. Group sales – including Material Handling and the consolidation of BOC for the first time – increased by 30.8 percent to €12.439 billion. After adjusting for BOC, we achieved a 10.6 percent rise in sales. On a comparable basis, i. e. excluding BOC, operating profit (EBITDA) showed a 10.0 percent increase to €1.876 billion. This means that we have fulfilled our forecast, i. e. that we would achieve sales and earnings growth when compared with the previous year. Earnings after taxes on income were €1.858 billion, significantly above the prior year figure of €523 million. This disproportionate increase includes the book profit arising on the sale of the Material Handling business segment.

For many years, Linde has pursued an earnings-based dividend policy. We will continue to do so, while at the same time taking account of any specific requirements arising from the BOC acquisition. Therefore, the Executive Board and the Supervisory Board will recommend a moderate increase in the dividend at the Shareholders' Meeting on 5 June 2007, giving a dividend per share of €1.50 (2006: €1.40).

A thorough reorganisation of the Group and strategic concentration on the industrial gases and plant construction business, not to mention an improvement in operating performance – these are achievements which have been recognised in the capital market. A strong year for shares across the world, 2006 saw a 22 percent increase in the German Share Index or DAX. Linde shares again performed better than the average, with an increase in price over the year of around 25 percent. This in spite of the fact that the market had to absorb some 37 million new Linde shares, issued in the course of our capital increase. During 2006, the stock market value of our company rose from €7.5 billion to €12.6 billion.

In the past year, we have created the right conditions so that we may continue this positive trend. Now, it is a question of ensuring that the integration process is implemented swiftly and with due care. We have already made substantial progress here. The new Executive Board team had already been appointed by Day One of the merger, and at that stage we also defined our eight main service functions, known as global functions. The new organisational model, comprising global and regional Business Units and Business Areas, became effective on 1 January 2007.

This is how we are bringing together outstanding skills and talents from both companies in an integrated group. We are well-placed now in terms of our organisation and will be able to realise quickly and efficiently the numerous benefits arising from the merger between Linde and BOC.

With BOC, we have even better access to the international growth markets and can offer our customers a significantly wider range of products and services – around the world. Together, we will continue with confidence to implement our strategy of earnings-based growth and will achieve sustainable increases in corporate value.

The Linde Group therefore offers outstanding prospects for all its stakeholders: for our staff, for our customers and last, but not least, for our shareholders.

Professor Dr Wolfgang Reitzle
Chief Executive Officer of Linde AG

Supervisory Board

(As at 31 December 2006)

Members of the Supervisory Board

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

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

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

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

Dr Gerhard Beiten
Lawyer
Member of the Executive Board of Landesverband Bayern der Deutschen Schutzvereinigung für Wertpapierbesitz e. V. (DSW)

Dr Clemens Börsig
(appointed on 30 June 2006)
Chairman of the Supervisory Board of Deutsche Bank AG

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

Gerhard Full
Former Chairman of the Executive Board of Linde AG

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

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

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

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

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

Supervisory Board committees

Members at 31 December 2006:
Standing Committee:

Dr Manfred Schneider
(Chairman)

Hans-Dieter Katte[1]
Michael Diekmann
Gerhard Full
Gernot Hahl[1]

Audit Committee:

Dr Karl-Hermann Baumann
(Chairman)

Gerhard Full
Hans-Dieter Katte[1]
Dr Manfred Schneider
Wilfried Woller[1]

Mediation Committee in accordance with § 27(3) German Codetermination Law:

Dr Manfred Schneider
(Chairman)

Hans-Dieter Katte[1]
Michael Diekmann
Gernot Hahl[1]

[1] Representing the employees.

Members of the Supervisory Board who have retired during the 2006 financial year:

Dr Josef Ackermann
(retired on 30 June 2006)
Chairman of the Management Board and Chairman of the Group Executive Committee of Deutsche Bank AG

Joachim Hartig [1]
(retired on 28 December 2006)
Chairman of the Works Council for Works I + II of Linde Material Handling GmbH & Co. KG

Kay Pietsch [1]
(retired on 28 December 2006)
Chairman of the Hamburg Works Council of STILL GmbH

Frank Zukauski [1]
(retired on 28 December 2006)
Director of the Cylinder Components Centre of STILL GmbH

Members of the Supervisory Board newly appointed in January 2007:

Jens Riedel [1]
(appointed on 22 January 2007)
Chairman of the Leuna Works Council, Gases Division, Linde AG

Josef Schregle [1]
(appointed on 22 January 2007)
Manager responsible for finance and financial control in the Engineering Division of Linde AG

Josef Schuhbeck [1]
(appointed on 22 January 2007)
Chairman of the Schalchen Works Council, Engineering Division, Linde AG

Memberships of other German supervisory boards and of comparable German and foreign boards are shown on pages 183 to 186.

Report of the Supervisory Board

Dear shareholders,

During the 2006 financial year, the Supervisory Board has been involved in detailed reviews of the company's situation, its prospects and its strategic development, and the future long-term positioning of The Linde Group. It has also concerned itself with significant individual issues, above all the acquisition of the British company The BOC Group plc (BOC) and the sale of the Material Handling business segment. 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, as well as on the economic situation of the company and its subsidiaries. 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. The Chairmen of the Supervisory and Executive Boards shared information and ideas with one another throughout the year and held regular consultations on the Group's strategic direction and its risk management.

Meetings of the Supervisory Board

Four ordinary meetings and two extraordinary meetings of the Supervisory Board were held in the 2006 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 2006.

At our meetings, in addition to reviewing current business developments, we also dealt with the risk position of the company and those individual transactions of fundamental importance for which the Executive Board requires our approval. After a thorough review and detailed discussions about each of the proposals of the Executive Board, the Supervisory Board granted all necessary approvals. Due to time pressures, three decisions were made on the basis of documents provided outside the Supervisory Board meetings in written or electronic form, after the facts relating to those decisions had been discussed in the full meeting.

The advisory and monitoring activities of the Supervisory Board focused in 2006 particularly on the acquisition of BOC. This recommended cash offer, a very complex transaction with far-reaching strategic and financial consequences, was accepted, and the acquisition was completed on schedule on 5 September 2006. The Supervisory Board welcomes the repositioning of the Group as a result of the acquisition as a world-leading gases and plant construction company. One of the most urgent tasks facing us now is the swift integration of The BOC Group into The Linde Group. Therefore, from September 2006 we were heavily involved in the integration process. The Executive Board regularly updated us on the state of affairs, so that we were satisfied that the integration of the two companies was proceeding apace.

The Chairman of the Supervisory Board was involved at an early stage in the deliberations on the proposed acquisition of BOC. The full Supervisory Board considered the proposal for the first time at an extraordinary meeting on 17 February 2006. At this meeting, which was devoted solely to the potential acquisition of BOC, we formed a complete picture of the transaction and its feasibility, the associated opportunities and risks, the resulting business and strategic objectives, the financing structure envisaged and the impact on our Group. Following an in-depth discussion, concerning strategic, antitrust and financial issues in particular, the Supervisory Board approved in principle the proposed acquisition, with a transaction volume of around €15 billion, and the financing solution proposed by the Executive Board, including the use of authorised share capital.

At our meeting to approve the financial statements on 3 March 2006, we reviewed in detail and approved the annual financial statements of Linde AG and the Group financial statements for the year ended 31 December 2005 and agreed the proposed appropriation of earnings. We also discussed the latest developments relating to the potential acquisition of BOC, following a detailed presentation by the Executive Board and representatives from the investment banks advising us. Issues discussed at length included the state of negotiations and the next steps to be taken, the results of the due diligence review and the measures adopted to finalise the financial structure. At this meeting, the Supervisory Board confirmed its approval in principle of the acquisition of 100 percent of the shares of BOC on the basis of a cash offer and of the measures being taken to finance the offer, in particular the conclusion of a finance agreement with a banking consortium. The final decision of the Executive Board to make a cash offer for BOC of 1,600 pence per share, published on 6 March 2006, was approved by the standing committee of the Supervisory Board, which had been authorised to do so by the Supervisory Board in accordance with the bylaws of the company.

At the meeting immediately before the Shareholders' Meeting on 4 May 2006, the Executive Board first presented a report on the current situation of the Group. The meeting also served to prepare for the subsequent Shareholders' Meeting. In addition, the Executive Board presented a report to the Supervisory Board on the structural optimisation of the Material Handling business segment, with the aim of making it legally independent, and on the specific restructuring measures required. The Executive Board also reported to us in detail on the status of the work being done on the proposed acquisition of BOC. It presented us with a timetable and a set of action points, which included the clearance being sought for the deal from the EU and US competition authorities and preparations for various financing measures and for the integration process. In addition, the Executive Board explained two draft resolutions on transactions requiring approval. After reviewing the resolutions, we granted our approval in both cases: on the one hand, of the capital expenditure requested by the Executive Board to build an on-site air separation plant in the Netherlands and, on the other, for the purchase inter alia of a gases company in Turkey.

At our meeting on 12 September 2006, the Executive Board provided us with a detailed report of the latest state of affairs regarding the BOC acquisition, which was completed on schedule on 5 September 2006 and, against this background, presented us with its detailed plans for the integration of the two companies and for the proposed reorganisation of The Linde Group, on which we questioned them exhaustively. The discussions of the Supervisory Board also focused on the strategic orientation of the company, the progress achieved with the implementation of the corporate strategy and the Executive Board's report on the status of our portfolio optimisation, as well as the business operations that would need to be disposed of as a result of conditions imposed by the competition authorities in connection with the acquisition of BOC. In the context of our portfolio optimisation strategy, we also discussed the Material Handling business segment becoming legally independent, the bundling of the brands into the new umbrella company, KION Group GmbH, and the business model and management appointments for that company.

The only item on the agenda at our extraordinary meeting on 5 November 2006 was the decision on the sale of the Material Handling business segment. After intense discussion of the sale process described to us in the presentation, and of the final offers and the key points in the contracts of sale negotiated, as well as of financial and strategic considerations, and after putting questions to the Executive Board, and to the Mergers & Acquisitions Director and a representative of the investment bank advising us, the Supervisory Board approved the disposal of the Material Handling business segment at a price of €4 billion to the buyers' consortium Kohlberg Kravis Roberts & Co.(KKR)/Goldman Sachs Capital Partners.

On 28 November 2006, the Executive Board presented us with a preview of the 2006 financial statements and the budget for the 2007 financial year, including financial, capital expenditure and personnel plans. We questioned the Executive Board in depth about the assumptions they had made. The Executive Board gave us detailed explanations and supplied reasons where there were discrepancies between corporate plans or targets set in the previous year and actual performance. We approved the 2007 capital expenditure programme of The Linde Group. We also reviewed in detail the status of the portfolio optimisation, based on documents provided to us in advance and a verbal report made to us by the Executive Board, and granted our approval in principle to sales of companies and changes in investment holdings, either as a result of conditions imposed by the competition authorities or, in some cases, for other reasons. The Executive Board also informed us in detailed verbal and written reports about the proposed launch of a medium-term notes programme for the issue of medium-term and long-term bonds. We approved the Executive Board's request.

Furthermore, the Executive Board advised us at our meetings in September and November 2006 of the proposed rationalisation of locations for the administrative departments of the reorganised Group including BOC, especially in Germany and in the UK. We discussed with the Executive Board the possibility of transferring the registered office of the company. On 28 November 2006, we approved the Executive Board's declaration of intent, to propose the relocation of the registered office of the company at the Shareholders' Meeting on 5 June 2007.

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 12 June 2006.

On 9 March 2007, 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). The emoluments of the members of the Executive Board and the Supervisory Board of Linde AG are being disclosed individually for the first time in the 2006 annual report. As a result, from the date of publication of the 2006 annual report, Linde AG has complied with all the recommendations of the German Corporate Governance Code. 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 029.

Committees and committee meetings

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

On the completion of the disposal of the Material Handling business segment on 28 December 2006, the office of Mr Joachim Hartig among others on the Supervisory Board of Linde AG expired. Until then, Mr Hartig was a member of all three of the Supervisory Board committees of Linde AG, as an employee representative. The Supervisory Board elected as his successors Mr Gernot Hahl to the mediation committee and the standing committee and Mr Wilfried Woller to the audit committee of the Supervisory Board.

The current composition of the committees is given on page 010.

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 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 five meetings. It dealt mainly with matters relating to the Executive Board, entering into and terminating contracts with members of the Executive Board 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. Moreover, the standing committee concerned itself primarily with capital measures and other measures requiring approval relating to the acquisition of BOC and the financing of that acquisition, as a result of having been authorised to do so by the Supervisory Board, and granted such approvals, e.g. of the decision of the Executive Board, based on the authorisations for Authorised Capital I and Authorised Capital II, to utilise part of Authorised Capital I, an amount of around €55 million, and all of Authorised Capital II, an amount of €40 million, and of the issue of a hybrid bond in two tranches via a financing subsidiary, with a total volume of around €1.1 billion. In addition, it granted the approvals, based on decisions in principle made by the full Supervisory Board and the delegation of the ensuing decisions to the standing committee, for the disposals of various companies or investments required by the competition authorities: for the disposal of Linde Gas Pty. Ltd. Australia to the Australian company Wesfarmers Energy Ltd; for the disposal of the BOC investment in the joint venture Japan Air Gases Ltd, Tokyo, to the French industrial gases company L'Air Liquide S.A.; for the disposal of BOC Poland (BOC Gazy Sp.z.o.o.) to the American industrial gases company Air Products and Chemicals, Inc. and for the disposal of eight plants in the Linde US bulk business to the American company Airgas, Inc. The standing committee also gave its consent to a member of the Executive Board assuming a further responsibility within the Group in accordance with §88 of the German Stock Corporation Law (AktG) and for the assumption of seats on other Supervisory Boards and of similar offices by members of the Executive Board. Furthermore, several resolutions were passed in connection with the 2002 share option scheme, based on detailed written documents in electronic form. The standing committee also decided on adjustments required to the company statutes, where these concerned only the form of words to be used.

The establishment of a new 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 in 2006 of the final options under the existing 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. A resolution on this subject will be proposed at the Shareholders' Meeting in June 2007.

The audit committee held six meetings in 2006. 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. Its other main tasks were to discuss the interim reports, to prepare the proposal of the Supervisory Board on the appointment of the auditors at the Shareholders' Meeting, to issue the audit mandate to the auditors, to determine the key audit issues, to agree the audit fees and to monitor the independence of the auditors. The audit committee also adopted rules on the awarding of assignments to the auditors for services not related to the audit. Furthermore, the committee received reports from the Executive Board on the Material Handling business segment becoming legally independent from the Group. The audit committee also obtained information on a regular basis about the recording and monitoring of risk in the company. The head of Internal Audit gave a special report on the structure, roles and responsibilities in that department and on their audit work and the audit plan for 2006. There was also much discussion on the introduction of limited reviews of the quarterly reports. A limited review was conducted for the first time of the interim report (excluding BOC) for the nine months ended 30 September 2006. The committee also concerned itself with the sample testing of the annual financial statements of Linde AG and the Group financial statements for the year ended 31 December 2005 by the Deutsche Prüfstelle für Rechnungslegung e. V., a review body for German accounting. The panel of the review body responsible for the sample tests came to the conclusion that in the course of its examination it did not identify any incorrect accounting. Moreover, the audit committee discussed fundamental accounting issues with the Executive Board and the auditors in the context of the strategic reorganisation of the Group.

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.

Financial statements

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG), Berlin and Frankfurt am Main, audited the annual financial statements of Linde AG and the consolidated financial statements of The Linde Group for the year ended 31 December 2006, as well as the management reports for Linde AG and The Linde Group in accordance with the principles set out in the German Commercial Code (HGB) and, in the case of the Group financial statements, in supplementary compliance with International Standards on Auditing (ISA). The auditors have issued unqualified audit opinions on the above statements. The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The auditors have confirmed that the Group financial statements and the Group management report meet the requirements for exemption from preparing these documents set out in § 315a(1) HGB. KPMG also confirmed that the risk management system complies with legal requirements. No risks that might affect the viability of the company as a going concern were identified. The key audit issues in the 2006 financial year concerned derivative financial instruments in The Linde Group and how they are documented and recognised in the accounts, the existing risk management and financial control systems, and Linde retirement schemes, especially administration and accounting in the pension fund.

Provisional documents relating to the financial statements for the year ended 31 December 2006 were the subject of much discussion at the meeting of the audit committee on 22 February 2007. The final documents relating to the financial statements and the audit reports were issued to all members of the Supervisory Board in time prior to the plenary Supervisory Board meeting to discuss the financial statements held on 9 March 2007 and reviewed in detail at that meeting. 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 available to provide supplementary information and to answer questions. After receiving the results of the preliminary review by the audit committee and conducting our own examination of the financial statements and related documents presented by the Executive Board and auditors, we find no grounds for objection. We concur with the results of KPMG's audit. We also reviewed the management report of Linde AG and the Group management report and had no reservations there. We adopted as our own the statements therein on information provided to comply with the German Law on the Implementation of the EU Takeover Directive. We hereby approve and adopt the financial statements of Linde AG and The Linde Group for the year ended 31 December 2006 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 2006 financial year and at the beginning of 2007, there were a number of changes in the composition of the Supervisory Board and the Executive Board, principally as a result of the acquisition of BOC and its impact.

The shareholders' representative, Dr Josef Ackermann, retired from the Supervisory Board on 30 June 2006. His successor, Dr Clemens Börsig, was appointed as requested by court order. Dr Börsig will be proposed for election at the Shareholders' Meeting on 5 June 2007 for the remaining period of office of the other members of the Supervisory Board.

On the employees' side, the offices of Messrs Joachim Hartig, Kay Pietsch and Frank Zukauski expired on the completion of the disposal of the Material Handling business segment. In their place, Messrs Jens Riedel, Josef Schregle and Josef Schuhbeck were appointed members of the Supervisory Board as requested by court order, with effect from 22 January 2007.

We expressed our thanks to the retiring members of the Supervisory Board for their valuable contribution to the Board in the past few years.

The term of office of Professor Dr Wolfgang Reitzle as Chief Executive Officer of Linde AG was due to expire on 9 May 2007. Therefore, on 24 May 2006, the Supervisory Board extended his term as Chief Executive Officer for five more years. The Supervisory Board deemed it necessary to reflect the increasingly international nature of the Group by appointing to the Executive Board, in addition to Dr Aldo Belloni, two further members with international operations experience in the gases business. With effect from 12 September 2006, we appointed Messrs Trevor Burt and Kent Masters, two experienced BOC managers, to the Executive Board of Linde AG. On the BOC Board, Mr Masters was responsible for industrial and specialty gases. Mr Burt was formerly President of The BOC Group in the United States. Mr Georg Denoke was also appointed to the Executive Board on 12 September 2006 and with effect from 1 January 2007 he was also appointed Labour Director of Linde AG. Mr Denoke was previously a member of the Divisional Board of Linde Gas and his responsibilities there included finance and personnel. The appointments of the new members of the Executive Board were all for a three-year term. The responsibilities and functions of the members of the Executive Board are disclosed in the summary on page 188 of this annual report.

Dr Peter Diesch, who for two years as Labour Director on the Executive Board of Linde AG was responsible for finance and personnel, left the company of his own volition at the end of 2006, following the reorganisation of the management structure. Mr Hubertus Krossa, who had been a member of the Executive Board from January 2000, and who formerly had sole responsibility on the Executive Board for the Material Handling business segment, retired on 31 January 2007 to assume the role of Chairman of the Management Board of KION Group GmbH following its sale by Linde. We would like to thank both gentlemen for the successful contributions they made in their work for the Group.

The Supervisory Board would like to thank the Executive Board and all Linde employees for their high level of personal commitment and hard work in 2006, a year which has presented many particular challenges.

Wiesbaden, 9 March 2007
For the Supervisory Board

M. Schneider

Dr Manfred Schneider
Chairman

Corporate Governance

Responsible corporate management, which seeks to achieve sustainable value added and is geared to the interests of shareholders, has always been very important in Linde. 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 2006.

The corporate goals of good responsible management and supervision and the achievement of sustainable value added have traditionally been central to the strategy of Linde AG. Our success has always been based on close and effective cooperation between the Executive and Supervisory Boards, consideration of the interests of shareholders, an open style of corporate communication, proper accounting and audit procedures and a responsible approach to risk.

Corporate governance in Linde and the functions and duties of the executive bodies are described on our website (www.linde.com). Information about the activities of the Supervisory Board and its committees and about the cooperation between the Supervisory and Executive Boards in the 2006 financial year is given in the Report of the Supervisory Board on pages 012 to 019.

Compliance with the German Corporate Governance Code

On 9 March 2007, the Executive Board and the Supervisory Board made the annual declaration of compliance with § 161 of the German Stock Corporation Law (AktG). It is published on page 024 of this report and on the company's website. With the publication of its 2006 annual report on 12 March 2007, Linde AG has complied with all the recommendations of the German Corporate Governance Code as amended on 12 June 2006.

Linde AG has also complied and will in future comply extensively with the suggestions made in the Code, with the following three 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 Shareholders' Meetings the associated costs cannot currently be justified in terms of benefit to the shareholders. Moreover, as far as the verbal contributions are concerned, we do not wish to encroach on the right to privacy of individual speakers. Nevertheless, we will continue to follow developments carefully.
- We consider that the suggestion that the election or re-election of members of the Supervisory Board take place at different dates and for different periods of office is inappropriate for a Supervisory Board which is constituted in accordance with the German Codetermination Law. To date, all Supervisory Board members have been elected for the same period of office. 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 2005, it was specifically decided not to introduce a long-term component.

Close cooperation between the Executive Board and the Supervisory Board

The Executive Board of Linde AG manages the company and conducts its business. It is bound to the interests of the company and is responsible for achieving sustainable increases in the value of the company. 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.

The Supervisory Board advises the Executive Board on the running of the company and monitors its executive management. The Executive and Supervisory Boards work closely together in the interests of the company. The Executive Board provides the Supervisory Board with regular, comprehensive and up-to-date reports about all the issues relevant to corporate planning and strategic development, the course of business and the position of the company, including the risk report.

Both the Executive Board and the Supervisory Board are governed by procedural rules. Under these rules, the Supervisory Board has the right to veto significant transactions. The rules of the Executive Board and the rules of the Supervisory Board both stipulate an age limit for their members: members of the Executive Board must not be over 65, while members of the Supervisory Board must not be over 72. One of the members of the Supervisory Board is a former member of the Executive 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. The proposal for the judicial appointment in 2006 of a member of the Supervisory Board to represent the shareholders expires at the next Shareholders' Meeting. This member of the Supervisory Board will be nominated at the Shareholders' Meeting on 5 June 2007 for the duration of the remaining term of office of the other members of the Supervisory Board. 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 our estimation, these transactions do not affect the independence of the members of the Supervisory Board concerned. The Supervisory Board has a sufficient number of members with an adequate level of independence.

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

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

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

Directors' dealings

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

In the course of the year, members of the Executive Board and Supervisory Board informed BaFin (the German Federal Financial Supervisory Authority) about eleven notifiable purchase transactions in total, which were mostly in connection with the increase in the share capital of Linde AG in summer 2006. Under the terms of the capital increase, members of the Executive Board and the Supervisory Board acquired subscription rights or new shares as a result of exercising subscription rights at a subscription price of €49.50 per new share: Hubertus Krossa acquired 5 subscription rights at a price of €2.97 per right and 460 new shares, Dr Aldo Belloni 3 subscription rights at a price of €3.01 per right and 1,298 new shares and Dr Peter Diesch 2.5 subscription rights at a price of €3.03 per right and 215 new shares. Professor Dr Wolfgang Reitzle also purchased 942 new shares and Dr Manfred Schneider purchased 572 new shares. Moreover, an individual closely related to a member of the Executive Board acquired 20 new shares under the terms of the capital increase.

In addition, Hubertus Krossa purchased 435 Linde shares at a price of €59.53. Another notifiable transaction related to the purchase of 2,000 Linde shares at a price of €68.80 by Dr Aldo Belloni. No notifiable sale transactions were disclosed in the 2006 financial year.

Interests in share capital

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

Remuneration of the Executive Board and Supervisory Board

The remuneration report, which also includes information about the share option scheme, is on pages 025 to 029 of this annual report and forms part of the Group management report.

Developing our core values

Linde has traditionally maintained a high standard of ethical principles. In 2005, the Executive Board adopted a corporate responsibility policy, which is mandatory in all our divisions. The code of conduct, also drawn up in 2005 for all our employees worldwide, makes our corporate values tangible and calls upon the employees to comply with legal provisions as well as the high ethical standards we have set. Against the background of the restructuring of the Group and the integration of BOC, the Executive Board has appointed a working party to elaborate principles of behaviour which will apply throughout the Group. In 2006, the Executive Board adopted ethical and legal principles for the purchase of goods and services which were consistent with the corporate responsibility policy and the code of conduct for employees. These apply worldwide to all the employees of Linde AG and of its subsidiaries, in addition to general legal provisions. They relate in particular to those employees who have personal contact with suppliers, contractors and other business partners.

These principles, which must be adopted by all our employees, have been designed by Linde AG to set standards of behaviour for the conduct of business and to avoid conflicts of interest.

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 the 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. 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 or annual results or in the form of teleconferences. Regular events involving the CEO and the 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.

Shareholders' Meeting

In accordance with the German Law on Corporate Integrity and Modernisation of the Right of Rescission (UMAG), which came into force on 1 November 2005, the company has changed its procedure for identifying shareholders at the Shareholders' Meeting to the record date system, in common use internationally. Under this system, the beginning of the 21st day before the Shareholders' Meeting is used as the cut-off date for the identification of shareholders. This encourages shareholders, especially foreign shareholders, to attend the Shareholders' Meeting and to exercise their right to vote.

Shareholders who cannot attend the Shareholders' Meeting or who leave the Shareholders' Meeting before voting has commenced, have the option to exercise their vote using a proxy of their choice or a company proxy voting in accordance with their instructions. Directions as to how to exercise the shareholder's vote could be given to this proxy up until the evening before the Shareholders' Meeting on 4 May 2006, even via electronic means of communication. We will be offering our shareholders this service again for the Shareholders' Meeting on 5 June 2007.

Accountancy, audit and risk management

In May 2006, 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 and Frankfurt am Main, 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 2006.

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 regularly receives reports on the identification and monitoring of risks.

Declaration of compliance with the German Corporate Governance Code

On 9 March 2007, 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:

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

With the publication of its 2006 annual report on 12 March 2007, 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 12 June 2006.

Since it made its last declaration of compliance on 3 March 2006, Linde AG has complied with the recommendations of the Code in the version dated 2 June 2005 and then as amended on 12 June 2006 with one exception (no individualised figures disclosed for compensation paid to members of the Executive and Supervisory Boards).

Wiesbaden, 9 March 2007
Linde AG"

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

Wiesbaden, 9 March 2007
Linde AG

The Supervisory Board The Executive Board

Remuneration report

(part of the Group Management Report)

The remuneration report sets out the structure and the basic features of the remuneration payable to members of the Executive 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 contains the information about the remuneration of the Executive Board which is legally required under the provisions of the German Commercial Code (HGB), therefore this information is 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 the international context and offers an incentive for sustainable increases in the value of the company in a dynamic environment.

The remuneration system comprises cash emoluments, share options and pension commitments. There are two components of the cash emoluments of the Executive Board: fixed emoluments and variable performance-related emoluments. The cash remuneration is based on an annual target income, around 40 percent of which on average is paid to the Board member in fixed monthly amounts if all the performance objectives are met in full, while 60 percent is variable. The variable remuneration 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 2006. At a result of this review, the target income figures were adjusted for two of the members of the Executive Board. The members of the Executive Board receive no remuneration for any Group offices held.

Fixed emoluments

Each member of the Executive Board receives a fixed monthly salary. In addition, 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. These comprise mainly insurance benefits at normal market rates and company cars.

Variable emoluments

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

The dividend-related bonus is calculated for each member of the Executive Board on the basis of an individually agreed amount in euros for each €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. 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 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. 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 the 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 options

Options (remuneration components with a long-term incentive) are granted every year to members of the Executive Board, members of the management boards of affiliated companies and selected senior managers, based on the share option scheme approved at the Shareholders' Meeting in May 2002. 539 people were entitled to receive options from the 2006 tranche. 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 May 2006, the fifth and last tranche of options was issued under the 2002 share option scheme.

In the 2006 financial year, the 2002, 2003 and 2004 tranches of the Linde share option scheme became valuable and exercisable. In total, members of the Executive Board held 1,080,000 options at the balance sheet date, of which 575,000 were exercisable. In 2006, the members of the Executive Board did not exercise any options. Further information about Linde's share option scheme is given in the Notes to the Group financial statements on pages 154 to 156.

Pension commitments

There are pension commitments in respect of the members of the Executive Board. The pension is based on a particular percentage of the most recently paid fixed monthly emoluments. The percentage rate on entry is 20 percent. This percentage increases for every completed year of service by 2 percent. 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 has retired from the company and is eligible for his or her pension (old age pension, 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. Current pensions are adjusted annually to take account of the change in the average consumer price index, based on information provided by the German Statistical Office. Once the member of the Executive Board has completed his or her 55th year and 10 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 2006

The total cash remuneration of members of the Executive Board for performing their duties in Linde AG and its subsidiaries in 2006 was €11,837,754 (2005: €9,685,627). On a comparable basis, i. e. including only the cash remuneration of the four members of the Executive Board who were also on the Executive Board in the 2005 financial year, the total cash remuneration rose 8.6 percent. The total remuneration was €14,647,754 (2005: €11,277,227). The total remuneration includes share options granted to members of the Executive Board under the Linde Management Incentive Programme, which have a notional value of €2,810,000 (2005: €1,591,600). In the 2006 financial year, 250,000 options (2005: 230,000) were granted to members of the Executive Board. These options had a fair value at the issue date of €11.24 (2005: €6.92) per option.

Provided that the annual financial statements of Linde AG for the year ended 31 December 2006 are approved and that the standing committee of the Supervisory Board accordingly comes to a decision on the variable remuneration for 2006, the emoluments for 2006 of the individual members of the Executive Board were as follows:

in €	Cash emoluments Fixed emoluments	Benefits in kind/ Other benefits	Variable emoluments	Total cash emoluments	Share options Value on allocation	Total emoluments	Pensions Annual amount if pension were paid on balance sheet date	Allocated to pension provision in financial year [1]
Professor Dr Wolfgang Reitzle (Chairman)	1,816,000	14,314	4,075,000	5,905,314	1,461,200	7,366,514	391,680	832,059
Dr Aldo Belloni	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)	73,372	91,829	223,217	388,418	–	388,418	[2]	[2]
Georg Denoke (from 12.09.2006)	110,000	4,309	178,982	293,291	–	293,291	63,360	45,024
Dr Peter Diesch	504,000	16,209	1,012,000	1,532,209	449,600	1,981,809	122,400	1,203,145
Hubertus Krossa	420,000	21,883	766,950	1,208,833	449,600	1,658,433	198,000	651,149
J. Kent Masters (from 12.09.2006)	145,641	180,773	322,356	648,770	–	648,770	[3]	[3]
Total 2006	**3,657,013**	**354,736**	**7,826,005**	**11,837,754**	**2,810,000**	**14,647,754**		
(%)	25	2	54	81	19	100		
Total 2005	**2,586,000**	**69,627**	**7,030,000**	**9,685,627**	**1,591,600**	**11,277,227**		
(%)	23	1	62	86	14	100		

1 If applicable, pro-rata from the date of appointment.

2 Until 31 December 2006, participated in the Australian defined contribution plan of BOC Australia. Endowment sum at 31 December 2006 €280,769. Addition to endowment sum from date of appointment to Executive Board €8,246.

3 Until 31 December 2006, participated in American pension plan of BOC USA. Endowment sum at 31 December 2006 €785,677. Addition to endowment sum from date of appointment to Executive Board €127,219.

At 31 December 2006, 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 €6,290,752 (2005: €6,658,748) in The Linde Group and €6,101,800 (2005: €6,658,748) 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 55th and 63rd year or have their employment contract terminated early by the Supervisory Board from their 62nd year will receive a severance payment of 50 percent of their annual remuneration. 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 after 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, it is incumbent upon the member of the Executive Board to prove the actual circumstances as a result of which his or her position has been impaired in a material way. In addition to the customary compensation, comprising the cash emoluments he 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 an 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 55th 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 52nd year or has already completed his or her 63rd year when the employment contract ends. The total of the compensation in the form of cash remuneration plus the severance pay must not exceed an amount equivalent to five times the full amount of the annual cash remuneration. 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 €5,380,252 in the 2006 financial year (2005: €2,385,616) .

A provision of €39,062,290 (2005: €34,504,903) 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 €37,982,947 (2005: €34,504,903) was made.

2. Remuneration of the Supervisory Board

The remuneration of the Supervisory Board was determined at the Shareholders' Meeting based on a proposal from the Executive Board and Supervisory Board 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 €35,000, 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 €300 for each €0.01 by which the dividend declared at the Shareholders' Meeting exceeds a dividend of €0.50 per share with full dividend entitlement distributed to the shareholders. The second part of the variable remuneration is €450 for each 0.1 percent by which the return on capital employed (ROCE) of The Linde Group exceeds the rate of 7 percent in the relevant financial year. ROCE is determined as follows, based on the information in the respective audited Group financial statements prepared in accordance with IFRS: earnings before taxes on income plus interest and similar charges plus financing costs of pension obligations (interest cost of pension plans less expected return on plan assets) divided by the average capital invested as shown in the segment reporting. In 2006, ROCE calculated in this way was 20.7 percent.

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

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

Emoluments of the Chairmen, Deputy Chairmen and committee members

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

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

Attendance fees

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

VAT, reimbursement of expenses

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

Emoluments of the Supervisory Board for 2006

Based on a dividend of €1.50 per share entitled to dividend and ROCE in The Linde Group of 20.7 percent, the total emoluments of the Supervisory Board (fixed emoluments, variable emoluments and attendance fees) amounted to €1,931,774 (2005: €1,836,693) plus VAT of €357,976 (2005: €287,499). Of the total emoluments, €778,479 (2005: €774,893) related to fixed emoluments and €1,098,795 (2005: €1,035,000) to variable emoluments. The total expenditure on attendance fees was €54,500 (2005: €26,800).

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

in €	Fixed emoluments	Variable emoluments	Emoluments for sitting on audit committee	Attendance fees	Total emoluments [1]
Dr Manfred Schneider (Chairman)	105,000	165,000		5,000	275,000
Hans-Dieter Katte (Deputy Chairman)	52,500	82,500		5,000	140,000
Michael Diekmann (Second Deputy Chairman)	52,500	82,500		2,500	137,500
Dr Josef Ackermann (until 30.06.2006)	17,356	27,274		1,000	45,630
Dr Karl-Hermann Baumann	35,000	55,000	40,000	4,500	134,500
Dr Gerhard Beiten	35,000	55,000		3,000	93,000
Dr Clemens Börsig (from 30.06.2006)	17,740	27,877		1,000	46,617
Gerhard Full	91,583 [2]	82,500		4,500	178,583
Siegried Friebel	35,000	55,000		3,000	93,000
Gernot Hahl [3]	35,144	55,226		3,000	93,370
Joachim Hartig (until 28.12.2006)	52,068	81,822		5,000	138,890
Thilo Kämmerer	35,000	55,000		3,000	93,000
Klaus-Peter Müller	35,000	55,000		2,500	92,500
Kay Pietsch (until 28.12.2006)	34,712	54,548		3,000	92,260
Professor Dr Jürgen Strube	35,000	55,000		2,500	92,500
Wilfried Woller [4]	35,000	55,000	164	3,000	93,164
Frank Zukauski (until 28.12.2006)	34,712	54,548		3,000	92,260
Total 2006	738,315	1,098,795	40,164	54,500	1,931,774
(%)	38	57	2	3	100
Total 2005	739,824	1,035,000	35,069	26,800	1,836,693
(%)	40	56	2	2	100

1 Amounts excluding VAT.

2 This includes €39,083 for membership of the management board of a foreign subsidiary.

3 Standing committee from 29 December 2006.

4 Audit committee from 29 December 2006.

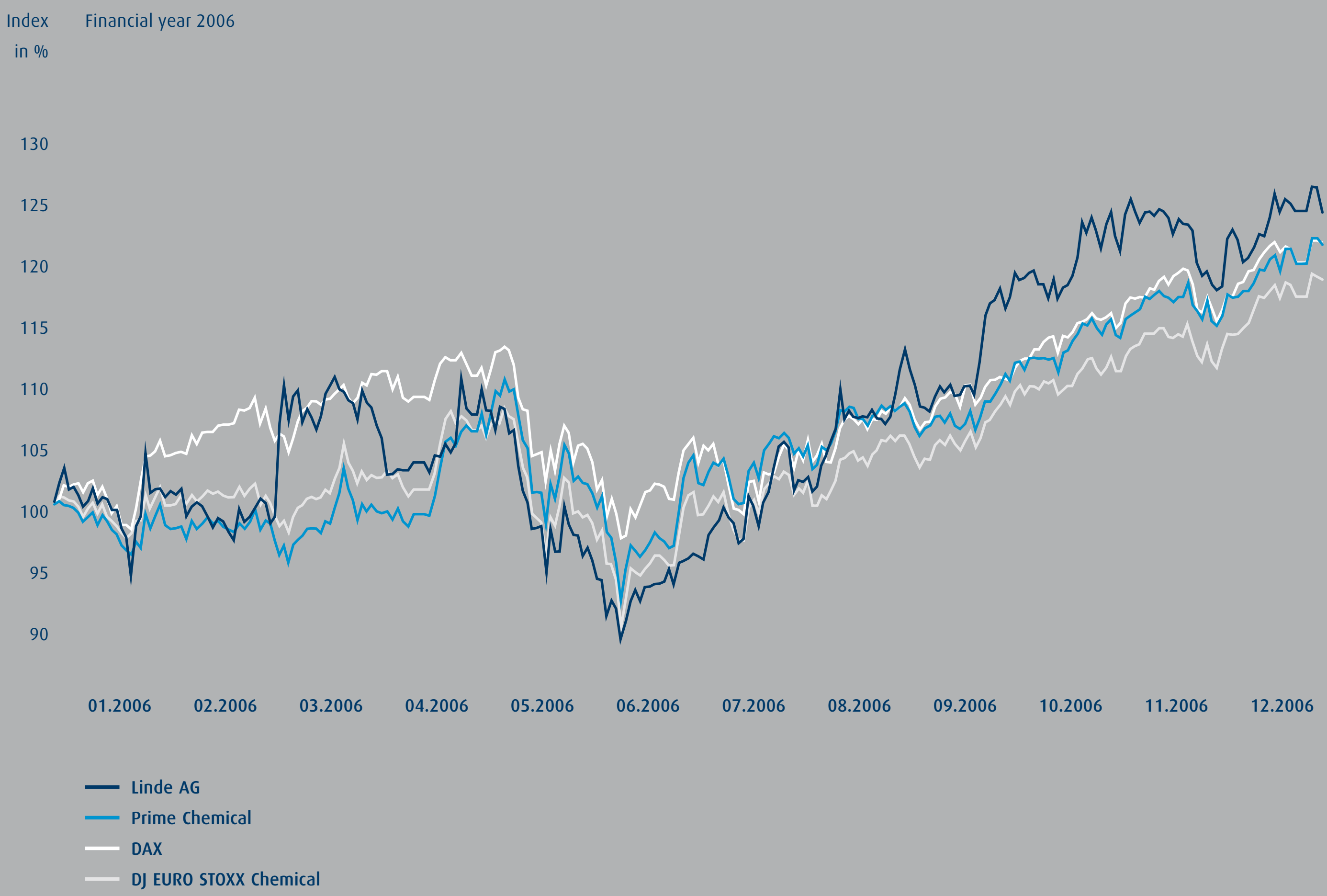
Loans and advances

In the 2006 financial year, no loans or advances were made to members of the Supervisory Board.

Linde Shares

In a generally positive market environment, Linde shares have once again outperformed the DAX, as in the previous two years, increasing in value during the year by 24.6 percent, while the DAX rose 22.0 percent. Linde shares also outperformed the major industry-specific indices in Germany (Prime Chemical: +21.9 percent) and Europe (DOW JONES EURO STOXX Chemical: +19.0 percent).

Linde shares: Performance in 2006 (compared with indices)



A strong stock market performance again in 2006

The German share index DAX made a seamless transition in 2006 from its outstanding performance in 2005, with the result that it stood at 6,596.92 points on 29 December 2006, the last trading day of the year, a 22.0 percent increase over the previous year. The upward trend at the start of the year was only momentarily interrupted in the second quarter by an adjustment phase. From the lowest point for the year of 5,292.14 on 13 June, the DAX moved steadily upwards, reaching its highest point for the year of 6,611.81 on 28 December. This meant that the DAX was once again one of the top leading indices in the world, ahead of a number of other stock markets including the two major European markets in Paris and London. Positive impetus came not only from continuing strong export demand, but also from the clear upturn in the German domestic economy.

Linde shares outperform DAX and the chemical index

In this positive market environment, Linde shares have once again exceeded the performance of the DAX, as in the two previous years, increasing in value during the year by 24.6 percent. Linde shares also performed better than the major industry-specific indices in Germany (Prime Chemical, +21.9 percent) and Europe (DOW JONES EURO STOXX Chemical, +19.0 percent).

Our shares reflected the trends in the DAX, falling to their lowest price for the year of €56.32 on 13 June, then following the subsequent upward trend to reach their highest price for the year of €79.56 on 27 December. Linde shares were once again one of the top ten securities in the DAX in 2006.

This good performance demonstrates that the merger with BOC and the resulting reorganisation of the Group met with a universally positive response in the capital markets. This also applies to the various capital measures we took during the year to refinance the BOC acquisition. We succeeded in placing around 37 million new shares in the market, without any adverse impact on the share price. The market capitalisation of Linde AG increased overall by around €5 billion in 2006 to €12.6 billion.

Linde performance in comparison with the most important indices [1]

	2006	Weighting
Linde (including dividend)	+ 27.1%	–
Linde (excluding dividend)	+ 24.6%	–
DAX	+ 22.0%	1.32%
Prime Chemical	+ 21.9%	10.15%
DJ EURO STOXX	+ 20.3%	0.25%
DJ EURO STOXX Chemical	+ 19.0%	6.53%
FTSE Eurofirst 300	+ 13.8%	0.15%
FTSE E300 Chemical	+ 21.8%	6.54%
MSCI Euro	+ 17.8%	0.29%

[1] As at 31 December 2006.

Capital market based figures

		2006	2005
Shares with dividend entitlement for the financial year	No.	160,736,045 [4]	119,864,046
Closing price at year-end [2]	€	78.26	62.81
Year high [2]	€	79.56	63.36
Year low [2]	€	56.32	45.55
Total dividend Linde AG	€ million	241	168
Market capitalisation [3]	€ million	12,579	7,529
Average weekly volume	No.	4,660,000	2,310,000
Volatility [3] (200 days)	%	21.3	19.0
Information per share			
Cash dividend	€	1.50	1.40
Dividend yield	%	1.9	2.2
Operating cash flow	€	8.88	12.55
Earnings	€	13.30	4.30

[2] Prices adjusted for capital increase. Source: Thomson Financial.

[3] As at 31 December 2006.

[4] Capital increase and exercise of purchase options under the share option scheme.

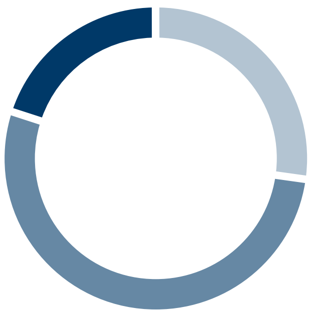
Shareholder structure

The holdings of our major shareholders have declined slightly in comparison with the previous year. Allianz AG now holds 9 percent of the shares (2005: 11 percent) and Deutsche Bank AG 8 percent (2005: 10 percent). With around 10 percent of the shares, the holding of Commerzbank AG has remained virtually unchanged.

At the same time, the proportion of shares held by institutional investors has increased in comparison with the previous year. Based on our annual shareholder identification survey conducted as at the balance sheet date, 31 December 2006, around 53 percent (2005: 49 percent) of Linde shares are held by institutional investors. Currently, 20 percent of the shares are held by private investors, the same proportion as at the end of 2005.

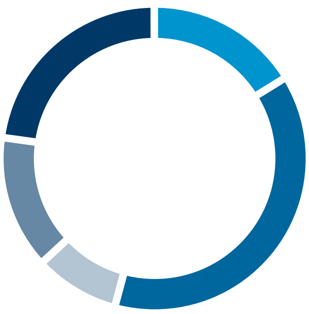
Shareholder structure

Private investors (20%)
Institutional investors (53%)
Major shareholders (27%)



Institutional investors – Holdings by region

Germany (23 %)
UK (14 %)
France (9 %)
North America (38 %)
Other (16 %)



The shareholder structure of Linde has become more international in 2006. At 38 percent, the largest proportion of our institutional investors came from North America, followed by Germany at 23 percent and the UK at 14 percent. The proportion of shares held by French investors at the year-end was 9 percent.

Dividend payment

For many years Linde has adopted an earnings-based dividend policy. We will continue to do so, while at the same time taking account of any specific requirements arising from the BOC acquisition. The Executive Board and Supervisory Board of Linde AG will recommend a moderate increase in the dividend at the Shareholders' Meeting on 5 June 2007, giving a dividend per share of €1.50 (2006: €1.40). This gives a dividend payout ratio of 13 percent, based on earnings after taxes on income for the year. This represents a dividend yield of 1.9 percent based on the year-end close.

Resolutions of the Shareholders' Meeting on 4 May 2006

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 31 October 2007.

It was also resolved at the Shareholders' Meeting to revise the object of the company to reflect current developments in the company as a result of the change in the strategic direction of Linde AG and to revise and amend the articles of association to comply with the German Law on Corporate Integrity and Modernisation of the Right of Rescission (UMAG), which came into force on 1 November 2005.

Investor relations activities

In 2006, we had very close contact with our shareholders and potential investors, especially against the background of the merger with BOC. In numerous meetings and teleconferences and at road shows and investors' conferences, we explained and discussed in all the major international financial centres the current situation of the Group and, in particular, the strategic reorganisation of the Group. The response of the participants in the capital markets was almost unanimously positive.

There was also a very positive response to the €1.8 billion increase in share capital, which formed part of the refinancing of the BOC acquisition. This demonstrates the high level of confidence shown by the markets in our company and confirms our strategy. The equally successful placing of the hybrid bond, which has also been used to refinance the acquisition of BOC, was further evidence of widespread approval from investors.

This year, we will continue to expand our investor relations activities and, in the first year after the acquisition of BOC, seek to convince investors of the long-term growth potential of our company.

All current information about Linde shares is to be found on our website www.linde.com in the Investor Relations section. You can obtain information or answers to your questions by ringing our hotline on +49.89.35757-1321. You are also welcome to send us your questions online at investorrelations@linde.com.

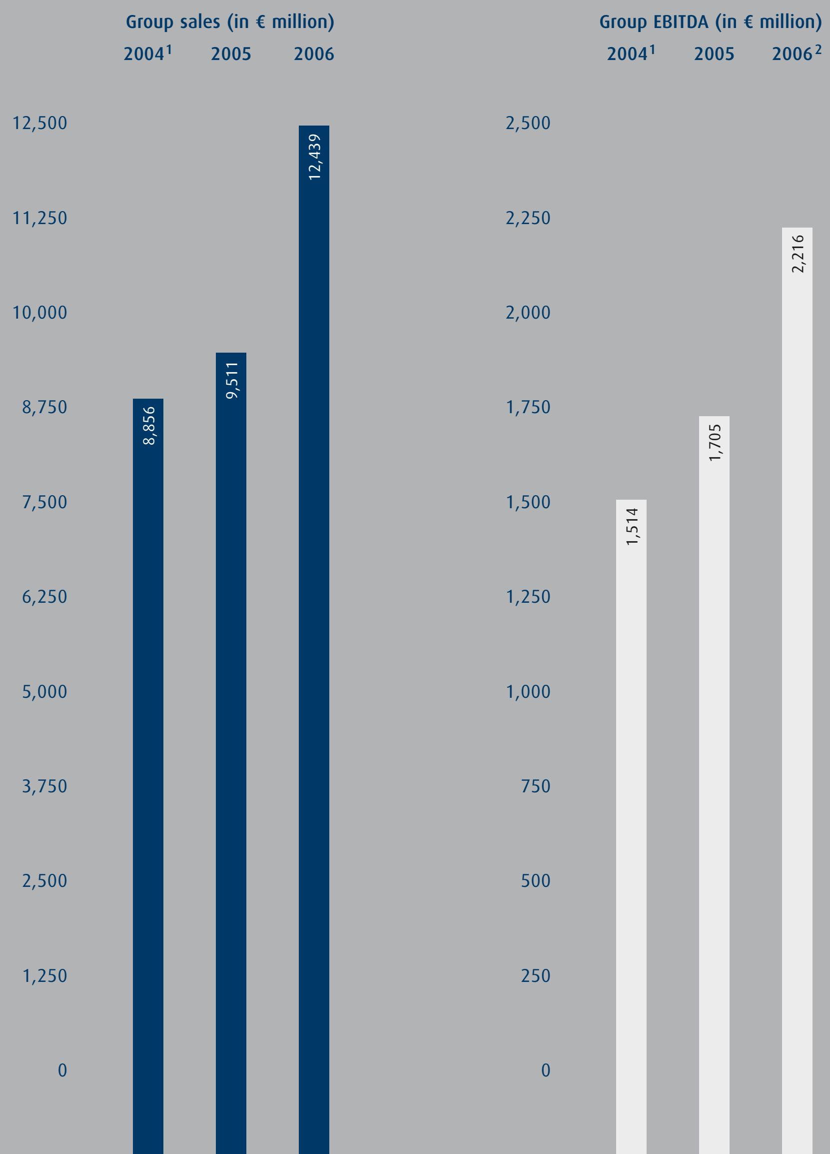
Linde share information

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

Group Management Report

In the 2006 financial year, we took advantage of good global economic conditions and achieved significant increases in sales and earnings. Group sales, including KION and BOC consolidated for the first time, rose 30.8 percent to €12.439 billion (2005: €9.511 billion). After adjusting for the effect of the BOC acquisition, we increased sales by 10.6 percent to €10.516 billion. Group operating profit before depreciation and amortisation (EBITDA), adjusted for BOC and non-recurring items, improved by 10.0 percent to €1.876 billion (2005: €1.705 billion).

Group sales and Group EBITDA



[1] Not adjusted for the changes in accounting in 2006 as a result of IFRIC 4 and in respect of the financing costs of pension obligations.

[2] Before non-recurring items.

Macroeconomic environment

Gross Domestic Product (GDP) in real terms[1]

		% Growth				
	% Weighting	2002	2003	2004	2005	2006
United States	28.85	1.6	2.5	3.9	3.2	3.4
Japan	12.85	0.3	1.5	2.7	1.9	2.1
Germany	11.66	0.0	−0.2	0.8	0.9	2.5
Eurozone	24.19	0.7	0.6	1.5	1.2	2.6
Southeast Asia	6.76	7.0	6.5	7.8	6.9	5.7
Latin America	3.79	−1.7	2.6	6.5	4.9	5.0
China	5.26	9.1	10.0	10.1	9.9	10.5
World	100.00	2.1	2.8	4.0	3.3	3.8

[1] Source: National Statistical Authorities, IMF, World Bank, OECD, CIA World Factbook, Oxford Economic Forecasting and IFO Institute Projections.

Overview of the global economy

The global economic recovery of the past three years is continuing, although it slowed down somewhat in 2006 in comparison with the previous year. The slight decline was due mainly to the decrease in economic dynamism in the United States and in Japan. This trend was not fully offset by the simultaneous increase in economic growth in the UK and in the eurozone, which is at a relatively early stage of the economic cycle.

The price of raw materials continued to rise significantly in 2006. Due largely to political tensions in the Middle East, crude oil prices rose sharply in August to a yearly high, although they subsequently dipped again. The prices of industrial raw materials remained constant.

Slowdown in growth in the US economy

The rate of economic growth in the United States in 2006 was only 3.4 percent. The main reasons for the flagging US economy were a monetary policy which was less geared towards expansion and the end of the boom in the US property market. Moreover, the rise in energy prices had a significant adverse effect on private consumption in the United States. In this unfavourable environment, there was a downward trend in both imports and exports. Overall, the import surplus fell slightly. The level of industrial investment was also lower than in the prior year. In particular, there was a significant reduction in capital expenditure on equipment during the year, following a substantial initial increase.

Diverse economic trends in Asia

In Japan, the strong recovery of the previous year began to slow down considerably, caused mainly by a lower level of public investment. At the same time, export demand was weaker than expected.

China, on the other hand, again saw substantial growth in the year 2006, with the economy expanding at a rate of 10.5 percent. There was a significant increase in both private consumption and capital expenditure. With the yuan strengthening only slightly, the level of exports continued to rise.

In the other newly-industrialised countries in eastern Asia, economic growth slowed down a little in comparison with the prior year.

Robust growth in Latin America

In Latin America, continuing strong domestic demand resulted in generally robust economic growth. As a producer of raw materials, the region benefited particularly from the significant rise in energy prices and the price of raw materials. However, the economic situation in Latin America varies greatly from country to country. In Brazil, for example, there was a decline in investment as a result of a very restrictive monetary policy, while public expenditure in Mexico increased significantly.

Recovery gathers pace in Europe

The economy in the eurozone increasingly gained momentum in the 2006 financial year. The growth was underpinned in particular by member states such as Germany and Italy, where the economy had previously come to a virtual standstill.

Although exports exceeded imports in the course of the year, the main impetus for the economy in the eurozone came from the domestic market. In particular, there was a significant increase in investment in fixed assets. Moreover, private consumption had a positive impact, increasing as a result of the rise in employment.

The UK economy once again gathered momentum in 2006, following a poor year in 2005. In particular, there was a substantial increase in capital expenditure on equipment. Private consumption, however, failed to reach the levels attained in prior years and UK exports also declined.

The new EU member states continued to see dynamic economic growth in 2006. In Poland and Slovenia, the rise in output was even higher than in the previous year. In Hungary, on the other hand, the economy slowed down, despite an expansionary financial policy.

Overall, the economic recovery in Eastern Europe was increasingly underpinned by domestic demand. As a result of higher real wages and rising levels of employment, private investment saw double-digit growth.

Germany: Domestic market recovery

In 2006, Germany again confirmed its position as the strongest exporting nation in the world, benefiting from favourable economic trends in the newly-industrialised countries of Asia, especially in China and India. Export business was also boosted by the expansion of trade relations with Germany's Eastern European neighbours.

At the same time, the positive economic trends in Germany were increasingly underpinned by a rise in domestic demand. Significant impetus came, for example, from the construction industry, which after a slump induced by the weather in the first quarter obtained significantly more orders in the course of the year. Construction spending rose overall for the first time in ten years.

The World Cup was also a special factor in 2006, boosting the German economy.

However, private consumption in Germany fell short of expectations, although private households brought forward purchases of durable goods as a result of the increase in VAT from 16 percent to 19 percent, which takes effect on 1 January 2007.

The investment climate brightened in the course of the year. The main reason for this was the improvement in the results of German companies with global operations. These companies, which had been through a phase when they were reluctant to spend on capital projects, started to show a greater willingness to invest once more in Germany.

Sector-specific background

Gases industry

The gases industry was also able to benefit in 2006 from the global economic situation, which continued to be generally good. As expected, strong impetus for growth came from the newly-industrialised countries in Asia – principally from China – and from Eastern Europe and South America.

The favourable economic climate not only had a positive impact on the emerging markets, but also on more mature markets such as the United States and Europe. The gases industry in particular benefited from this upturn, as it serves almost all sectors in industry, trade, commerce, research and development, as well as the health sector, and has such an extensive product, process and service portfolio. More opportunities for growth present themselves all the time, with the continuing expansion of the range of gases applications and the potential to make further improvements in existing customer processes through the use of industrial gases.

2006 was an outstanding year for the world steel industry. The growth trend of the past few years continued unabated. While global raw steel production during the year reached around 1.13 billion tons, it will in all probability increase post-2006 by about 10 percent to 1.25 billion tons. The sustained global boom in the steel industry has ensured a high level of demand for air gases and particularly for oxygen, mainly for use in oxyfuel technology – the enrichment of air in combustion processes with pure oxygen.

The market for products and services in the field of metal-processing, such as gases and the associated welding and cutting applications engineering, has also grown. Some of the impetus here has come, for example, from the high rate of growth throughout the world in the ship-building industry. The global figure for container ship construction alone has increased at an annual rate of 6 percent since 2002.

Our hydrogen business has been positively affected by the trend towards increased production of low-sulphur environmentally friendly fuels in refineries.

The market for electronic and specialty gases benefited from favourable trends in the electronics industry, such as the rising demand for LCD and plasma flat screens. According to market research, there was a 13 percent increase in worldwide sales of flat screens in 2006 and a 60 percent increase in sales of flat screen television sets.

Plant construction

Growth remained strong in 2006 in the olefin and polymer plant sector. There was increased demand, principally as a result of the continuing expansion of production plants in the Middle East and the development of new capacity in Russia as well as in the Central Asian republics which are rich in raw materials.

The market for air separation plants continued to benefit from dynamic growth in the newly-industrialised countries of Asia, especially China, and in South America. New applications processes requiring huge quantities of oxygen, such as Gas To Liquids (GTL), the conversion of natural gas into diesel fuel, also improved the market potential for particularly large air separation plants.

The development of gas-fields using LNG technology (Liquefied Natural Gas – see glossary), where natural gas is liquefied and transported in tankers, has established itself in those regions in particular in which the use of pipelines is not viable, either economically or politically. These areas include Northern Europe and the Middle East. Countries like Australia with remote areas also provide a market for the smaller LNG plants, with deliveries to customers being made by truck.

As mentioned above, the overall demand for hydrogen in 2006 continued to be forced up by legal regulations on fuel purity and the requirements of our industrial customers. As a result, the demand for hydrogen plants remained at a high level. One of the growth markets in this area was the United States.

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.

To calculate return on capital employed, we have until now divided earnings before taxes on income (EBT) plus interest charges and the interest cost for pension provisions by the average capital invested. Capital invested comprised equity plus net pension obligations and financial debt.

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, as the merger has a number of effects on the 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 competitors, we have eliminated the amortisation of fair value adjustments identified in the course of the purchase price allocation from our ROCE calculation.

The successful expansion of BOC has been based mainly on a joint venture business model between BOC and various customers. 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

Return

EBIT
(including income from associates and joint ventures, excluding interest cost for pension obligations)

\+

Amortisation of fair value adjustments identified in the course of the purchase price allocation

+/–

Non-recurring items

÷

Capital employed[1]

Equity

\+

Financial debt

\+

Liabilities from financial services

\+

Net pension obligations

–

Cash and cash equivalents

–

Receivables from financial services

[1] 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 new definition, we achieved a return on capital employed of 11.4 percent in the 2006 financial year (2005: 13.7 percent). Based on the previous calculation method used, adjusted for non-recurring items, the figure for ROCE would have been 10.0 percent (2005: 12.5 percent).

The return on capital employed for the Group will drop below 10 percent for the 2007 financial year as a result of the increase in average capital employed. However, we expect to again achieve a ROCE of 10 percent in the 2008 financial year for The Linde Group.

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 operating earnings before interest and tax (EBIT), operating earnings before interest, tax, depreciation and amortisation (EBITDA) 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.

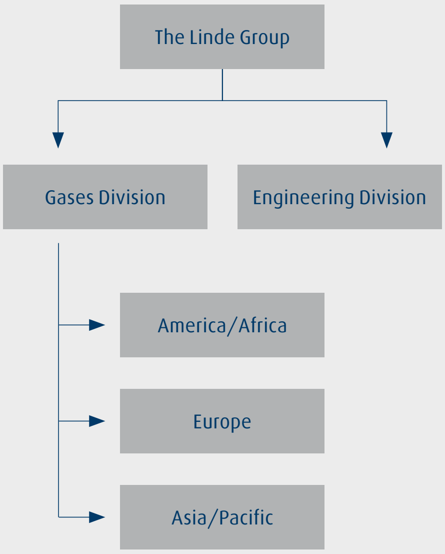
The calculation of the variable remuneration of our management is also based on these figures.

On the acquisition of The BOC Group, we reorganised our organisational structure to reflect our global outlook. The Group now consists of the Gases Division and the Engineering Division. In the Gases Division, we have linked responsibilities even more closely with local value creation. Therefore, in the new organisational model, the managers in the nine regional business units (RBUs) within the three main regions, America/Africa, Europe and Asia/Pacific, will assume responsibility for the operating results and medium-term performance of the product areas. This structure, which came into effect on 1 January 2007, means that we take into account the importance of local and regional market conditions in the gases business.

Responsibility for the on-site and Healthcare business 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 industry 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 Linde Group. The Group consists of the Gases Division and the Engineering Division. Within the Gases Division, there are three regional subdivisions: America/Africa, Europe and Asia/Pacific.

The Linde Group

On 5 September 2006, Linde AG completed its acquisition of the British gases company The BOC Group plc and acquired all the shares outstanding at a price of 1,600 pence per share under a scheme of arrangement. Therefore, in the following report on the 2006 financial year, the activities of BOC have been consolidated from the date on which the acquisition was completed.

At the same time as the merger with BOC, we made the Material Handling business segment legally independent and bundled the three brands, Linde, STILL and OM, into a new umbrella company, KION Group GmbH. On 5 November 2006, Linde AG sold the business segment to a consortium comprising the financial investors Kohlberg Kravis Roberts & Co. (KKR) and Goldman Sachs Capital Partners at a price of about €4 billion. Following the receipt of unconditional approval from the relevant competition authorities on 22 December 2006, the transaction was completed in accordance with the letter of the law on 28 December 2006. As a result, the KION Group, along with the BOC Edwards components business, is described below as a discontinued operation.

In the 2006 financial year, The Linde Group applied IFRIC 4 "Determining whether an arrangement contains a lease" for the first time, as it was mandatory from 1 January 2006. In addition, the classification of financing costs relating to pension obligations has been changed in accordance with IAS 19. As a result of the change in accounting disclosure the comparative periods have been adjusted ("Adjusted").

After a very positive business performance in 2005, The Linde Group also benefited in 2006 from good global economic conditions, achieving significant increases in sales and operating profit (EBITDA). Group sales, including KION and the BOC companies consolidated for the first time, rose 30.8 percent to €12.439 billion (2005: €9.511 billion). After adjusting for the effect of the acquisition, total sales in The Linde Group in the 2006 financial year increased by 10.6 percent to €10.516 billion. The Linde Group's participation in joint ventures gave rise to sales of €550 million in proportion to its interest, which under international accounting standards[1] may not be included in the figure for Group sales.

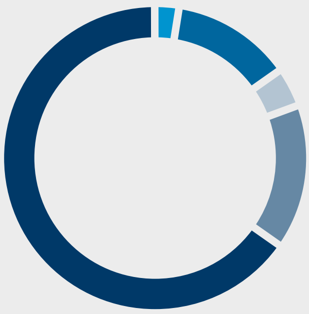
In Germany, we achieved sales growth of 12.1 percent to €2.144 billion (2005: €1.913 billion). Our sales outside Germany improved by 35.5 percent to €10.295 billion (2005: €7.598 billion).

Sales: Analysis by region

in € million	2006	2005[2]
Europe	8,121	6,787
North America	1,925	1,308
South America	492	404
Asia/Pacific	1,584	858
Africa	317	154

Sales by region (in percent)

Europe 65.3% (2005: 71.4%)
Asia/Pacific 12.7% (2005: 9.0%)
North America 15.5% (2005: 13.8%)
Africa 2.5% (2005: 1.6%)
South America 4.0% (2005: 4.2%)



Results of operations

The results of operations in the 2006 financial year were significantly affected by two non-recurring items: The book profit on the sale of the KION Group of €1.929 billion and exceptional charges arising from the acquisition and divestment processes. In the financial year, we have also made provisions of around €100 million for restructuring costs arising from the acquisition, which are intended to help achieve planned cost synergies from the merger with BOC of €250 million per annum, in full for the first time from the year 2009. The book profit and the exceptional charges arising from the sale of the KION Group have been allocated to discontinued operations.

Mainly as a result of the high book profit on the sale of KION, the Group operating profit (EBITDA) of €3.830 billion was almost twice the figure for the previous year of €1.705 billion. Earnings before taxes on income (EBT) of €2.527 billion were more than three times higher than the figure for 2005 of €808 million, while earnings after tax showed a corresponding increase from €523 million to €1.858 billion. Earnings per share increased from €4.30 to €13.30.

After adjusting for non-recurring items, we achieved a 30 percent increase in EBITDA to €2.216 billion. Of this, €340 million related to BOC.

Earnings per share 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 was €4.66.

The income statement prepared using the cost of sales method shows that The Linde Group made a gross profit of €3.892 billion (2005: €3.039 billion) in the 2006 financial year, after deducting the figure for the cost of sales.

[1] The expression "sales in proportion to its interest" used here relates to the proportion of sales arising from joint ventures attributable to The Linde Group, which may not be disclosed as sales under IFRS. We are providing this non-accounting information as an additional voluntary disclosure.

[2] Adjusted.

Other operating income rose in 2006 by 32.5 percent to €277 million (2005: €209 million). Other operating expenses also increased from €106 million to €147 million.

The income tax rate fell from 35 percent in 2005 to 26 percent in 2006.

The net financial result (financial income less financial expenses) was a loss of €271 million (2005: a loss of €145 million). This increase was mainly due to the financing costs for the acquisition of The BOC Group.

Results of operations

	2006		2005 [1]	
	in € million	in %	in € million	in %
Sales	12,439	100.0	9,511	100.0
Cost of sales	8,547	68.7	6,472	68.0
Gross profit on sales	3,892	31.3	3,039	32.0
Marketing and selling expenses	1,718	13.8	1,314	13.8
Research and development costs	201	1.6	172	1.8
Administration expenses	954	7.7	704	7.4
Other operating income	277	2.2	209	2.2
Other operating expenses	147	1.2	106	1.1
Income from associates and joint ventures	35	0.3	1	0.0
Non-recurring items	1,614	13.0	0	0.0
Financial result	–271	–2.2	–145	–1.6
Earnings before taxes on income (EBT)	2,527	20.3	808	8.5
Taxes on income	669	5.4	285	3.0
Earnings after taxes on income	1,858	14.9	523	5.5
Attributable to minority interests	20	0.1	9	0.1
Attributable to Linde AG shareholders	1,838	14.8	514	5.4

[1] Adjusted.

Sales and EBITDA by business segments

	2006		2005 [1]	
in € million	Sales	EBITDA	Sales	EBITDA
Gases Division	6,195	1,540	4,448	1,104
Engineering Division	1,863	153	1,623	117
Other activities [2]	55	–107	–187	–89
Discontinued operations and disposals	4,326	630	3,627	573
Group	**12,439**	**2,216**	**9,511**	**1,705**

[1] Adjusted.

[2] Including consolidations.

Gases Division

Following the acquisition of BOC by Linde, we have combined the gases activities of the former BOC Group and the Linde Gas division and grouped them together in our new Gases Division. In the 2006 financial year, due to the reorganisation of the Group, we no longer disclose consolidated earnings for the Gases and Engineering Divisions. The consolidation adjustments for the two divisions are allocated to Other activities.

During the financial year, the Gases Division achieved sales growth of 39.3 percent to €6.195 billion (2005: €4.448 billion). After adjusting for the consolidation of BOC, the increase in sales was 8.2 percent. Sales in proportion to the Gases Division's interest in joint ventures amounted to €550 million in 2006.

Operating profit (EBITDA) rose 39.5 percent to €1.540 billion (2005: €1.104 billion). Excluding BOC, EBITDA was 11.0 percent above the prior year figure.

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

Gases Division

in € million	2006	2005 [1]
Sales	6,195	4,448
EBITDA	1,540	1,104
Capital expenditure (excluding financial assets) [2]	808	671
Number of employees	39,142	17,783
Sales from joint ventures	550	36

[1] Adjusted.

[2] Excluding the acquisition of BOC.

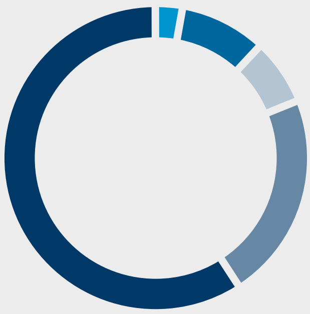
Sales by region

in € million	2006	2005 [1]
Europe	3,667	3,028
North America	1,372	895
South America	420	345
Asia/Pacific	573	178
Africa	163	2

[1] Adjusted.

Sales by region (in percent)

Europe 59.2% (2005: 68.1%)
North America 22.2% (2005: 20.1%)
South America 6.8% (2005: 7.8%)
Asia/Pacific 9.2% (2005: 4.0%)
Africa 2.6% (2005: 0.0%)



Europe

In Europe, sales in the 2006 financial year rose 21.1 percent to €3.667 billion (2005: €3.028 billion). Excluding BOC, we achieved an increase in sales of 9.3 percent. Sales in proportion to the Engineering Division's interest in European joint ventures amounted to €31 million. The most dynamic markets were those in Eastern Europe and Germany. In the UK, we benefited from the high level of demand for industrial gases from the steel and chemical industries.

We took account in 2006 of the growing demand for hydrogen in Germany. We are therefore building a second steam reformer (see glossary) for the production of gaseous hydrogen on the Burghausen site, directly adjacent to an existing plant of the same type. The capital outlay was more than €20 million. The new plant, which should come on stream at the beginning of 2008, will provide our customers OMV Deutschland GmbH and Wacker Chemie AG in Burghausen with additional gaseous hydrogen as well as steam. The companies will therefore be able to continue to meet the rising demand, as a result of increased production capacity, for low-sulphur mineral oils (OMV) and silicon compounds (Wacker, e.g. in the production of solar cells).

In addition, September 2006 saw the official opening of a new semi-conductor gases production centre in Unterschleißheim in Germany, which will ensure supplies of specialty gases to European customers in the semi-conductor, solar cell and optoelectronics industries. This ultra-modern plant will enable us to meet the increase in demand from our customers through our subsidiary Linde Nippon Sanso.

Our noble gases business is also continuing to grow, given the reduced availability of these valuable products worldwide. Therefore, we are in the process of building a new argon recovery plant at a cost of more than €20 million at Air Separation Plant 8 of our Leuna gases production centre in Germany. Linde requires additional quantities of argon in order to meet the rise in demand for this noble gas in Germany and in Southern and Eastern Europe. The new argon plant will produce just under 15 tons of argon per annum and will provide supplies to our companies in Switzerland, Italy and Romania for their local customers.

In the glass industry, we are currently building an additional ECOVAR® on-site CRYOSS®-O 1500 plant for the production of gaseous oxygen and nitrogen in Jena, Germany, for our customer Schott Displayglas Jena GmbH. The plant will probably come on stream in the first quarter of 2007, supporting the customer's production of heat-resistant household and display glass.

In the Netherlands, we are involved in a major on-site supply project for Corus, one of the ten largest steel companies in the world. At its site in Ijmuiden, we are building a big new air separation plant for the production of gaseous oxygen, nitrogen, argon and raw krypton and xenon. Our Dutch subsidiary, Hoek Loos, already runs four air separation plants for Corus in Ijmuiden. The new €75 million investment will ensure security of supply for the customer, even when proposals to expand production are implemented. The new air separation plant, which will come on stream from the middle of 2009, will be the biggest on-site plant of its type operated by Linde itself.

We also renewed our agreement with Corus for the supply of liquefied gases to plants in the UK. Under the terms of a new contract, we will also supply liquefied nitrogen to the new Corus heat treatment plant in Corby.

We are currently developing a pipeline concept for Celsa Steel UK, the largest steel-producer in the UK, for the future supply of oxygen to its new smelting plant in Cardiff, Wales, which is currently under construction.

We have also been awarded a number of major contracts in the UK for the supply of nitrogen to Exelerate Energy, Huntsman Petrochemicals and Outokumpu Stainless Ltd.

We are building an ECOVAR® CRYOSS® N 1800 plant for the Europe-wide carbon fibre producer SOFICAR at its manufacturing site in Abidos, France, and will be supplying the customer with nitrogen from this plant from the end of 2007.

On 1 August 2006, the acquisition of the Turkish industrial gases company Karbogaz A.S. by Linde was completed following the receipt of clearance from the appropriate competition authorities. The acquisition of Karbogaz strengthens our position in an up-and-coming region and reinforces our market leadership in Europe. With annual sales of about €27 million and around 230 employees, Karbogaz is one of the major gases suppliers in Turkey, the biggest national market for industrial gases in South-east Europe and in the Middle East, and the regional market leader in the expanding carbon dioxide product area.

America/Africa

In the course of 2006, we were also able to expand our business in the Americas. Sales in North America rose by 53.3 percent to €1.372 billion (2005: €895 million). Excluding the BOC consolidation, the increase was 3.0 percent. Positive trends were seen in all the product areas.

Sales in South America rose by 21.7 percent in the 2006 financial year to €420 million (2005: €345 million). Sales in proportion to the interest of the Gases Division in American joint ventures amounted to €188 million. All the product areas achieved sales growth.

In Africa, we are represented principally by the former BOC subsidiary African Oxygen Limited (Afrox). Sales here rose from €2 million to €163 million.

In the United States, a major on-site supply contract was signed with the steel company SeverCorr LLC for a new steelworks in Columbus, Mississippi. Under the agreement, our subsidiary Linde Gas LLC will make a capital investment of more than €25 million to build a new air separation plant and will be supplying the customer with the gases nitrogen, oxygen and argon from the middle of 2007. The new plant will also produce liquefied gases, which will be used both as a back-up for the customer and to supply the regional market.

BOC Gases is constructing two new air separation plants in the United States. The plants each have a capacity of a total of 700 tons of liquefied oxygen and liquefied nitrogen per day and are currently being built on the Cartersville site in Georgia and the Beloit site in Wisconsin. The Cartersville plant is due for completion in the third quarter of 2007, while work on the Beloit plant will finish by the end of 2007. The products from both plants will be delivered by tanker to hospitals, food production plants and chemical companies. The Cartersville plant will deliver to Alabama, Georgia, South Carolina and Tennessee, while the Beloit plant will deliver to Wisconsin, Illinois and Iowa.

In 2006, against a background of ever-increasing fuel purity requirements, BOC Gases has built three hydrogen plants with a total capacity of around 5.0 million standard cubic metres per day on the refinery sites Toledo and Lima, both in the state of Ohio, and in Salt Lake City, Utah. The hydrogen is used by various petrochemical companies in the production of desulphurised fuels.

In Fulton, New York, BOC Gases is currently constructing a CO_2 plant with a capacity of 600 tons per day. The plant is due for completion in December 2007 and will be used principally to supply customers in the food and drinks industry and in the chemical industry. A second CO_2 plant is being built on the Hebbronville site in Texas. This plant will have a capacity of around 150 tons per day and will come on stream in summer 2007. The CO_2 will be supplied to customers in the rapidly-growing oil and gases industry in southern Texas.

We were also able to improve our market position in South America, with major projects especially in the steel and petrochemical industries. An example of this is that we are a building a large new air separation plant for the steel-manufacturer Gerdau in Santa Cruz, Rio de Janeiro, Brazil, which will also produce liquefied products for the regional market.

In Ecuador, we are constructing an ECOVAR® on-site system for the production of oxygen in the metallurgy (see glossary) complex of the company ANDEC in Guayaquil, which is required mainly in the production of reinforced steel girders in the construction industry. This system is based on a containerised pressure swing adsorption plant (ADSOSS®-O C 600), which we recently developed with the Engineering Division.

In Venezuela, we are strengthening our position with an investment of more than €20 million in a large new air separation plant in the most important petrochemical development area in the country, the José petrochemical complex in Barcelona. The plant is due to come on stream at the beginning of 2008 and will not only supply the regional market with liquefied oxygen and nitrogen, but will also have the capacity to supply various customers in the José complex with gaseous nitrogen. The new air separation plant will create very good prospects for us in Venezuela in a strategically important petrochemical industrial area.

In 2006, to reinforce the positive business trends in our African subsidiary Afrox, we set up a three-year €32 million capital spending programme.

Under this programme, we are planning to construct six new gas production plants, so that we are able to provide an even better service for our cylinder and bulk business customers. The production plants will be built at the following sites in South Africa: Scaw Metals, Mondi, Xstrata, Sasolburg, Pietermaritzburg in KwaZulu Natal and Kuils River on the Western Cape.

Major customers for bulk business in Africa include the chemical industry, oil refineries, the food industry, metallurgy and glass production as well as gold-mining. Our cylinder gas business serves customers in a variety of industry sectors, including the scientific and medical fields.

In the area of welding gases, we have seen the highest level of incoming orders for almost 30 years from our customers, especially those in the car industry. In order to meet the rising demand for welding gases in Africa, we have pressed ahead as planned with the modernisation of our South African gases operations centre in Germiston, near Johannesburg. This is due for completion at the end of 2007. Around half of our industrial cylinder gases in Africa are produced on the Germiston site.

At the same time in 2006, we have invested €5.4 million in the modernisation of our welding consumables manufacturing infrastructure. We intend to double the capacity of our factory in Brits, in South Africa's Northwest Province, the largest welding consumables plant in the southern hemisphere.

Asia/Pacific

In the Asia/Pacific growth region, the Gases Division more than trebled its sales from €178 million in 2005 to €573 million in 2006. After adjusting for BOC, the increase in sales was 8.0 percent. Sales in proportion to our interest in joint ventures in the Asia/Pacific region amounted to €329 million. Business in this market continues to be buoyant as a result of the high level of economic dynamism in China and India. The Australian economy is also continuing to grow. Against this background, the market for industrial gases and related equipment has grown at a very rapid rate in this region.

In collaboration with our Chinese joint-venture partner, the Shanghai Coking & Chemical Corporation, we have concluded a long-term supply agreement with Bayer Polyurethane (Shanghai) Ltd. Co. The 15-year agreement for the supply of hydrogen and carbon monoxide provides for the construction and operation of an on-site plant on the site of the Bayer factory in Shanghai Chemical Industry Park in Caojing near Shanghai. The investment volume is around €60 million. Hydrogen and carbon monoxide are used here mainly in the manufacture of polyurethane (see glossary) base materials. PU is a versatile high-performance plastic, used for example in consumer goods and cars as well as in the construction industry. Linde and Shanghai Coking have been working together for a number of years on the production of hydrogen, carbon monoxide and carbon dioxide, as well as on cryogenic technologies. The first on-site plant of the same type has been in operation since the middle of 2006, supplying Bayer in Caojing. The joint venture, Shanghai HuaLin Industrial Gases Co. Ltd, which will complete the new plant in Caojing by the middle of 2008, will become the leading supplier of these gases at one of China's largest and most dynamic chemical sites. Bayer Polyurethane (Shanghai), Linde and Shanghai Coking have already entered into a cooperation agreement for future capacity expansion on the Bayer factory site.

In the 2006 financial year, BOC Gases entered into long-term supply contracts with Sinopec Shanghai Petrochemical Company (SPC) and Sinopec Petrochemical Corporation in Qilu (QLSH) through joint ventures in China. In both cases, we are providing the customers with various gases from our own air separation plants.

We also built two air separation plants for Taiyuan Iron and Steel Co Ltd. (TISCO) with a capacity of 1,400 tons of oxygen per day. This increases the total capacity of the plant complex to 3,800 tons per day. TISCO uses the oxygen in the manufacture of steel. In 2007, we will complete a further three air separation plants, each with a capacity of 1,400 tons of oxygen per day, for the Chinese company Ma Steel and for Shanghai Petrochemical Co. Ltd.

In addition, we have started work on the supply of gases to two Chinese industrial parks in Nanjing and Ningbo. The Linde Group now supplies gases to a total of twelve large industrial parks in China.

During the year, we have taken account of the ever-increasing demand for high-grade specialty gases in Asia by making significant investment in this area. Linde has built China's first specialty gas plant for the electronics industry in Suzhou High Tech Park, 70 kilometres west of Shanghai, one of the most modern of its kind in the world. The plant was officially opened in May 2006. Since then, it has been supplying wafer (see glossary), LCD and LED manufacturers and other companies in the optoelectronics industry from China, Taiwan and Korea, as well as in Singapore, Japan, Malaysia and Australia. In the 2006 financial year, BOC also opened a specialty gases plant at the Wellgrow site in Bangpakong near Bangkok, in Thailand.

In India, BOC completed the construction of an air separation plant for JSW Steel Ltd, the country's second largest privately-owned steelmaker. The total capacity of the plant, which produces oxygen, nitrogen and argon, is 1,400 tons per day. In addition, the plant on the Bellary site in the south of India will produce 200 tons of liquefied products per day for a variety of customers. Currently, we are in the course of building another air separation plant with a capacity of 4,500 tons per day for JSW. This second air separation plant is due to come on stream in 2008.

Map Ta Phut Industrial Gases Production Co. Ltd. (MIGP), a joint venture between our subsidiary Thai Industrial Gases Public Company Ltd. (TIG) and Bangkok Industrial Gas Company Ltd., has completed the construction of an air separation plant in the Map Ta Phut industrial park with a capital outlay of around €44 million. Several of the biggest Thai chemical companies are located in this industrial park. The plant has a capacity of 1,300 tons of oxygen per day and is used to supply our customer TOC Glycol Ltd. as well as TIG with liquefied products.

In Singapore, we are investing around €14 million in the expansion of the synthesis gas plant for Linde Syngas Singapore P.L., to ensure the supply of large quantities of carbon monoxide to Lucite International Singapore Pte under a long-term supply agreement. The customer requires carbon monoxide to manufacture base materials for plastics (methylmethacrylate) at the company's site on Jurong Island, one of the largest integrated petrochemical complexes in South-east Asia. The product will be delivered to Lucite via an existing pipeline, which we are currently using to supply the neighbouring chemical company, Celanese.

In 2006, we succeeded in entering the Vietnamese market with an on-site project. We are building a new air separation plant for the Vietnamese steel company Thep Viet Co. Ltd. in Ho Chi Minh City under the terms of a long-term supply contract. From around the middle of 2007, we will provide the customer with gaseous oxygen and argon for its new steelworks using a pipeline. The plant will also produce liquefied products for the regional market in South Vietnam. Our market position in this part of South-east Asia is being strengthened as a result.

Our subsidiary in the Philippines, Consolidated Industrial Gases Inc., completed four on-site plants in 2006 for three major customers in the electronic gases sector. The capital outlay was around €3.5 million.

To reinforce our position as a world leader in the production of the noble gas helium, we started preliminary work in the 2006 financial year on the first helium plant in the southern hemisphere. The plant will be built in 2007 in Darwin, Australia. This will enable us not only to supply the Australian market, but also to boost the export of helium to the Asian growth market.

In 2006, the Gases Division was awarded a contract by Australian Paper to supply oxygen and ozone to a paper factory in Maryvale, Victoria, Australia.

Under this contract, we will build a second air separation plant with a capacity of 42 tons of oxygen per day, which will supplement the existing BOC Gases plant. Next to it, we will construct a plant for the production of 135 kg of ozone per hour, our first large-scale ozone plant in the South Pacific. The plants should be completed by the end of 2007.

Growth also in our product areas

We saw positive business trends during the financial year at the product area level as well. Our on-site business, where we supply industrial gases to the customer from plants situated directly on the user's site, was one of the most important growth areas world-wide for the Gases Division. In 2006, we again achieved significant growth in sales of 46.1 percent to €1.490 billion (2005: €1.020 billion). After adjusting for BOC, the growth in sales was 13.8 percent.

Sales in the bulk business increased by 47.2 percent to €1.788 billion from €1.215 billion in 2005 (9.3 percent excluding BOC), while sales in the cylinder business rose 36.7 percent from €1.644 billion in 2005 to €2.247 billion in 2006 (or 6.1 percent excluding BOC).

The Healthcare or medical gases business is becoming increasingly important to Linde. Once again, there was double-digit growth in sales in the 2006 financial year, with sales increasing by 19.3 percent to €848 million (2005: €711 million). After adjusting for the consolidation of BOC, the growth in sales was 6.9 percent.

Our healthcare activities are grouped together in the Linde Gas Therapeutics business unit. This business unit includes the following sections: Institutional (which supplies medical and therapeutic gases and equipment to hospitals), Respiratory Homecare (which provides care for patients in their own homes) and INO Therapeutics (which markets INOmax® for the treatment of term and near-term neonates with certain pulmonary disorders).

Sales in the Institutional section rose 21.8 percent to €509 million (2005: €418 million). In this segment, the quality, safety and precision requirements for medical gases increased still further. Stricter official standards in both Europe and other parts of the world meant that medical gases were subject to the same high standards as those for any other pharmaceutical. We are able to meet these specifications for our pharmaceutical business by targeted investment along the entire value added chain – from production and distribution via quality control to medical support. Meanwhile, our medical oxygen is being approved in more and more countries as a pharmaceutical. In future, we will be supplying this pharmaceutical under the brand name CONOXIA®. With CONOXIA®, we can guarantee both patients and doctors safe, reliable and simple application, meeting all the quality criteria of a registered pharmaceutical.

In the Respiratory Homecare section, we saw a significant 17.4 percent increase in sales to €209 million (2005: €178 million). In this segment, we provide over 100,000 patients in more than 30 countries with oxygen therapy, sleep therapy, aerosol therapy and ventilation therapy used to treat respiratory diseases. We are constantly developing new service solutions in this field. The most recent example of this is the innovative REMEO® concept, launched in 2006. The integrated REMEO® concept plugs the gap between providing long-term assisted ventilation for patients in hospital and providing it at home. REMEO® contributes to improving the quality of life of patients and their families, while at the same time creating potential cost-savings for medical insurance companies. As a result of positive experiences with REMEO® assisted ventilation centres and rehabilitation centres in Germany, we are now extending the concept to other countries.

Sales of products in the INO Therapeutics section rose during the year by 13.0 percent to €130 million (2005: €115 million). This was due in part to positive sales trends in Canada. In 2005, INOmax® was approved there as a pharmaceutical. INOmax® was also successfully launched in that year in South America.

Gases Division: Sales by product area

in € million	2006	2005[1]	Change	Excluding BOC Change
Cylinder	2,247	1,644	36.7%	6.1%
Bulk	1,788	1,215	47.2%	9.3%
On-site	1,490	1,020	46.1%	13.8%
Healthcare	848	711	19.3%	6.9%
Total (consolidated)	**6,195**	**4,448**	**39.3%**	**8.5%**

[1] Adjusted.

Engineering Division

In 2006, the Engineering Division continued on the profitable growth course set in the record year of 2005. Sales of €1.863 billion were around 15 percent higher than the prior year figure of €1.623 billion.

Following the BOC acquisition, BOC's Cryostar Group was included in the Engineering Division. After adjusting for the BOC acquisition, the increase in sales was 12.3 percent. Operating profit (EBITDA) grew by 30.8 percent to €153 million (2005: €117 million).

In the 2006 financial year, we once again exceeded the exceptionally high level of incoming orders and orders on hand achieved in 2005. Incoming orders rose from €2.913 billion to €2.992 billion. This is evidence of continuing strong demand in the four main operating areas (olefin plants, natural gas plants, air separation plants, hydrogen and synthesis gas plants). It also underlines the universally acknowledged technological competence of the Engineering Division. Against this background, we even achieved a new record level of orders on hand at €4.518 billion (2005: €3.305 billion).

Engineering Division

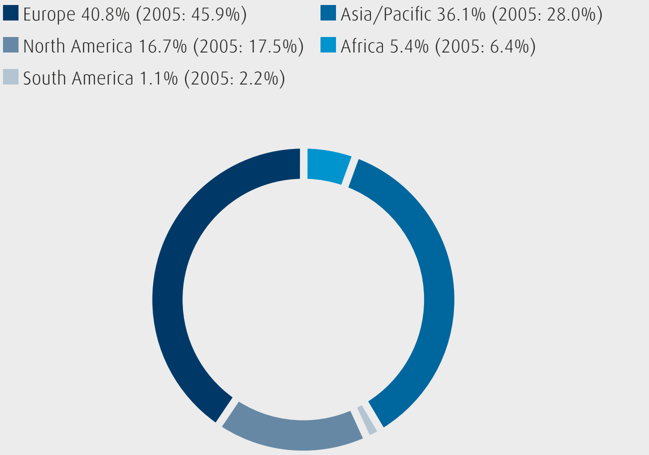
in € million	2006	2005
Sales	1,863	1,623
Incoming orders	2,992	2,913
Orders on hand	4,518	3,305
EBITDA	153	117
Capital expenditure (excluding financial assets)	31	23
Number of employees	5,166	4,408

We were able to expand our industrial plant construction business in all the major world markets. Fresh impetus even came from the European region, where we had seen a decline in sales in 2005. Sales here increased to €758 million (2005: €744 million). The proportion of incoming orders from Europe was 27 percent.

Sales by region

in € million	2006	2005
Europe	758	744
North America	311	284
South America	20	36
Asia/Pacific	673	455
Africa	101	104

Sales by region (in percent)



As a result of the expansion of production capacity in the chemical and petrochemical industries in the oil-producing countries, the Engineering Division again performed exceptionally well in the Middle East. In the course of 2006, we obtained orders worth a total of €1.085 billion. Our sales in the region increased by 89 percent to €321 million.

Around 60 percent of the Engineering Division's incoming orders were from the Asia/Pacific region. Sales in this region rose in the 2006 financial year from €455 million to €673 million.

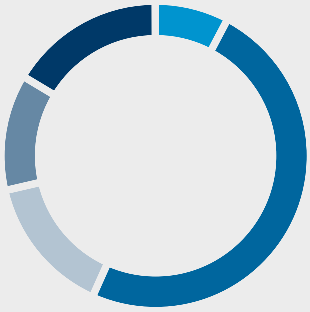
9 percent of incoming orders came from North America. There was a 9.5 percent increase in sales in this region to €311 million (2005: €284 million).

The proportion of incoming orders from South America was 3 percent. However, the sales figure for this region of €20 million, based on invoices, was below the prior year figure of €36 million.

Air separation plants comprised the highest proportion of incoming orders in all the regions, at 48.9 percent of the total. In 2006, olefin plants comprised 16.4 percent, hydrogen and synthesis gas plants 14.7 percent and natural gas plants 12.4 percent of incoming orders.

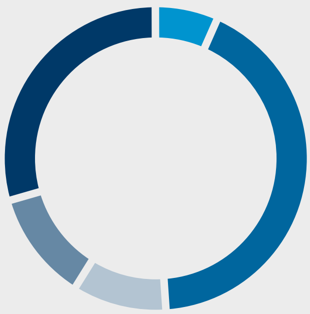
Incoming orders by plant type

- Olefin plants 16.4% (2005: 43.6%)
- Natural gas plants 12.4% (2005: 7.9%)
- Synthesis gas plants 14.7% (2005: 8.2%)
- Air separation plants 48.9% (2005: 32.3%)
- Other 7.6% (2005: 8.0%)



Orders on hand by plant type

- Olefin plants 29.5% (2005: 43.3%)
- Natural gas plants 11.7% (2005: 8.4%)
- Synthesis gas plants 10.0% (2005: 6.7%)
- Air separation plants 42.4% (2005: 31.9%)
- Other 6.5% (2005: 9.7%)



Olefin plants: Increased demand from the Middle East

As a result of the cost benefits of oil and gas in the Middle East, most of the new olefin plants are currently being built there. These plants produce mainly ethylene and propylene – important gases for the production processes in the petrochemical industry. The Engineering Division of The Linde Group is one of the leading world providers of olefin plants.

We were able to continue to reinforce this strong position in the 2006 financial year with a number of new orders. One of these was a contract awarded during the year by Saudi Ethylene and Polyethylene Company (SEPC), a Saudi Arabian joint venture, for the construction of an olefin plant on the Al Jubail site, where the source materials ethane and propane are processed. The order is worth around €300 million.

With a number of orders for cracking furnaces (see glossary) from Germany, Abu Dhabi, Thailand and China, we have once again demonstrated our technological leadership in this key element of olefin technology.

In 2006, the Engineering Division also successfully brought on stream in Saudi Arabia the first commercial alpha olefin plant using the α-Sablin process for the Jubail United Petrochemical Company (UNITED), a subsidiary of the Saudi Basic Industrial Corp. (SABIC). The plant uses new technology developed jointly by SABIC and Linde. The order is worth around €200 million. Linde also expanded the ethylene capacity of a steam cracker (see glossary) for the Jilin Chemical Industrial Corporation (JCIC) at the Jilin site in China from 350,000 tons per annum to over 700,000 tons per annum and successfully brought it on stream.

At the beginning of 2006, we completed two new ethylene cracking furnaces for the OMV refinery in Schwechat, Austria. A newly-designed burner was used in the furnaces. At 60 milligrams per cubic metre, its nitrogen oxide emissions are substantially below the statutory limit of 100 milligrams per cubic metre.

The Linde Group was also awarded a contract by Sasol in South Africa to supply another alpha olefin plant at the Secunda refinery site near Johannesburg. This new plant has an annual production capacity of 100,000 tons of octene and is the sixth alpha olefin plant to be built by the Engineering Division in Secunda. The plant is due to be completed in the third quarter of 2007. The order is worth around €170 million. The product will be used as a co-monomer in the production of ethylene, as is the case for the alpha olefin plants currently operated by Sasol.

Natural gas plants: The market for small LNG plants is gaining in importance

The positive trends in 2005 in the field of natural gas processing also continued in 2006. We obtained orders from all over the world for natural gas separation and liquefaction plants, i. e. LNG (Liquefied Natural Gas) plants.

The Engineering Division is currently building an LNG plant for Wesfarmers in Australia for around €40 million. This plant is a further example of the fact that the liquefaction of natural gas will offer an economically attractive alternative to the conventional method of transporting natural gas by pipeline, particularly where the construction of pipelines is not viable, due to either distance or topology. The Wesfarmers plant is due for completion in the first quarter of

2008 and will have a production capacity of around 60,000 tons of liquefied natural gas per annum. It will boast an ultra-modern cooling circuit with low energy consumption. This contract is another important step for the Engineering Division which will enable us to share in the lucrative growth market for small LNG plants, which are used in particular in regions which do not have access to a gas distribution system. We see great potential for follow-up orders in this area, especially in countries with remote production areas.

The Linde Group is to build an LPG plant at a cost of over €70 million for the Romanian company, Petrom S. A., the largest oil and gases producer in South-eastern Europe, to extract Liquefied Petroleum Gas from natural gas. The new plant will be delivered to Petrom in the second half of 2008 and will replace an existing plant. By applying the most modern technology, the plant will be able to achieve annual production of over 100,000 tons of LPG, which will be separated from natural gas in a very energy-efficient manner with an output of up to 99 percent. This new contract strengthens the position of The Linde Group in the Eastern European growth market. Romania, in particular, which joins the European Union in 2007, offers great potential for further projects.

The leading position of our subsidiary Selas Linde, which produces components for LNG plants, such as LNG vaporisers, has been reinforced by orders from Technip in France for an LNG project in Yemen and from our long-standing customer Chiyoda for an LNG project in Qatar.

Work on Europe’s northernmost LNG plant in Hammerfest off the Norwegian coast has progressed on schedule. During 2006, we completed the mechanical construction of the processing plant for our customer Statoil, made preparations for the plant coming on stream and started operating the first sub-systems. This involves bringing on stream the five gas turbines which provide the energy required to run the LNG plant, whilst keeping emissions to a minimum. The air separation plant, which was developed and built by Linde and which supplies gaseous nitrogen to the whole complex on the island of Melkøya, has also been brought successfully on stream.

In preparation for its commissioning, the plant will be pre-cooled with LNG delivered to the site.

The LNG plant in Hammerfest is due to commence normal commercial operations at the end of 2007 and will supply 4.3 million tons of LNG per annum. The total contract is worth over €800 million to Linde.

We also made significant progress in the field of helium recovery plants. In June 2006, after a successful performance test, we transferred the plant commissioned by Helison Production S. p. A. for the recovery, purification and liquefaction of helium to the customer. The plant on the Mediterranean site of Skikda in Algeria produces around 19 million cubic metres of helium per annum. The plant also produces 100 tons of liquefied nitrogen and 40 tons of gaseous nitrogen per day.

Air separation plants: Record order from Qatar

In the 2006 financial year, Linde was awarded the biggest ever contract in the world for air separation plants by Qatar Shell GTL Ltd. and Qatar Petroleum. Linde will construct eight large air separation plants in total, which will supply oxygen to the Pearl Gas-To-Liquids (GTL) plant in Qatar, the biggest integrated complex of its type in the world. The plants will deliver around 860,000 cubic metres of oxygen per hour.

Our customer Wuhan Iron & Steel (Group) Corp. (WISCO), with whom we have been working for four decades, awarded Linde the contract to build two air separation plants, each with a capacity of 60,000 cubic metres of oxygen per hour. The plants are due to be completed in 2008. This long-standing customer has already commissioned Linde to construct ten large-scale plants.

In Bokaro in India, the Engineering Division obtained a contract from INOX AP to build an air separation plant with a capacity of 32,000 tons of oxygen per hour. The plant should be completed in 2008. Also in India, we are building an air separation plant for BOC India Ltd, which will have a capacity of 50,000 tons of oxygen per hour. This plant on the Vijayanagar site will be delivered to the customer in 2008 as well. We were also awarded a contract by Jindal Stainless Ltd. to build an air separation plant on the Hisar site in India. Completion of this plant is due in 2007. These three contracts highlight the high demand for gases in the rapidly growing Indian steel industry.

In Mexico, Linde successfully brought on stream in 2006 the fifth strand of the air separation plant for the petroleum group PEMEX (Petroleos Mexicanos), increasing nitrogen production by 25 percent. PEMEX forces the nitrogen into an oil field in order to increase the quantity of oil produced. The on-site plant is operated by our Gases Division.

In Europe, The Linde Group was awarded the contract to build an air separation plant in Ijmuiden in the Netherlands by the steel and aluminium producer Corus. The contract is worth €75 million and is being managed by Linde’s Dutch subsidiary, Hoek Loos B. V. The plant is due to be completed in the middle of 2009. The new air separation plant is replacing four old Linde plants.

Hydrogen and synthesis gas plants

Against a background of ever more stringent statutory requirements regarding the purity of fuels, the world market for hydrogen plants has continued to grow rapidly. Hydrogen is used, for example, in the desulphurisation of petrol and diesel.

In 2006, Linde obtained contracts for several plants with a total capacity of 300,000 cubic metres of hydrogen per hour. This positive trend in orders was due mainly to the Asian and European markets.

Reliance Industries, the biggest refinery operator in India, awarded Linde a contract for another large hydrogen plant. The order was worth around €30 million. Over the past few years, Reliance has commissioned seven hydrogen plants from Linde.

The Total refinery in the Netherlands awarded us the contract to build a turnkey hydrogen plant on the Vlissingen site. The plant supplies 25,000 cubic metres of high-purity hydrogen per hour and the total investment volume is around €35 million.

In terms of raw materials for synthesis gas plants, coal is becoming more important as a fuel source, due to the high prices of crude oil and natural gas, with synthesis gas being produced from coal gasification. Against this background, we are building a gas purification pilot plant for Shell in China. Gas purification plants are an important part of future Coal to Liquid projects to convert coal into liquid fuels.

During the year, The Linde Group and its Chinese joint venture partner, Shanghai Coking & Chemical Corporation, entered into a long-term supply agreement with Bayer Polyurethane Shanghai Ltd Co. The agreement covers a period of 15 years and involves the construction of a hydrogen plant on the site of the Bayer works in the Shanghai Chemical Industry Park in Caojing, near Shanghai. Our Gases Division will assume responsibility for the supply of hydrogen and carbon monoxide, and the order is worth around €60 million. A synthesis gas produced by Shanghai Coking & Chemical Corporation using environmentally friendly coal gasification is used as the raw material here. Bayer Polyurethane Shanghai, The Linde Group and Shanghai Coking have also agreed to collaborate on the future expansion of capacity on the site of the Bayer works.

With a further order obtained from the Formosa Group (FPC) in Taiwan, we were able to continue to strengthen our level of co-operation with this major customer. FPC awarded us the contract to supply a plant for the production of oxogas based on the partial oxidation (POX) of the raw material naphtha. This contract highlights our leading position in the field of POX plants. We were also awarded contracts from Japan and Singapore to build plants for the cryogenic purification and separation of carbon monoxide.

Our subsidiary Linde BOC Process Plants (LBPP) constructed a hydrogen plant for BOC on the Toledo site in Ohio in the United States. The customers to whom we supply hydrogen from this site include the oil company BP.

Other activities

Other activities comprises not only the Gist Division, our logistics services business, and our subsidiary Cleaning Enterprises (environmentally-friendly dry-cleaning using carbon dioxide), but also the costs of central functions and adjustments arising from the consolidation of the Gases and Engineering Divisions. The expenses arising from the acquisition of The BOC Group (non-recurring costs and provisions for restructuring) have also been allocated to this category.

In the Gist Division, from the date the business was first consolidated on 5 September 2006, we achieved sales of €196 million.

Compared to the previous year, Gist continued to improve transport volumes for our customer Dutch Flower Group, the world market leader in floristry. Gist also expanded its business with British Airways, as a result of a contract for the supply of duty-free and other goods.

One of our major customers, Marks & Spencer, a retail chain with a network of over 450 stores in the UK, increased the number of its Simply Food shops during the year. Given the rise in transport volumes as a result, Gist opened its seventh supply depot near Bristol in the UK.

We are also setting up the largest RFID (Radio Frequency Identification – see glossary) project in Europe for Marks & Spencer. The aim is to move half of all Marks & Spencer's chilled foods in Gist supply depots in 2007 using RFID technology, which allows data relating to goods in transit to be read and processed by radio. This will enable significant improvements in material handling in the warehouses.

We have collaborated effectively with Marks & Spencer for a number of years and will continue to do so in future. This major customer renewed its contract with Gist in November 2005 for a further six years. We have also extended our contract with the Danish brewery Carlsberg for a further five years until 2011. We have opened a number of new warehouses in Leeds in the UK in order to deal with the increased transport volumes being generated by Carlsberg.

Discontinued operations and disposals

KION Group

In the course of its restructuring during the 2006 financial year, Linde AG, Wiesbaden, sold its Material Handling division KION Group at a price of around €4 billion to a consortium comprising the financial investors Kohlberg Kravis Roberts & Co. (KKR) and Goldman Sachs Capital Partners. Following the receipt of unconditional approval from the appropriate competition authorities on 22 December 2006, the transaction was completed on 28 December 2006 in accordance with the letter of the law.

In the past year, the KION Group has been able to benefit from the positive market environment. Following its good business performance in the year 2005, the KION Group also achieved increases in sales and earnings in 2006. Sales rose 10.8 percent to €4.020 billion (2005: €3.627 billion). The KION Group achieved a 6.6 percent increase in operating profit (EBITDA) to €611 million (2005: €573 million). Incoming orders in 2006 improved by 13.3 percent to €4.290 billion (2005: €3.787 billion). This positive trend was shown by all three brands.

The world market for industrial trucks was boosted in the 2006 financial year by a rise in demand in all the regions, which led to double-digit growth. In the important European sales market, the KION Group achieved sales of €3.492 billion (2005: €3.157 billion), thereby reinforcing its leading market position.

Business trends in North America were also good, despite initially difficult market conditions. Sales here improved by 5.6 percent to €151 million (2005: €143 million). In the main Asian growth market, China, where the KION Group is represented by the Linde and OM brands, sales rose 17.6 percent to €120 million (2005: €102 million).

BOC Edwards

While we concentrate on our industrial gases business, we are reviewing the strategic options for the disposal of the BOC Edwards components business. We will, however, be keeping the bulk business and electronic gases business of BOC Edwards, integrating them into the reorganised Linde Group.

In the period since it was first consolidated on 5 September 2006 to the year-end, the BOC Edwards components business achieved sales of €306 million.

Disposals as a result of conditions imposed by the competition authorities

As a result of one of the antitrust conditions imposed by the US Federal Trade Commission (FTC) in connection with the acquisition of The BOC Group plc by Linde, the Group had to sign a binding agreement to sell part of its bulk business in the United States at a price of €376 million to the industrial gases company, Airgas Inc. The transaction is subject to the approval of the FTC.

The Group has also sold Linde's Australian gases activities (Linde Gas Australia) at an enterprise value equivalent to around €300 million to the Australian company Wesfarmers Energy Ltd. The disposal of Linde Gas Australia was one of the conditions imposed by the competition authority, the Australian Competition & Consumer Commission (ACCC), on the acquisition of The BOC Group plc by Linde.

Linde has also sold its 45 percent share in the joint venture Japan Air Gases Ltd, Tokyo, subject to the approval of the appropriate competition authorities, to the French industrial gases company Air Liquide. The sale price was €590 million. Air Liquide has until now held the majority (55 percent) of the shares in Japan Air Gases. The restructuring of certain joint ventures in the Asia/Pacific region was one of the conditions imposed by the European Commission for its approval of the acquisition of The BOC Group plc by Linde. Linde committed itself to terminating some of the joint ventures between BOC and Air Liquide as required by the Commission, either by selling BOC shares or by acquiring Air Liquide shares.

Net assets and financial position

The net assets and financial position of The Linde Group have changed significantly in the course of the 2006 financial year, due to the acquisition of The BOC Group and the sale of the Material Handling business segment. Therefore, only a few comparatives with the 2005 financial year are given.

Following the BOC acquisition, total assets rose to €27.996 billion (2005: €12.618 billion). On the assets side, this change was due mainly to the increase in non-current assets. On the acquisition of BOC, there was a preliminary purchase price allocation, which identified fair value adjustments in tangible assets and other intangible assets, especially customer relationships. The difference between the purchase price and our investment in the equity of BOC which could not be allocated to individual assets and liabilities has been recognised as goodwill. For The BOC Group, this was €4.803 billion.

On the liabilities side, the change in total equity and liabilities was due mainly to the increase in financial debt from €2.416 billion in 2005 to €10.596 billion in 2006. To finance the acquisition of BOC, we entered into a credit agreement for €15 billion with an international banking consortium. To refinance this credit, we introduced various capital measures, including an increase in share capital in July 2006 which provided us with proceeds of €1.8 billion. Moreover, we issued a hybrid bond with proceeds of €1 billion, which also met with a very positive response in the capital market.

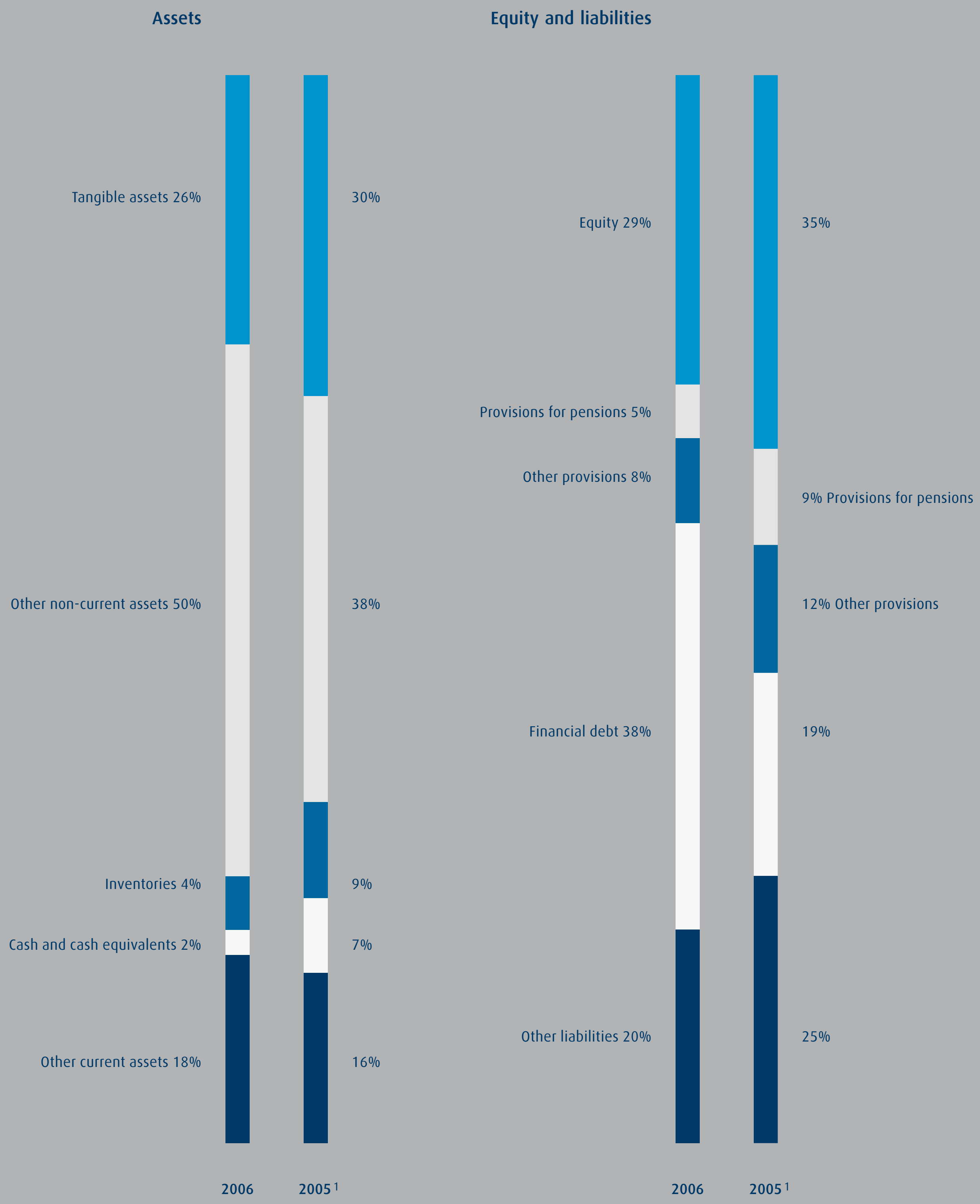
Additional funding for the loan repayments will come from the profit on disposal of certain business activities, where the disposals were made in order to comply with conditions imposed by the competition authorities, and from the profit on the sale of the KION Group, the former Material Handling business segment. The KION sale alone realised a book profit of around €1.929 billion. We will continue to repay our debt while maintaining capital expenditure on items which support our strategy of earnings-based growth.

The equity of The Linde Group increased by €3.752 billion to €8.225 billion (2005: €4.473 billion). The most important factors in this increase were a significantly higher figure for earnings after taxes on income, due to the book profit on the sale of KION, and the capital increase, which was duly completed in July.

Other current and non-current provisions stood at €2.139 billion, €663 million higher than the prior year figure of €1.476 billion. This includes €174 million which relates to changes in the companies included in the consolidation. In 2006, we have also set up provisions of around €100 million for personnel restructuring and reorganisation.

Deferred tax liabilities have increased from €372 million to €2.315 billion. Most of this increase, €1.704 billion, relates to deferred tax provisions which were required to be set up as a result of the identification of fair value adjustments in the course of the purchase price allocation.

Balance sheet items as a percentage of total assets of €27.996 billion (2005: €12.618 billion)



[1] Adjusted.

Cash flow statement

In 2006, we changed our presentation of cash flow and, as a result, we no longer disclose interest payments in cash flow from operating activities, but in cash flow from financing activities. The objective is to disclose the cash flow from operating activities separately from financing costs, which relate mainly to the acquisition of BOC.

Cash flow from operating activities in the 2006 financial year did not reach the same high level as in the previous year as a result of the costs of the transformation process of The Linde Group. The figure of €1.227 billion was €274 million below the figure for 2005 of €1.501 billion. In Other activities, cash flow was adversely affected on the one hand by the cost of consultancy services incurred on the disposal of the KION Group and the acquisition of The BOC Group. On the other hand, there was a cash outflow as a result of the income tax payment arising on the advance dividend paid by the KION Group to Linde.

However, in the individual divisions, cash flow from operating activities increased in comparison with the previous year. In the Gases Division, the figure increased by €117 million to €1.103 billion. It should be noted that in the course of the BOC acquisition we made a special payment of €222 million to the UK pension fund.

Based on the good order book position, cash flow from operating activities in the Engineering Division increased significantly from €299 million to €550 million.

The cash flow from investing activities was also affected in 2006 by the acquisition of BOC and the sale of the KION Group. In addition to day-to-day capital expenditure of €1.064 billion (2005: €881 million), we spent a total of €12.372 billion on the BOC acquisition. There were cash outflows of €162 million for the other acquisitions during the year. The sale of KION gave rise to a net cash inflow of €2.551 billion.

Cash flow from financing activities comprises cash inflows from the financing of the BOC acquisition of €10.724 billion and from the increase in share capital of €1.816 billion. These are offset by a cash outflow, i. e. a reduction in liabilities of €3.464 billion, continuing the process successfully started in the previous year, mainly as a result of the disposal of KION.

Cash and cash equivalents totalled €621 million (2005: €906 million).

Cash flow statement (summary)

in € million	2006	2005
Cash flow from operating activities	1,227	1,501
Cash flow from investing activities (net)	–10,278	–814
Dividend payments to Linde AG shareholders and other shareholders	–168	–150
Net interest payments	–166	–75
Capital increase and issue of employee shares	1,846	19
Subordinated bond and other loans raised	10,724	0
Repayment of funds	–3,464	–152
Change in cash and cash equivalents	–279	329

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. 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 2006 mainly by our Dutch finance company, Linde Finance B.V., and our Corporate Centre, and in the case of BOC principally via The BOC Group plc. 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, Spain, Italy, Switzerland, Hungary, Australia, Scandinavia, the United States and the Benelux countries), or by Group loans from Linde Finance B.V. or BOC. Occasionally, the Group Treasury (see glossary) also agrees credit facilities with local banks, to take account of particular legal, fiscal or other circumstances.

Acquisition financing of The BOC Group in 2006

In the 2006 financial year, the acquisition financing for the purchase of The BOC Group and the subsequent refinancing were at the forefront of our activities in the financial sphere.

The acquisition of The BOC Group in March 2006 at a price of €12.4 billion was assured by credit facilities of £8.9 billion and €2 billion (revolver) from five banks (Commerzbank AG, Deutsche Bank AG, Dresdner Kleinwort Wasserstein, Morgan Stanley Bank Interna-tional Limited and The Royal Bank of Scotland plc). This financing commitment was then syndicated successfully to 50 banks worldwide. The syndicated credit line (see glossary) also serves as a back-up for our €1 billion Commercial Paper Programme (see glossary) and replaces the €1.8 billion syndicated credit line agreed in 2005.

To repay this credit, we will use the profit on disposal of those business activities which we have been required to sell as a result of antitrust conditions imposed by the competition authorities, as well as the profit on disposal of the KION Group at the end of 2006. We promptly fulfilled most of the conditions imposed and, given the good market environment, succeeded in achieving prices for these sales which exceeded our original expectations.

Structure of the acquisition financing:

Tranche A:
- A1: £1.4 billion, matures in 2009
- A2: £2.0 billion, matures in 2011

Tranche B:
- £5.5 billion, matures in 2008

Tranche C:
- Revolver, €2.0 billion, due in 2011

In the summer of 2006, we successfully completed two further capital market transactions.

1) €1.8 billion increase in share capital via a rights issue
The increase in share capital was received very positively in a relatively difficult market environment. In the period from the announcement of this measure to 31 December 2006, the Linde share price increased by 25.1 percent.

2) Hybrid bond for €700 million and £250 million
Hybrid bonds are included in the calculation of equity by rating agencies, depending on their form. Against this background, we were able to make a successful placing of an innovative bond under the direction of Barclays Capital, Citigroup, Dresdner Kleinwort Wasserstein and UBS 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. The hybrid bond met with a great deal of interest from investors. Given that Linde had issued the first institutional corporate hybrid bond in Europe back in 2003 (€400 million; 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 £ sterling.

Due to the issue of the hybrid bond, the increase in share capital and the proceeds from the sale of parts of the Group, it was possible to reduce the borrowing from the syndicated credit facility by €6.6 billion at the year-end. Linde currently has available until 2011 an agreed unused credit line of around €1.6 billion from the international banking consortium. This takes account of around €224 million of commercial papers issued, for which the credit line serves as a back-up.

Under the €5 billion Debt Issuance Programme, issues worth €1 billion in four different currencies were outstanding at the end of the year.

Of the €550 million convertible bond issued in 2004, €181.7 million had been converted by the end of 2006 into 3,216,935 Linde shares.

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

Issuer	Rating	Nominal amount	Coupon rate	Maturity date	CUSIP Ref. No.
Linde Finance B. V.	Baa2/BBB–	€637 million	6.375%	14.06.2007	DE0002465952
Linde Finance B. V.	Baa2/BBB–	€100 million	5.750%	05.06.2008	DE0006858350
Linde Finance B. V.	Baa2/BBB–	€135 million	4.375%	04.08.2008	DE0008629429
Subordinated bond[1]					
Linde Finance B. V.	Ba1/BB	€400 million	6.000%	Undated	XS0171231060
Linde Finance B. V.	Ba1/BB	€700 million	7.375%	14.07.2066	
Linde Finance B. V.	Ba1/BB	£400 million	8.125%	14.07.2066	
Convertible bond[1]					
Linde Finance B. V.	Baa2/BBB–	€550 million	1.25 %	05.05.2009	DE000A0BBP11

[1] 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, which was mainly financed by loan capital, our stated objective was an "investment grade" rating. In Autumn 2006, following the completion of the acquisition, the rating agencies gave Linde a rating of BBB– or Baa2, which means that we achieved our objective.

Rating in 2006

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

Rating in 2005

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

Capital expenditure

In the past financial year, we 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 2006 financial year, excluding financial assets, totalled €971 million (2005: €864 million). Of this, €224 million related to BOC. Relative to Group sales, the rate of investment was 7.8 percent (2005: 9.1 percent). Adjusted for BOC, the rate of investment was 7.1 percent.

€947 million (2005: €844 million) was spent on tangible and intangible assets.

As in previous years, most of our capital expenditure (2006: €808 million; 2005: €671 million) 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.

Of the total capital expenditure in the 2006 financial year, €173 million was incurred by the KION Group (2005: €191 million).

Capital expenditure by division (excluding financial assets) [1]

in € million	2006	2005 [2]
Gases Division	808	671
Engineering Division	31	23
Other activities [3]	–63	–21
Discontinued operations and disposals	195	191
Group	**971**	**864**

[1] Excluding the acquisition of BOC.

[2] Adjusted.

[3] Including consolidations.

Capital expenditure by region (excluding financial assets) [1]

	2006		2005 [2]	
	in € million	in %	in € million	in %
Europe	447	57.6	494	73.4
North America	123	15.9	68	10.1
South America	74	9.5	80	11.9
Asia/Pacific	94	12.1	21	3.1
Africa	38	4.9	10	1.5
Total (continuing operations)	**776**	**100.0**	**673**	**100.0**

[1] Excluding the acquisition of BOC.

[2] Adjusted.

Purchasing

Group

As a manufacturing technology company, Linde AG, with its Gases and Engineering Divisions and including the KION Group, spent around €5.9 billion on purchasing in the 2006 financial year in a variety of markets worldwide (2005: €4.4 billion). During the reporting period, we focused once again on indirect materials in order to continue to improve our purchasing activities in the Corporate Centre, thus supporting the Growth and Performance (GAP) efficiency programme launched in the Gases Division in 2005.

Gases Division

The Gases Division set up the Growth and Performance (GAP) programme for the financial years 2005 to 2007. Procurement in the Gases Division is an integral part of these measures and has made a positive contribution to earnings in the past two years.

In 2006, the second year of this programme designed to improve efficiency and profitability, we continued to optimise our purchasing structures and processes.

With the acquisition of The BOC Group by Linde AG, there are very good prospects for purchasing in the international procurement markets, with an aggregate purchasing volume (including BOC and the Engineering Division, but excluding the KION Group) of around €7 billion.

In May 2006, we drew up a comprehensive plan to identify potential synergies arising from the acquisition.

At the beginning of September, 60 purchasing managers from around the world attended an initial meeting and set up teams to work together on the introduction of the new cost reduction programme.

We focused at this stage on the quick-win phase, establishing a temporary project organisation between September and December 2006, which was successfully completed at the end of the year.

In the 2006 financial year, we were able to make a positive contribution to earnings as a result in the new Linde Group.

At the same time, we have been driving forward the planning and establishment of the new global purchasing organisation in line with lead buyer criteria, which will become part of the synergy programme from January 2007.

Engineering Division

In our Engineering Division, procurement in 2006 had to face two challenges. On the one hand, there was greater pressure on the supply industry due to the worldwide upturn in international plant construction, while on the other hand there were increases in the costs of procuring products and materials, as well as services and assemblies.

The shortage of spare capacity in manufacturing and among engineering service-providers and assembly departments resulted in longer manufacturing and delivery times. The reduced availability of spare capacity also led to a further increase in prices, although these were already at high levels. At the same time, the prices of the products to be supplied were affected by rising costs for manufacturers of raw materials (nickel, aluminium, copper etc.), steel and stainless steel plates, castings and forgings.

In 2006, despite difficult conditions in the procurement markets, the Engineering Division succeeded in tackling the problems of rising prices and longer delivery times with an even balance between obtaining new sources of supply and strengthening existing relationships with suppliers. This is based on an integrated approach to supplier management, comprising the following: a rolling group of suppliers bidding for work, careful selection and rigorous evaluation of suppliers, auditing of major suppliers to ensure the continuation of supplier relationships.

We have adopted various strategies to counter the risks associated with scheduling. The suppliers of particularly high-cost key plant components are, for example, bound by contract at an early stage in the project.

Orders are not awarded solely on the basis of low cost, but on the basis of total outlay, with particular emphasis on meeting deadlines. Compared with 2005, we have continued to increase our expenditure on progress monitoring and quality assurance of suppliers and those who supply them.

The procurement market in plant construction has been transformed since 2004/2005 into a seller's market. Given this situation, procurement in the Engineering Division has assumed particular importance.

We anticipate that in 2007 capacity utilisation in the supply industry will remain at the same high level, and we do not foresee any easing in assembly capacity.

At best, therefore, prices will settle at the current high level. Depending on trends in steel consumption and the prices of raw materials, it can be assumed that this will not lead to further price increases.

For projects in the course of completion, we engaged suppliers for the major pieces of equipment at an early stage, to increase budget confidence and minimise the scheduling risk.

To reduce the cost risk in forthcoming projects, the Engineering Division will continue to adopt a strategy of binding suppliers of high-cost plant components by contract early on in the project.

Research and development

Linde

For a technology group such as Linde, research and development, innovation and inventiveness are the key factors in sustainable future success in an internationally competitive environment.

In the 2006 financial year, Linde spent a total of €201 million on research and development, exceeding the previous year's figure of €172 million. The total number of employees working in research and development at 31 December 2006 was 828 (2005: 1,316). Of these, 317 worked in the Gases Division (excluding BOC) and 121 in the Engineering Division (excluding BOC).

To improve our capacity for innovation, we have in the past year set up the Inventors Club, a global forum for engineers, scientists and technicians. Employees who have registered their inventions with our Group patent department are nominated for membership of the Inventors Club. At the beginning of 2006, a jury selected the five best innovations of 2005 in each of two categories, technical excellence and financial/competitive excellence, and the awards were presented in London in May 2006.

Gases Division

In 2006 in the Gases Division, we invested €72 million (2005: €61 million) 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.

For a number of years now, Linde has been working closely with The BOC Group to develop applications engineering solutions for the glass industry. In 2004, Linde entered into a licence agreement with BOC to market the Advanced Glass Melting (CGM™) technology developed by BOC. Since then, it has marketed this new technology worldwide under the brand name CGM™. CGM™ is a melting process in which burners are for the very first time placed in the crown of a furnace. This means that in addition to the normal heat transfer as a result of radiation, there is also a heat transfer as a result of convection, and therefore more energy is introduced into the glass melt. This significantly improves melt performance and produces higher-quality glass. The CGM™ melting process is therefore a promising technology, which will plug the economic gap arising from the rapidly increasing demand for glass products, especially in the newly-industrialised countries. BOC and Linde have already installed more than 35 CGM™ melting systems in existing glass furnaces worldwide. In 2006 for the first time, the licence for the CGM™ glass-melting process was granted to a glass engineering company, Stein Heurtey SA in France. Under this agreement, Stein Heurtey, one of the largest providers of glass-melting and glass-manufacturing plants in the world, is permitted to use the CGM™ technology in its furnaces.

In the metal-processing industry, processes involving the treatment of materials with lasers are becoming increasingly important. Under the brand name LASERLINE®, our products and services provide our customers with wide-ranging solutions for laser-cutting and laser-welding. The most recent development in the LASERLINE® concept is called LASGON® H. This involves a product group of new process gases for the laser-welding (see glossary) of high-alloy steels. The components of the gas mixtures take into account the metallurgical requirements of the high-alloy steels and can be adjusted for specific types of alloy and particular tasks. The direct impact of plasma and heat transfer leads to greater process stability and an improvement in the penetration profile. Both the increase in the speed of the process and the qualitative improvement in the welded joints are crucial productivity advantages for the user. Oxidation of the welded joint and the formation of annealing colours are significantly reduced or totally prevented. The development of LASGON® H will enable us to continue to strengthen our leading position in the market for welding gases and cutting gases.

Gases in the pharmaceutical industry which come into direct contact with the drugs being produced have to meet the same stringent international quality standards as the medicines themselves. To improve these production processes in the pharmaceutical and biotechnological industry, nitrogen liquefied at low temperatures which has been sterilised by Linde in newly-established plants directly on the user's site can now be used for the first time. Linde supplies these plants under the registered trademark VERISEQ® SLG (Sterile Liquid Gas). In the course of developing the VERISEQ® SLG plants, we have adhered strictly to GMP (Good Manufacturing Practice – see glossary) standards on systems, function and construction. In combination with VERISEQ LIN (liquid nitrogen), the VERISEQ® SLG systems ensure the completely safe supply of traceable sterile liquid nitrogen. The user can then devote his full attention to his core operations, i.e. manufacturing pharmaceutical and biotechnological products.

In 2006, we also completed the development of CRYOHEAT®, our new product for the chemical industry, which is now ready for the market.The CRYOHEAT® plants enable cooling and heating processes to take place in chemical synthesis reactors with only one heat transfer liquid. The temperature can be regulated exactly, within a range of –120 to +180 °C. In September, we supplied a second reference plant to the Institute of Avionics at the University of Stuttgart. There it will be used to heat up or cool down kerosene, for tests on aircraft engines. We see a promising market for our CRYOHEAT® plants, which have a very good safety record, in the manufacture of fine and speciality chemicals, as well as in multi-purpose production plants in chemical contract manufacturing.

In the food sector, we have expanded our product range of plants used to chill and quick-freeze food. With our latest development – CRYOLINE® MC – Linde has launched a pre-freezer which is ideally suited for the processing of delicate high-value foods such as fish and shellfish. CRYOLINE® MC is an extension of the CRYOLINE® MT linear freezer, which uses the low temperature of liquid nitrogen (LIN: –196 °C) or carbon dioxide (LIC: –78 °C) to freeze products rapidly whilst preserving them. The new CRYOLINE® MC pre-freezer uses liquid nitrogen flowing over a stainless-steel rim, which keeps the products moving and improves the IQF (Individually Quick-Frozen) process. This hardens the surfaces of products such as prawns, berries and mushrooms, so that they do not lose their shape or stick together. Finally, to freeze the products further and to stabilise them, they pass through the linear freezer. The physiological and sensory properties of the frozen food are retained particularly well as a result of this process, which has been amply demonstrated by extensive tests and recent studies. With the development of CRYOLINE® MC, which expands our range of ultra-modern cryogenic freezers, we are reinforcing our leading position in the use of gases in the food industry.

In the United States, our technology has made a major contribution to the development of a new system which will significantly improve the electrical conductivity of high-tension cables. This innovation is based on reducing electrical resistance by using high-temperature superconductive cables (see superconductor in glossary). The first of these cables with high-temperature superconductivity is already being used in the electricity supply system of Albany, New York, conducting electricity for over 70,000 households. These new cables can conduct three to five times more electricity than conventional cables. We anticipate a high level of demand for our technology, especially in urban areas, because it increases cable capacity in a narrow space. Against the background of a rising global demand for electricity, which is increasing at an annual rate of 2.6 percent according to the US Department of Energy, it is estimated that the market for high-temperature superconductive cables in the United States alone is worth several hundred million euros.

In addition to optimising our customer processes, our research and development activities also focus on completely new technologies. Therefore, we research forward-looking gases applications which form the basis for our future commercial success.

We have developed, for example, an innovative ionic compressor (see glossary) for natural gas and hydrogen fuelling stations, which works on the basis of ionic liquids, salts which are liquid in the desired temperature range. These liquids replace the metal pistons in conventional piston compressors, thus making compression possible at a virtually constant temperature and ensuring the ideal thermodynamic conversion of the electrical energy used into compression energy. For natural gas and hydrogen fuelling stations, this technology not only means much lower maintenance costs, but also saves a substantial proportion of the energy required to compress the fuels. There is a great deal of interest in the ionic compressor in the chemical, automobile and energy industries. The first units are already in use, with customers such as BMW in Munich and WienEnergie in Austria.

For us, hydrogen is the most important fuel of the future and will play a significant part in the long term in automotive transport. If hydrogen is produced from renewable sources, we have a sustainable overall concept which will take account of the increasingly short supply of fossil fuels and the commitments made under the Kyoto agreement.

The production of bio-hydrogen is one of the areas which are the focus of Linde’s research and development activities. This involves the evaluation of various processes for the production of hydrogen from biomass of different origins, with the aim of maximising the hydrogen yield. Appropriate laboratory tests have already identified the first processes to be tested commercially under pilot schemes.

During the year, we were heavily involved in another innovative hydrogen technology project – the development of odorised hydrogen, which will serve to improve the safety in use of this alternative fuel. Together with our partners TOYOTA and Symrise, and the companies SolviCore and ET Energie Technologie, Linde presented its Gasodor™ Hydrogen system to the public in October 2006. In comparison with conventional energy sources such as petrol, diesel and natural gas, hydrogen is odourless. Should odorised hydrogen accidentally escape from storage tanks or vehicle fuel tanks, it is possible to detect it by smell, ensuring that potential risks are identified early. Gasodor™ Hydrogen is odorised using an additive which has an unmistakeable and characteristic smell.

We have bundled together our environmentally-friendly dry-cleaning operations for textiles using carbon dioxide under the Fred Butler® brand in the Linde subsidiary Cleaning Enterprises. This recently-developed process involves replacing chlorinated hydrocarbon perchloroethylene (PER), which damages the environment and is dangerous to health, with recycled carbon dioxide liquefied under pressure, together with special detergents for cleaning textiles. Following the launch of Fred Butler® in Sweden and Denmark, the first branches opened in Germany in 2006. Fred Butler® runs some of its own branches and is building up a service network, but it is also increasingly working together with franchise partners. Fred Butler® currently has 29 shops and seven dry-cleaning plants in the countries mentioned above, creating the first Europe-wide branch and franchise system in the dry-cleaning industry.

Engineering Division

In our Engineering Division, we spent around €20 million (2005: €16 million) 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.

Most of the world's increasing energy requirements in the next decades will be met by fossil fuels such as gas, oil and especially coal. At the same time, the industrial nations have committed to making significant reductions in CO_2 emissions under the Kyoto agreement. An efficient process in this area is CO_2 sequestration. Here, carbon dioxide is separated from the waste gases produced by industrial plants and stored underground, so that it does not escape into the environment and have an adverse effect on the climate. Linde has already made significant progress with developing the related technologies. At the beginning of 2003, we participated in the preparations for the ENCAP programme (Enhanced Capture of CO_2), which started officially in 2004 as part of the sixth outline programme of the European Union with a total of 33 partners. The aim of the programme is to develop appropriate technologies to separate CO_2 in processes used in power stations. Here in particular, Linde can provide process and engineering know-how. The first CO_2 emission-free power station is currently being built by the Vattenfall energy group in Schwarze Pumpe, Lausitz, Germany, based on oxyfuel technology. Right in the early stages of plant planning, we contributed our expertise and supported Vattenfall in the areas of cryogenic air separation, the separation of the carbon dioxide and the process engineering conception of the whole plant. In the spring of 2006, we were awarded the contract to supply the air separation and CO_2 plants.

Another system for the safe storage of carbon dioxide can be seen in the BP project in Peterhead in the UK, where the CO_2 produced will be separated using a Linde plant and pumped into an oilfield. This increases the yield of the oilfield and also provides long-term safe storage of the CO_2 preventing damage to the environment.

In cooperation with our partner SABIC, Linde has developed alpha-SABLIN technology for the production of linear alpha olefins from ethylene. This technology is being used commercially for the first time in a plant owned by UNITED, a SABIC subsidiary. The plant, located in Al-Jubail, came on stream at the end of 2006. This new technological development, using ethylene as feedstock, will provide Linde with new opportunities for commercialisation. It also fits perfectly into our product portfolio. Linear alpha olefins are intermediate products in the chemical industry, which are used as co-monomers for polyethylene plants and in the production of synthetic lubricants.

The Engineering Division is also investigating the potential applications of promising new materials such as ionic liquids and nanomaterials in plant construction. In this context, we are taking part in the WING initiative (materials for industry and the community), working together with other companies and university partners on a project called "New process routes and principles for sustainable products and processes". Here, for example, we will be researching opportunities in the fields of gas purification and catalysis.

Research and development

	Expenditure (in € million)					Number of employees				
	2006	2005	2004	2003	2002	2006	2005	2004	2003	2002
Gases Division	72	61	56	46	43	317	319	313	292	277
Engineering Division	20	16	16	16	19	121	98	98	94	126
Discontinued operations and disposals	109	95	94	92	91	390	899	846	856	844
Group	**201**	**172**	**166**	**154**	**153**	**828**	**1,316**	**1,257**	**1,242**	**1,247**

Prior year figures for 2005 adjusted, prior year figures for 2002 to 2004 as reported.

In the past year, the Group, including BOC and KION, filed 379 new patent applications (2005: 364) for inventions. In total, The Linde Group was protected by 5,349 patents at 31 December 2006 (2005: 4,881).

Corporate responsibility

Linde and BOC can both look back on a hundred years of successful corporate history. The two companies have each adhered closely to clearly defined values, a prerequisite for growth and continuity.

These values are the foundation of our corporate responsibility (CR) in the new Linde Group. We have identified five areas for action: employees, SHEQ (safety, health, environment, quality), the community, the capital market and, finally, ethics and compliance.

The aim of our corporate responsibility activities is to take the best resources, expertise and experience from the two corporate worlds and then ensure that we retain them in the long term.

We therefore follow the general guidelines set out in our corporate responsibility policy. Here, we commit ourselves to behaving responsibly towards our employees, our shareholders, the community and the environment, in every division and throughout the world.

Establishing a structure

The CR Council, the committee at the top of the structure, decides on the specific measures to be taken to achieve the individual goals. The appointments to the CR Council, which include the Chief Executive Officer and one other member of the Executive Board, are an indication of the great importance we attach to corporate responsibility in our company.

Following the acquisition of BOC, one new member was appointed to the Council.

Objectives

Our objectives are set out in a corporate responsibility road-map (see glossary). Once again in 2006, we reached a number of milestones on this road-map. These include:

- introducing ethical and legal principles for the purchase of goods and services throughout the Group
- conducting a stakeholder survey in six different European countries
- establishing a childcare agency for all Linde employees in Germany
- adopting a Group-wide safety, health, environment and quality (SHEQ) policy
- preparing an eco-report (life-cycle assessment) for a range of industrial gases and their applications.

In 2007, we will incorporate further objectives into the current road-map. This will enable us to include a number of existing BOC corporate responsibility projects. In the course of developing the road-map, we will take into account the results of our stakeholder survey , which will be described in detail in our next CR report, which is due to be published in autumn 2007.

Code of Conduct

The existing Linde and BOC codes of conduct will remain in force until a new code of conduct designed to meet the new requirements of The Linde Group comes into effect in the course of 2007. The existing codes are largely similar in terms of content. Therefore, we will concentrate on ensuring the effectiveness of this tool. The code of conduct is an important element in the minimisation of the legal and ethical business risks of The Linde Group.

Based on the common values of Linde and BOC, the new code of conduct will set out clear mandatory rules of conduct for all employees over and above the legal requirements. When the document is launched, we will ensure compliance with the code by using appropriate communication and employee training and sustain its standards in a Code programme. This programme is currently being designed.

In the past financial year, Linde has introduced ethical and legal principles for the purchase of goods and services as planned. These principles apply particularly to those employees who have direct dealings and personal contact with suppliers, contractors and other business partners. The Linde and BOC rules will be revised in the current year and included in the new code of conduct.

Safety, Health, Environment and Quality (SHEQ)

A responsible attitude towards people and the environment is essential for our long-term business success. In our new organisation, a Group SHEQ department, responsible for Safety, Health, Environment and Quality (SHEQ) has been established. Last year, a SHEQ policy was developed which sets out mandatory guidelines in these areas. Our regional SHEQ managers are responsible for communicating this policy and creating the right conditions for continual improvement, with appropriate training and supplementary procedures.

In safety and occupational health and hygiene, the top priority is to continue to reduce the number of injuries and vehicle-related accidents. In the environmental area, we will continue to review the efficiency of our production processes and, where appropriate, improve them still further.

Customer satisfaction and our competitiveness are dependent on the quality of our products. We aim to meet the highest quality and reliability standards.

Regular audits are carried out at our sites worldwide in accordance with international standards to identify potential for improvement in safety, health, environment and quality and to evaluate the compliance of individual companies with legal requirements and our internal rules.

Social commitment

Our social commitment is directly related to our core business. Our activities focus on the promotion of good health and environmental protection as well as on education and science. In future, we will continue to expand our community and social activities in various countries and regions, in line with the increasingly global nature of our operations.

Reporting procedures and performance indicators

In the past year, both Linde and BOC have collected group-wide health, safety and environment (HSE – see glossary) data and employee data. In 2007, the current financial year, we will standardise the collection of this non-financial data. The Linde Corporate Responsibility Report, which will be published in autumn 2007, will include SHEQ data and employee data for the whole organisation. We will follow international standards for non-financial reporting in the collection of these statistics, such as those set out in the Global Reporting Initiative (GRI). We will also be guided by company-specific and sector-specific requirements, in order to give a fair representation of the success and sustainability of the measures we have taken.

In the 2006 Group management report, Linde is publishing for the first time not only employee statistics but also statistics relating to health, safety and the environment.

The relevant HSE figures for the former organisations, BOC and Linde, have been presented separately in the following table for the years 2005 and 2006. Due to varying definitions of the statistics presented in individual cases and the fact that they relate to different periods, we have not combined the figures for 2006.

Health, Safety and Environment

	Linde		BOC	
	2006	2005 [1]	2006	2005 [2]
Audits				
Total number of audits performed on occupational safety and health	1,882	1,664	1,084 [3]	1,255 [3]
Total number of environmental audits performed	851	789		
Percentage of employees who have taken part in HSE training schemes	43.7	–	For training and development purposes, BOC used Traccess, an online database with appropriate programs and materials. Specific figures were not determined.	
Environmental data				
Total consumption of electricity by Air Separation Units (ASUs) in terawatt hours (twh)	8.22	9.17	11.93	11.70
Total consumption of water by ASUs in million m^3	13.17	13.26	19.84	–
Total consumption of natural gas by Steam Reformer Units (SRUs) in G twh	9.66	10.77 [4]	10.60 [5]	–
Direct emissions from HyCO plants in million tons of CO_2	1.57	1.51	1.60 [6]	0.48
Indirect CO_2 emissions [7] from ASUs in million tons	3.11	3.45	7.14	7.30
Industrial accidents				
Total number of industrial accidents with at least one day of absence	166	220	124	150 [8]
Total number of days lost due to industrial accidents	4,161	3,890	3,333	Not reported centrally.
Total number of fatal industrial accidents involving Linde/ BOC employees	0	3	2	3
Number of hours lost due to industrial accidents per million hours worked (Lost Time Injury Rate; LTIR)	3.6	5.2	1.7	1.9

1 Linde 2005 figures excluding KION.

2 The 2005 BOC figures include all the companies consolidated on 30 September 2005. The 2006 environmental data for BOC is based on the period from October 2005 to September 2006 and relates to all BOC companies consolidated on 30 September 2006.

3 The BOC Group figures relate to the total number of integrated audits.

4 Including partial oxidation plants (HyCO) and methanol crackers (HyCO).

5 Including partial oxidation plants (HyCO).

6 Three HyCO plants (two in North America, one in South America) were either not operational or only partly operational in 2005. A further plant in Australia was also not taken into account in 2005. In 2006, these four plants produced a total of 0.94 million tons of the total 1.6 million tons of direct CO_2 emissions diclosed. The remaining difference is due to a general increase in production at the other plants.

7 Calculation based on International Energy Agency (IEA) factors.

8 Including Gist, BOC Edwards, Afrox Hospitals.

Employees

	2006[1]	2005
Employees by division		
Gases Division	39,142	17,783
Engineering Division	5,166	4,408
Other activities	6,730	715
Discontinued operations and disposals	4,407	19,323
Group	**55,445**	**42,229**
Employees by region		
Germany	7,176	7,133
Other Europe	20,506	8,752
North America	8,518	3,828
South America	2,674	1,850
Asia/Pacific	8,496	1,341
Africa	3,668	2
Total (continuing operations)	**51,038**	**22,906**

[1] Including BOC.

Employee data

Due to different criteria for the definition and collection of data, the information below has been given separately for Linde and BOC and is based on enquiries made and data available. In the case of Linde, the information relating to the 2005 financial year includes the KION Group, whereas the information for the 2006 financial year does not.

In 2006, Linde spent a total of €1.842 billion (2005: €1.222 billion)[2] on personnel. In BOC, personnel costs for the period from 5 September 2006 to 31 December 2006 amounted to €529 million.

In Linde, the proportion of part-time employees in 2006 was 2.3 percent (2005: 2.5 percent), while in BOC during the same period the proportion was 1.5 percent, based on data collected for 90 percent of all BOC employees.

The proportion of temporary employees in Linde was 5.5 percent (2005: 3.6 percent). The number of trainees and apprentices in Linde in 2006[3] was 276 (1.2 percent of all employees), while in 2005 the figure including the KION Group was 912 (2.2 percent of all employees). 2.6 percent of all Linde employees were on fixed-term contracts in 2006, while the prior year figure including the KION Group was 2.1 percent.

In BOC in 2006, 13.3 percent of all employees were women, a figure based on data collected for 90 percent of BOC employees. In Linde, the proportion of female employees in 2006 was 21.7 percent (2005: 18.3 percent including the KION Group). The staff turnover rate in the former BOC organisation was 6.4 percent (based on 90 percent of all employees). In Linde, the staff turnover rate in 2006 was 5.0 percent (2005: 5.1 percent including the KION Group). In 2006, the average length of service in Linde was 11.2 years (2005: 11.8 years), while in BOC it was 6.1 years, based on about 90 percent of all employees. The proportion of employees in the former Linde organisation taking part in professional development programmes in 2006 was 72.9 percent (2005: 61.3 percent including the KION Group), while the average cost of training rose from €369 in 2005 including the KION Group to €383 in 2006.

Employees

The acquisition of BOC by Linde in the past financial year has made particular demands on all our staff, especially on the Group human resources department. In the past few months, we have established a number of operating procedures to provide effective support for the integration process. Our activities have been focused in particular on the development and implementation of the new organisational model, the selection and appointment process for various posts, the adaptation of the job evaluation system to the relevant remuneration concepts, management training and defining common values, in order to create an exemplary corporate culture in the new Linde Group.

In developing our new organisational model and establishing a worldwide selection and appointment process, we have followed a fair and internationally consistent decision-making process. This involved finding the most suitable candidate for each position, while at the same time maintaining a balance between management personnel from both former organisations. These were the basic ideas on which we based our decisions. We began with the appointment of the most senior executives, and the process will be complete by the end of the first quarter of 2007, when we will have made all our appointments in the new organisation.

At the same time, we are working on harmonising the short-term and long-term remuneration systems and the job evaluation concepts of the two companies. Moreover, in 2007, the current finan-

[2] Calculation excludes KION. The figure of €1.842 billion includes €529 million relating to The BOC Group.

[3] Calculation excludes KION and BOC.

cial year, we shall be introducing a new Incentive Programme for executives.

Given the scale of the integration process, the development of a common understanding of values and a common work culture assumes particular importance. We are making good progress and should have completed our work in this area by the end of the year.

We are also amalgamating the various management development programmes. Our aim here is to continue to encourage the best talents in the Group, using appropriate measures, and to make attractive opportunities for professional development available within the Group .

To measure the success of our various integration measures, we canvassed opinions on the integration process from a group of around 3,000 employees selected at random. The results were positive. Where potential improvements were identified in specific areas, we are currently developing suitable procedures. We will carry out this survey again twice in 2007, which will enable us to evaluate our progress with the integration of the two companies.

Training and professional development

The proportion of trainees in Linde worldwide (including the KION Group) was 2.2 percent in the 2006 financial year, the same proportion as in the previous year. The number of trainees in Germany at 31 December 2006 was 692 including KION, slightly higher than the prior year figure of 677. The proportion of trainees in Germany was 4.6 percent (2005: 4.5 percent).

In addition to conventional training, Linde offers sandwich courses at vocational colleges as an alternative to traditional university courses. In cooperation with vocational colleges in the state of Baden-Württemberg, we support various courses, especially those which have an international orientation. We offer participants practical experience within the Group, complemented by relevant theory courses at international higher education establishments.

The success of our company is based on the skills and qualifications of our employees. We therefore set great store by the professional development of our employees. The wide-ranging opportunities in this area available worldwide are increasingly being taken up by our staff. In the 2006 financial year, 72.9 percent of our employees excluding the KION Group (2005: 61.3 percent including the KION Group) took part in an average of 1.6 days (2005: 1.8 days) training in training programmes.

We have devised a complete personnel development programme, which is tailored to the precise requirements of the various target groups in Linde. We work closely together with leading international business schools to offer professional development programmes to our senior management and middle management which are designed to ensure that our strategy is applied consistently. In the individual divisions, we use a wide range of appropriate executive training courses to provide our employees with the knowledge they require, not only to maintain a high standard of customer service, but to improve it still further. We attach particular importance to the subject of safety in view of its significance to our business.

Like Linde, BOC placed great emphasis on training and continuing professional development, and both companies developed similar programmes in this area in the past. With this common understanding, we intend to take training and CPD to a high level as we integrate the two companies and we will constantly seek to improve the programmes on offer to our employees.

Pensions

Around the world in The Linde Group there are around 61 major pension schemes, which are either defined contribution plans or defined benefit plans (see glossary). In the KION Group, there are a further 34 major pension schemes.

In the 2006 financial year, Linde spent a total of €165 million (2005: €123 million) on pensions and personnel welfare costs, €61 million (2005: €71 million) of which related to costs incurred in Germany.

Occupational pensions are becoming increasingly important for our staff. More and more of our employees are taking advantage of the opportunity to provide for their retirement by converting portions of their salary into pension contributions and receiving tax relief thereon, which forms part of the Linde retirement plan (LVP), to improve their pension situation in old age. The company invests the portions of the employees’ salaries in investment funds and guarantees a minimum rate of return for the monies invested. In 2006, 3,107 employees (2005: 2,811) took advantage of this type of pension.

In addition to converting portions of its employees’ salaries into pension contributions, Linde also provides employer-financed pension entitlements in the form of defined contribution unit-based plans. In Germany, around 13,300 current employees are provided for in this way, 6,900 of them by the KION Group. In addition, around 11,200 retired employees (KION Group: 2,215) receive a monthly pension from the pension commitments and around 1,900 former employees (KION Group: 461) have vested pension rights.

The assets to finance the pension obligations of employees working in Germany (plan assets), which are held separately in trust under a contractual trust arrangement (CTA), continued to increase in value in the course of 2006. The total plan assets (employer’s contributions plus the portions of salary converted into contributions to the Linde retirement plan) at 31 December 2006 were €298 million (2005: €267 million). Of this amount, €270 million (2005: €248 million) related to the employer's contributions and €28 million (2005: €19 million) to the salary converted into contributions.

Plan assets of €23 million were apportionable to the KION Group (€16 million for the employer's contributions and €7 million for the salary converted into contributions). We have set up a separate CTA for the KION Group, to which the assets referred to above were transferred on its divestment from Linde at the end of 2006 in accordance with trust law.

BOC also attached great importance to occupational pensions. Throughout The BOC Group, opportunities were provided for employees to take part in retirement programmes tailored appropriately to local conditions.

All the major defined benefit schemes of the former BOC Group, except that in the US, are closed to new entrants.

Linde has undertaken to leave the retirement benefit schemes of the former BOC unchanged. In the run-up to the bid, with the support of the trustees of the UK pension schemes, Linde sought and was given clearance from the UK Pensions Regulator in respect of the future financing of the UK pension fund.

The UK pension scheme, with pension obligations of around €3 billion (on an IAS 19 basis) is the largest single defined benefit plan in The Linde Group. Other material BOC schemes are in the US, Australia and South Africa.

Linde Corporate Health Insurance Scheme

There has been no significant change in the number of members of Linde's corporate health insurance scheme (BKK) in the course of 2006.

At 31 December 2006, BKK covered 26,149 members (2005: 26,109) and 12,279 dependants (2005: 12,604).

As a result of cost trends in 2006, the expected increase in costs as a result of the rise in the rate of VAT due in 2007 and the anticipated extra costs as a result of the health reform, BKK Linde had to increase its contribution rate from 12.7 percent to 13.0 percent with effect from 1 January 2007. The additional 0.9 percent special contribution required by law remains unchanged.

On 1 January 2006, a change was introduced whereby all the personnel costs of the employees working for the BKK were in future to be borne by BKK alone. At the beginning of February 2007, the Management Board of the BKK made a policy decision in the course of the strategic reorganisation of the BKK to open up the BKK to other entrants. This means that in future not only Linde AG employees and their self-insured dependants, but also other people insured under statutory health schemes outside The Linde Group, will be able to apply to become members of the BKK.

The Management Board of the BKK decided to take this step to ensure that the BKK can be retained and developed as a competitive health insurance scheme in the future, despite the changes within The Linde Group.

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. The staff of Linde and BOC have made tremendous efforts to ensure that the combination of the two companies proceeded as smoothly as possible and have had great success in driving the integration process forward.

Risk report

Risk management system continually being developed

As an international technology business, The Linde Group is exposed in the course of its global operations to a great variety of risks which are inextricably linked to entrepreneurial activity. Our strategy is therefore to limit any potential risks arising from our activities at an early stage. At the same time, we are keen to exploit any available opportunities in order to continue to achieve sustainable earnings-based growth. The risk management system of The Linde Group comprises many interconnected processes, the aim of which is to identify potential risks at an early stage, to assess them using specific criteria, to evaluate the extent and characteristics of the risks and to introduce appropriate precautionary and security measures. During the year, we continued to update our risk management systems so as to increase their efficacy and transparency.

Risk management: An integral part of our business processes

Risk management in The Linde Group is decentralised and directly geared to the operating structure of the Group. The diversity of business activities in the various divisions require differentiated methods for managing risks tailored to the needs of each segment. A streamlined central risk management team defines uniform standards and ensures that similar risk management processes are employed throughout the Group. We have appointed individual risk managers in each division, whose task is to identify and quantify the risks specific to that business and to devise appropriate measures to minimise them and therefore deal with the risks locally.

Regular reporting and direct notification of significant new risks give decision-makers up-to-date information

Our risk management system is integrated with our business processes as a result of the systematic recording, control and reduction of risks, and appropriate early warning systems which protect against potential risks.

To ensure the efficient capture and quantification of risks, our risk recording system is based on uniform Group guidelines. The risks in The Linde Group are analysed using a risk catalogue specific to the Group. The individual risk categories are directly derived from the critical success factors for the implementation of the corporate strategy and its objectives.

We record and analyse risk notifications using an Internet-based system. We brief the Executive Board on the current risk situation in a quarterly risk report. In this report, the risks are quantified and categorised according to the probability of their occurrence and the potential damage they might cause. The audit committee of the Supervisory Board is also kept abreast of the risk situation at regular intervals by the Audit Committee. If there is a significant change in the risk situation, we record major specific risks via an ad-hoc reporting system.

In 2006, we established a watch-list, an additional monitoring tool in our active risk management process. Every quarter, this watch-list is presented for discussion at a meeting of the Executive Board. It identifies companies where action may need to be taken, based on various criteria, such as negative equity, significant deterioration in earnings, rising debt or a capital increase in the past twelve months. A detailed analysis of the main parameters forms the basis for an assessment of business performance over time and compared with budget. Countermeasures can then be taken if required.

Risk management: A key management tool

The risk management philosophy forms an integral part of our business processes and consists not only of making opportunities and risks as transparent as possible, but also of devising procedures to minimise, transfer and avoid risks.

The risk management department in The Linde Group works closely with the insurance department to identify risks which could be insured against and to obtain the best possible insurance cover. Generally, we take out external insurance to cover risks which are significant in terms of the potential loss that might arise, but which are unlikely to occur. We do not usually insure against minor frequently-occurring losses, which therefore have to be borne by the individual operating units. This provides the operating units with an economic incentive to invest in appropriate precautionary measures.

The risk management system is also closely linked with our financial control processes. In the course of 2006 financial year, we continued to develop our internal reporting procedures. We implemented a consistent top-down monthly reporting system, which presents the main business parameters in a clear manner and uses a traffic-light system to pinpoint major changes in individual business units. At the same time, we succeeded in significantly accelerating our internal reporting processes, thus ensuring even more up-to-date monitoring of our business performance and of the associated risks.

At the recently-established regular business review meetings between management of the operating units and the Executive Board of the Group, the lively discussions focus on current and forecast business trends, as well as on the opportunities and risks arising in each division.

During the year, we also set up workshops in the operating units and in order to support the integration of BOC and Linde in the post-acquisition period. The aim of these workshops was to devise procedures to minimise risk and exploit opportunities.

Change in risk structure during current financial year

As a result of the restructuring of the Group portfolio, the risk structure of The Linde Group changed significantly. The acquisition of BOC has led to increased financial risk and exchange rate risk as a result of the associated outside financing. At the same time, risks have been eliminated by the sale of the KION Group, our forklift truck and warehouse equipment business, especially in the area of leases. Significant risks which might have an impact on the net assets, financial position and results of operations of the Group are set out below.

Risks arising from the absence of impetus for growth and uncertain economic trends

Cyclical trends in relevant markets may present significant risks to the performance of The Linde Group. The economic environment may have a negative impact on sales growth in the Group. In particular, individual industry sectors or major customers may be affected by a deterioration in their competitive position. Linde, despite being an industrial gases and engineering company with global operations, is highly diversified both geographically and in terms of customer segments, which helps to offset these risks. For individual investment projects, the evaluation process is based principally on specific customers and market segment risks.

Risks in politically unstable countries

The Linde Group is a global group operating in more than 70 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. Thus we can ensure cross-border financing, while at the same time minimising risk. Individual capital expenditure projects are evaluated so as to identify any political risks which might be associated with them.

Impact of higher purchase prices on profitability

As far as purchases are concerned, potential risks relating to the availability, quality and cost of raw materials, energy, input materials and intermediate products might have an adverse effect on the profitability of the Group. Another potential risk could be a dependence on major suppliers. We reduce these risks in the procurement markets by sourcing materials worldwide, entering into long-term supply contracts and constantly optimising our portfolio of suppliers. We negotiate purchase contracts for raw materials which are strategically important to The Linde Group centrally. For key raw materials which have been shown in the past to have highly volatile prices, such as natural gas and energy, we have set up programmes and contract terms designed to allow us to pass on some of the risk of price fluctuations to customers.

To counter potential upward pressure on prices on the purchasing side, Linde has continued to develop its GAP (Growth and Performance) programme in the past financial year. The aim of this programme is to improve the profitability of our Gases Division through measures designed to improve efficiency and promote growth. We have therefore focused on developing a wealth of measures which will enhance our cost efficiency and open up new areas for growth. We continually track the implementation of the various measures.

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 euros 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.

Maintenance and quality assurance measures minimise the risk of stoppages in production plants

Stoppages in Linde's production plants may result from technical equipment failure or from accidents. This is especially critical in the case of on-site plants, such as air separation plants and synthesis gas plants, which supply individual customers. Long production stoppages may lead to harsh penalties, additional costs due to the need to purchase from outside suppliers and loss of custom. To minimise this risk, we place great emphasis on preventive maintenance and on continually improving our quality assurance measures. When stoppages do occur, they are investigated immediately, so that appropriate measures can be taken to reduce the number of similar cases in future.

Appropriate insurance cover minimises product liability risks and other legal risks

Linde Group companies 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 a lawsuit in Texas and international arbitration in respect of a claim by Celanese Corporation (and its subsidiaries) for business torts arising out of the development of Celanese's new acetic acid manufacturing plant in Nanjing, China. Celanese claims compensatory damages of 250 million US dollars and approximately treble punitive damages. The Company's subsidiaries are vigorously defending this claim. Based on the facts available and legal advice obtained, we believe that there are strong factual and legal defences, and that the continued defence and resolution of this case will not have a material adverse effect on the financial condition or profitability of the Group. However, the outcome of this case is uncertain and difficult to predict.

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, in whole or in part, costs and any judgements associated with these claims.

Financial risks minimised by professional 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. As the acquisition of The BOC Group plc was financed mainly by foreign currency borrowings, our interest rate risk and exchange rate risk have risen significantly during the year.

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

In the Treasury, the principle of functional separation between the front, middle and back offices must be observed and monitored throughout the risk management process. This means that there is a strict personal and organisational separation between the completion of a commercial transaction and its processing and verification. We use a treasury management system to implement, record and measure our transactions. The operations in the Treasury are subject to regular reviews by our internal and external auditors, generally once a year.

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

We make financing and hedging decisions on the basis of 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 former 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 (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. For the first time In 2006, translation risks were also hedged as, following the acquisition of The BOC Group, the focus of our currency management shifted from currency transactions to 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 and the 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 2006, around 50 percent of the Group's exposure was financed at variable rates.

Professional M&A management minimises the risks arising from the purchase and sale of companies

Following the reorganisation of its Group portfolio, The Linde Group has completed a number of major acquisitions and sales in the past financial year. These transactions give rise to corresponding risks. In certain circumstances, delays and challenges which could arise in the process of integrating companies acquired into the Group might have an adverse effect on our business performance. It is possible that additional risks for the Group might arise on the purchase of a company due to an inadequate review of business risks, or on the sale of a company as a result of representations and warranties.

To minimise these risks, we have established professional M&A processes, which will ensure careful handling of M&A projects. We can reduce the transaction and integration risks to a significant extent by bringing in external experts, performing thorough due diligence reviews and conducting contract negotiations in a professional manner.

Forward-looking IT management ensures the smooth running of business processes

In a business with global operations, it is essential that IT systems and locations are integrated both technically and in terms of organisation. As a result of the increasing complexity of electronic communications technology, The Linde Group is exposed to various risks, ranging from the loss or theft of data, and stoppages and interruptions to the business, to systems failure.

Our IT management has developed a number of processes, guidelines and procedures to reduce these risks. These include an ongoing review of the systems architecture and regular updating of hardware and software, so that our IT systems continue to meet the changing requirements of the Group. For those IT systems which are critical to the Group, we have devised appropriate contingency plans. These are regularly tested to ensure their efficacy. Detailed back-up and recovery procedures have also been implemented. These ensure that if a critical system fails, operations can resume as quickly as possible and any adverse impact on our business processes is minimised. The databases are checked constantly by virus scanners and saved at regular intervals. The erection of firewalls and the use of data encryption technology prevent the unwelcome intrusion of outsiders into our systems. Extensive training ensures that our employees are kept abreast of the latest information and developments.

Economic success depends to a great extent on employee commitment

Key to the economic success of The Linde Group is the commitment, competence and performance of our personnel. As we wish to encourage all of these, we place great emphasis on employee training and on the personal and professional development of our staff. We offer our technical staff and senior managers in all parts of the business a wide range of qualifications and opportunities for professional development. The Linde Group offers its high-fliers, for example, modern management expertise through Linde University in collaboration with other leading higher education establishments. In growth areas such as our plant construction business in particular, the successful expansion of the Group depends on attracting sufficient numbers of qualified junior managers. We have therefore developed effective training models and recruitment procedures, which enable us to train excellent qualified employees ourselves and to recruit them from outside the Group. We also offer our employees performance-related pay and attractive social benefits. Management positions are regularly evaluated to ensure effective succession planning, and suitable candidates are identified so as to reduce any personnel risk.

A reasonable level of overall risk for the Group

Based on the risks and future prospects of the Group which have been outlined in this report, no risks have been identified in the 2006 financial year which might have a lasting or significant impact on the net assets, financial position and results of operations of The Linde Group. This assessment is based on the early warning system used by the Executive Board of Linde AG to identify risks, which is subject to regular review by our internal and external auditors as required by law.

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

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 and 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 in control, the hybrid bond issued in 2006 may be called in and repaid early.

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) 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 equity is disclosed in Note 27 of the Notes to the Group financial statements.

Events after the balance sheet date

Linde sells the Polish gases activities of BOC

To fulfil one of the antitrust conditions imposed by the European Commission for the acquisition of The BOC Group plc by Linde, we have sold BOC's Polish gases activities (BOC Gazy Sp. z. o. o.) at a price of €370 million to Air Products and Chemicals, Inc. Linde and Air Products expect the transaction to be completed in due course, subject to clearance from the competition authorities and the fulfilment of the usual closing conditions.

Linde sells its 41 percent share in the Chilean gases company Indura

In January 2007, The Linde Group sold its 41 percent share in the Chilean gases company Indura at an enterprise value that corresponds to approximately €150 million to its joint venture partner, the family company Inversiones Y Desarrollos (Invesa), Santiago, Chile.

Linde sells parts of its industrial gases business in Mexico

In February 2007, The Linde Group has sold its industrial and medical gases business in Mexico to Praxair Inc., Danbury, CT. Linde's Mexican business operates under the name of the subsidiary AGA S. A. de C. V. The terms of the transaction were not disclosed. The transaction excludes the Mexican assets of The BOC Group plc, which we acquired as part of the worldwide acquisition of BOC.

The transaction has been approved by Mexico's Federal Competition Commission and is expected to close in a few weeks.

The sale of our Mexican business is part of a mutual agreement between Linde and Praxair under which we had acquired the Turkey based industrial gases producer Karbogaz A. S. in July 2006. Karbogaz was formerly a joint venture company between Ismail Aytemiz of Istanbul and Praxair.

Linde and Air Liquide realign joint ventures in Asia

In February 2007, The Linde Group and the worldwide industrial and medical gases company Air Liquide signed agreements to realign their joint ventures in Asia.

Once the respective antitrust approvals have been received, we will purchase Air Liquide shares in the gas companies Malaysian Oxygen (Malaysia) and Hong Kong Oxygen & Acetylene (Hong Kong). In return, we will sell our shares in Singapore Oxygen (Singapore), Eastern Industrial Gases (Thailand), Vietnam Industrial Gases (Vietnam) and Brunei Oxygen (Brunei) to Air Liquide. Upon closing of the transactions, Linde will receive a net purchase price of €275 million.

The move will give Linde full ownership of Hong Kong Oxygen & Acetylene and a 45 percent shareholding in Malaysian Oxygen. Following the closing of the acquisition of the shareholding in Malaysian Oxygen, Linde will be required to make a takeover bid to the free float shareholders to acquire the remaining 55 percent of the shares. This should enable us to achieve a targeted majority shareholding in Malaysian Oxygen. Based on a 20 percent premium on the average three months volume weighted share price, the takeover bid for the remaining 55 percent free float shareholders of Malaysian Oxygen will be worth the equivalent of approximately €249 million.

A realignment of the shareholdings in certain joint ventures in the Asia/Pacific region was one of the conditions imposed by the European Commission when it authorised the acquisition of The BOC Group plc by Linde, a transaction which was completed on 5 September 2006. Linde had committed to terminate joint ventures between BOC and Air Liquide to the extent agreed with the Commission, either by selling the BOC shares or by purchasing the Air Liquide shares.

Linde integrates INO Therapeutics LLC into newly formed pharmaceuticals company

In February 2007, The Linde Group has signed a definitive agreement to combine INO Therapeutics LLC ("INO"), a wholly-owned subsidiary of Linde, with a subsidiary of Ikaria Holdings, a newly formed investment company led by US private equity company New Mountain Capital.

INO operates in critical care and focuses on the development, marketing, and selling of proprietary drug-device combination products targeted at in-hospital treatment of respiratory diseases and other related ailments in the critical care market through inhaled nitric oxide therapy.

Ikaria Holdings will combine INO with Ikaria Inc., a private U. S. biotechnology company. Under the terms of the agreement, we will receive approximately €380 million in cash and a 17 percent stake in Ikaria Holdings.

Ikaria Holdings, with headquarters in Clinton, N. J., will have over 300 employees and will focus on the critical care market. The combined company's range of promising product developments together with the expertise of its management team and its new shareholders will allow it to capture the potential offered by the international pharmaceuticals market.

The transaction is subject to customary regulatory approvals and the approval of the responsible antitrust authorities.

Dividends

The unappropriated profit for the year ended 31 December 2006 of Linde AG, the parent company of The Linde Group, was €736,603,995.68. The Executive Board proposes to the Supervisory Board that, at its meeting on 9 March 2007 to approve the annual financial statements, it recommends the proposal of a resolution to the Shareholders' Meeting on 5 June 2007 that the profits be appropriated as follows:

- by distributing a dividend of €1.50 (2005: €1.40) per share entitled to dividend, a total amount of €241,104,067.50, and
- by carrying forward an amount of €495,499,928.18.

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

Macroeconomic trends

Global economy: Slight cooling off expected

The expansion in the global economy will slow down in 2007. One of the reasons for this is the weaker performance of the US economy. Against the background of a slower rise in domestic demand in the United States, expectations of corporate sales volumes and revenue have been dampened down and investment activity is expected to decline. As a result of reduced consumption, there has also been a decrease in the level of imports. Overall, there was an increase in gross domestic product in the US of 2.5 percent in real terms.

The global economic climate has been adversely affected not only by the slight tailing off of the American economy, but also by a restrictive financial policy in the eurozone, especially in Germany and Italy. The gross domestic product in the eurozone in 2007 is expected to rise by 2.3 percent in real terms.

While expansionary monetary policy is being tightened in the eurozone and in Japan (where the forecast rise in gross domestic product in 2007 is 1.6 percent), there is expected to be a relaxation of monetary policy in the US in the course of the year.

The economic research institutes are forecasting 2.4 percent growth in the global gross domestic product in real terms in 2007. At the same time, there will be an expansion in world trade of more than 7 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 60 US dollars a barrel. The pundits are estimating an exchange rate for the euro in 2007 of 1.28 US dollars.

Germany: Temporary deceleration in growth

Against the background of the global economy, German companies with their goods and services are in a favourable position to take advantage of the growth opportunities available. In Germany itself, slightly weaker economic growth is expected initially at the beginning of the year. However, this is a temporary phenomenon, which has been caused mainly by the increase in the rate of VAT. Overall, it is estimated that the gross domestic product will rise by 1.9 percent.

Exports will continue to boost the economy in Germany and the increase in capital spending will create the basis for a further economic upturn. The reasons for the growth in investment are the good market conditions which continue to prevail outside Germany, the comparatively high level of capacity utilisation and financing terms which continue to be favourable.

Industry sector outlook

Gases industry

In 2007, 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 around €51 billion 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

There are also signs of growth in worldwide plant construction in 2007. In the major product areas, we expect an increase in demand of 6 to 8 percent. The market for air separation plants, for example, is benefiting from new applications such as Gas-To-Liquids (GTL), as well as from the good economic situation in the traditional customer segments, such as the international steel industry.

We are anticipating dynamic growth in the energy sector, particularly in the hydrogen plant product area. Here, we believe that the growth experienced in the US will increasingly be seen in Europe and Asia too.

We expect rising demand for greater production capacity in the petrochemical industry in the oil-producing countries of the Middle East and in Russia and Asia.

Outlook for The Linde Group

The current year 2007 is the first full financial year for the restructured Linde Group. So, as yet, we do not have a precise basis of comparison in order to provide figures here. However, we can make the following statements. The company as a whole will benefit in every way from the acquisition and, now that it is a world-leading industrial gases and engineering company, it will be able to exploit the good macroeconomic environment to continue with the international expansion of our business. In particular, we will seize the opportunities for growth in emerging markets such as Asia and Eastern Europe.

Based on a full 12-month financial year with the new Group portfolio as our assumed starting point, we will continue to increase our sales in the current year.

We expect a disproportionate increase in profit compared with sales. The first synergistic effects from the acquisition of BOC will contribute to this. Overall, we are well on the way to achieving the expected cost synergies of €250 million per annum in full as planned for the first time from the year 2009.

Gases Division

As one of the leading industrial gases companies in the world, we want to benefit proportionately from the market growth expected in this sector. Therefore, we are expecting an increase in sales of at least 7 percent in our Gases Division for the 2007 financial year and a disproportionate increase in earnings boosted by the first synergies arising from the BOC acquisition. The basis of comparison for this prediction is also a full financial year including BOC.

We anticipate dynamic business trends in the Group, especially in the growth markets of Eastern Europe and Asia, where we have become a market leader since acquiring BOC.

Engineering Division

The global situation for international plant construction business is good. Against this background, we expect a significant increase in sales and earnings in the Engineering Division for the 2007 financial year on the basis of a high level of orders in hand and the anticipated processing of orders.

Capital expenditure

Despite the considerable increase in the level of our debt as a result of the BOC acquisition, 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. In the 2007 financial year, our focus will be on the continuing expansion of our on-site business. We intend to invest a total of €1.3 billion in the current financial year in the restructured Group.

Dividends

In future, we will continue to follow our earnings-based dividend policy and will determine the level of the dividend for the 2007 financial year on the basis of our performance in terms of operating profit. At the same time, we will take into account the additional requirements arising from the financing of the BOC acquisition.

Research and development

In the current financial year, we plan to spend around €140 million on research and development activities.

Most of our R&D expenditure is used for the ongoing development of existing industrial gases applications and processes, in collaboration with our customers.

In the Gases Division, our R&D activities will also focus on enhancing developments 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 be focusing on the development of our various plant technologies. The aim of these measures is to use innovative technology to contribute to reducing CO_2 emissions in the production processes of our customers still further.

Purchasing

In the current financial year, we will be able to take even greater advantage of the benefits which the acquisition of BOC offers on the international procurement markets for the gases industry. At the beginning of the year 2007, we set up a global purchasing organisation which is designed to meet the needs of the restructured Group and is based on lead buyer criteria. Under the current synergy programme, purchasing in the Gases Division will make a significant contribution to achieving the desired cost synergies from the acquisition of BOC.

The procurement market in international plant construction has been transformed since 2004/2005 into a seller's market. Given this situation, procurement in the Engineering Division has assumed particular importance.

We anticipate that in 2007 capacity utilisation in the supply industry will remain at the same high level, and we do not foresee any easing in assembly capacity. At best, therefore, prices will settle at the current high level. Depending on trends in steel consumption and the prices of raw materials, it can be assumed that this will not lead to further price increases.

For projects in the course of completion, we engaged suppliers of major pieces of equipment at an early stage, to increase our confidence in the budget and minimise the scheduling risk.

To reduce the cost risk in forthcoming projects, the Engineering Division will continue to adopt a strategy of 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 2006 in accordance with International Financial Reporting Standards (IFRS). Some items in the balance sheet and income statement have been combined under one heading to improve the clarity of presentation. Such items are disclosed individually in the Notes. The prior year figures have been adjusted due to changes in accounting policies ("Adjusted"). The parts of the business being disposed of, the KION Group and the components business of BOC Edwards, have been disclosed separately in the income statement as a result of their classification as discontinued operations.

Group income statement

in € milllion	Note	Continuing operations 2006	Discontinued operations 2006	Group 2006	Continuing operations 2005	Discontinued operations 2005	Adjusted Group 2005
Sales	[8]	8,113	4,326	12,439	5,884	3,627	9,511
Cost of sales	[9]	5,392	3,155	8,547	3,779	2,693	6,472
Gross profit on sales		**2,721**	**1,171**	**3,892**	**2,105**	**934**	**3,039**
Marketing and selling expenses		1,243	475	1,718	887	427	1,314
Research and development costs		92	109	201	77	95	172
Administration expenses		709	245	954	508	196	704
Other operating income	[10]	193	84	277	155	54	209
Other operating expenses	[10]	98	49	147	78	28	106
Income from associates and joint ventures	[12]	31	4	35	–8	9	1
Non-recurring items	[11]						
Profit on disposal of KION Group		–	1,929	1,929	–	–	–
Costs of transformation of The Linde Group		198	117	315	–	–	–
Financial income	[13]	257	67	324	104	45	149
Financial expenses	[13]	499	96	595	201	93	294
Earnings before taxes on income		**363**	**2,164**	**2,527**	**605**	**203**	**808**
Taxes on income	[14]	144	525	669	232	53	285
Earnings after taxes on income		**219**	**1,639**	**1,858**	**373**	**150**	**523**
Attributable to minority interests		18	2	20	7	2	9
Attributable to Linde AG shareholders		**201**	**1,637**	**1,838**	**366**	**148**	**514**
Earnings per share in €	[15]	**1.45**	**11.85**	**13.30**	**3.06**	**1.24**	**4.30**
Earnings per share in € – fully diluted –	[15]	**1.45**	**11.04**	**12.49**	**2.92**	**1.14**	**4.06**

Group balance sheet

in € million	Note	31.12.2006	Adjusted 31.12.2005
Assets			
Goodwill	[17]	7,522	2,823
Other intangible assets	[17]	3,679	313
Tangible assets	[18]	7,281	3,828
Investments in associates and joint ventures	[19]	1,087	159
Other financial assets	[19]	367	84
Leased assets	[20]	83	625
Receivables from financial services	[22]	913	448
Trade receivables	[22]	–	8
Other receivables and other assets	[22]	285	74
Deferred tax assets	[14]	240	245
Non-current assets		**21,457**	**8,607**
Inventories	[21]	991	1,050
Receivables from financial services	[22]	88	105
Trade receivables	[22]	1,587	1,564
Other receivables and other assets	[22]	753	325
Securities	[23]	42	5
Cash and cash equivalents	[24]	621	906
Prepaid expenses and deferred charges	[25]	22	33
Non-current assets held for sale and disposal groups	[26]	2,435	23
Current assets		**6,539**	**4,011**
Total assets		**27,996**	**12,618**

Group balance sheet

in € million	Note	31.12.2006	Adjusted 31.12.2005
Equity and liabilities			
Capital subscribed		411	307
Conditionally authorised capital €104 million (2005: €114 million)			
Capital reserve		4,648	2,704
Retained earnings		3,226	1,680
Cumulative changes in equity not recognised through the income statement		–285	–267
Total equity excluding minority interests	[27]	**8,000**	**4,424**
Minority interests	[27]	225	49
Total equity	[27]	**8,225**	**4,473**
Provisions for pensions and similar obligations	[28]	1,284	1,122
Other non-current provisions	[29]	412	168
Deferred tax liabilities	[14]	2,315	372
Financial debt	[30]	9,504	1,997
Liabilities from financial services	[31]	37	338
Trade payables	[32]	3	4
Other non-current liabilities	[32]	118	92
Deferred income	[33]	–	69
Non-current liabilities		**13,673**	**4,162**
Other current provisions	[29]	1,727	1,308
Financial debt	[30]	1,092	419
Liabilities from financial services	[31]	12	173
Trade payables	[32]	1,949	1,467
Other current liabilities	[32]	824	481
Deferred income	[33]	59	124
Liabilities directly related to non-current assets held for sale	[34]	435	11
Current liabilities		**6,098**	**3,983**
Total equity and liabilities		**27,996**	**12,618**

Statement of recognised income and expense in Group financial statements

in € million See Note [27]	2006	Adjusted 2005
Gain/loss on remeasurement of securities	1	–
Gain/loss on remeasurement at fair value of derivative financial instruments	14	–6
Currency translation differences	–182	160
Change in actuarial gains/losses on pension provisions	–90	–72
Change in effect of the limitation on a defined benefit asset (asset ceiling under IAS 19.58)	28	–1
Other gains and losses recognised in equity	–	2
Gains and losses recognised directly in equity	**–229**	**83**
Earnings after taxes on income	**1,858**	**523**
Total gains and losses recognised	**1,629**	**606**
Of which due to:		
Linde AG shareholders	1,609	594
Other shareholders	20	12
Effects of changes in accounting policies:		
Linde AG shareholders	60	–
Other shareholders	–	–

Group cash flow statement

in € million See Note [37]	2006	Adjusted 2005
Earnings after taxes on income	1,858	523
Adjustments to earnings after taxes on income to calculate cash flow from operating activities:		
Amortisation of intangible assets/depreciation of tangible assets	881	562
Depreciation of leased assets	150	191
Write-down of financial assets	11	1
Profit/loss on disposal of non-current assets	–1,945	–20
Net interest	276	71
Other non-cash items	23	20
Changes in assets and liabilities, adjusted for the effects of changes in Group structure:		
Change in inventories	–222	–52
Change in trade receivables	–108	–71
Change in leased assets	–151	–209
Change in provisions	241	175
Change in trade payables	505	227
Change in other assets and liabilities	–292	83
Cash flow from operating activities	**1,227**	**1,501**
Payments for tangible and intangible assets and plants held under leases in accordance with IFRIC 4	–1,033	–826
Payments for investments in consolidated companies	–11,866	–8
Payments for investments in financial assets	–31	–55
Proceeds on disposal of tangible and intangible assets and the amortisation of receivables from financial services in accordance with IFRIC 4	172	59
Proceeds on disposal of consolidated companies	2,376	2
Proceeds on disposal of financial assets	122	14
Payments for investments in securities	–18	–
Cash flow from investing activities	**–10,278**	**–814**

Group cash flow statement

in € million See note [37]	2006	Adjusted 2005
Dividend payments to Linde AG shareholders and other shareholders	–168	–150
Increase in share capital	1,816	–
Interest received	79	39
Interest paid	–245	–114
Subordinated bond issued and other loans raised	10,724	–
Issue of employee shares	30	19
Cash outflows for the repayment of loans	–3,475	–134
Change in liabilities from financial services	11	–18
Cash flow from financing activities	**8,772**	**–358**
Net cash inflow/outflow	**–279**	**329**
Opening balance of cash and cash equivalents	**906**	**564**
Effects of currency translation and changes in Group structure	–4	13
Cash and cash equivalents disclosed as non-current assets held for sale and disposal groups	–2	–
Closing balance of cash and cash equivalents	**621**	**906**
Additional information		
Income taxes paid	573	201
Distributions/dividends received	35	2

Segment information by activity

in € million See Note [38]	Gases 2006	Gases Adjusted 2005	Engineering 2006	Engineering Adjusted 2005
Non-current assets (excluding tax receivables and deferred tax assets)	20,479	6,266	327	154
of which investments in associates/joint ventures accounted for under the equity method	1,102	49	−2	–
Other current assets (excluding tax receivables)	3,935	1,837	2,256	1,507
Segment assets	**24,414**	**8,103**	**2,583**	**1,661**
Pension provisions	903	374	268	247
Non-current liabilities (excluding pension provisions and deferred tax liabilities)	1,477	222	10	51
Current liabilities (excluding tax liabilities)	4,968	3,052	1,881	1,169
Segment liabilities	**7,348**	**3,648**	**2,159**	**1,467**
Average capital employed including pension provisions				
Sales to third parties	6,189	4,439	1,728	1,396
Sales to other segments	6	9	135	227
Segment sales	**6,195**	**4,448**	**1,863**	**1,623**
EBITDA (before non-recurring items)	1,540	1,104	153	117
of which share of profit/loss from associates/joint ventures	31	−7	–	–
Amortisation of intangible assets and depreciation of tangible assets	−547	−389	−21	−17
EBIT (before amortisation of fair value adjustments and non-recurring items)	993	715	132	100
Amortisation of fair value adjustments	−177	–	−3	–
Non-recurring items	–	–	–	–
Financial result	−76	−84	–	−3
Earnings before taxes on income	**740**	**631**	**129**	**97**
Return on capital employed (ROCE) before non-recurring items in %				
EBIT return on sales in %	16.0	16.1	7.1	6.2
EBITDA return on sales in %	24.9	24.8	8.2	7.2
Cash flow from operating activities	1,103	986	550	299
Cash flow from investing activities	−858	−625	−32	−22
Free cash flow	245	361	518	277
Capital expenditure (excluding financial assets, excluding acquisitions)	808	671	31	23
Number of employees at December 31[1]	39,142	17,783	5,166	4,408

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

Other/Consolidation		Continuing operations		Discontinued operations		Group	
2006	Adjusted 2005	2006	Adjusted 2005	2006	Adjusted 2005	2006	Adjusted 2005
410	456	21,216	6,876	–	1,483	21,216	8,359
–13	85	1,087	134	–	24	1,087	159
–577	–1,477	5,614	1,867	677	2,038	6,291	3,905
–167	**–1,021**	**26,830**	**8,743**	**677**	**3,521**	**27,507**	**12,264**
113	38	1,284	659	–	463	1,284	1,122
8,572	1,948	10,059	2,221	–	433	10,059	2,654
–1,690	–1,978	5,159	2,243	382	1,443	5,541	3,686
6,995	**8**	**16,502**	**5,123**	**382**	**2,339**	**16,884**	**7,462**
						12,638	**7,149**
197	51	8,114	5,886	4,325	3,625	12,439	9,511
–142	–238	–1	–2	1	2	–	–
55	**–187**	**8,113**	**5,884**	**4,326**	**3,627**	**12,439**	**9,511**
–107	–89	1,586	1,132	630	573	2,216	1,705
–	–1	31	–8	4	9	35	1
–29	–24	–597	–430	–249	–322	–846	–752
–136	–113	989	702	381	251	1,370	953
–6	–	–186	–	–	–	–186	–
–198	–	–198	–	1,812	–	1,614	–
–166	–10	–242	–97	–29	–48	–271	–145
–506	**–123**	**363**	**605**	**2,164**	**203**	**2,527**	**808**
						11.4	13.7
–	–	12.2	12.1	–	–	11.0	10.0
–	–	19.5	19.4	–	–	17.8	17.9
–805	–54	848	1,231	379	270	1,227	1,501
–9,214	20	–10,104	–627	–174	–187	–10,278	–814
–10,019	–34	–9,256	604	205	83	–9,051	687
–63	–21	776	673	195	191	971	864
6,730	715	51,038	22,906	4,407	19,323	55,445	42,229

Segment information by region

in € million	2006	Adjusted 2005
Sales by location of customer		
Germany	1,187	1,046
Other Europe	3,339	2,584
North America	1,656	1,165
South America	423	351
Africa	264	107
Asia/Australia	1,244	631
	8,113	5,884
Discontinued operations	4,326	3,627
	12,439	9,511
Capital expenditure (excluding financial assets, excluding acquisitions) by location of company		
Germany	101	167
Other Europe	346	327
North America	123	68
South America	74	80
Africa	38	10
Asia/Australia	94	21
	776	673
Discontinued operations	195	191
	971	864
Non-current segment assets (including tax) by location of company		
Germany	1,016	1,271
Other Europe	13,906	4,638
North America	2,295	615
South America	478	251
Africa	714	69
Asia/Australia	3,048	155
	21,457	6,999
Discontinued operations	–	1,608
	21,457	8,607

It should be noted that, particularly as a result of the acquisition of BOC, Karbogaz and Spectra, there was capital expenditure on goodwill of €4.9 billion, on other intangible assets of €3.7 billion and on tangible assets of €4.4 billion.

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 2006 have been drawn up on the basis of § 315a of the German Commercial Code (HGB) in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. We have applied all the standards which are currently in force 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.

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

KPMG or other appointed auditors have 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 significant Group 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 acquired are identified and stated at their fair values at the acquisition date. 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 at least once a year for impairment and any impairment losses are recognised.

Where minority interests are acquired, any remaining positive 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 measurement of companies using the equity method follows the same principles.

[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.

As a result of the acquisition of BOC, Linde has become one of the world's leading industrial gases and engineering groups. The regional presence of the two companies is complementary, and the combination of BOC and Linde has created a strong global network.

The acquisition was carried out under a Scheme of Arrangement and all the outstanding shares of BOC, as well as the existing share option schemes, were purchased for cash.

When BOC was consolidated into Linde for the first time from 5 September 2006 (after all the main conditions had been fulfilled), 373 fully-consolidated companies and 174 joint ventures or associates were included in the consolidation.

Due to the size and complexity of the acquisition, BOC could only be included in the quarterly financial statements of Linde for the nine months to 30 September 2006 at a provisional figure of the book values of the net assets acquired. At 31 December 2006, we have provisional figures for the purchase price allocation in accordance with IFRS 3, which are disclosed below. The results of the purchase price allocation should, according to the rules set out in IFRS 3, initially be seen as provisional, as there could be subsequent adjustments, especially to the figure for "Non-current assets held for sale and disposal groups" and to assets which have been separately identified.

The cost of BOC in accordance with IFRS 3 has changed slightly from the figure disclosed at 30 September 2006, mainly as a result of taking incidental acquisition expenses into account.

The following table shows the adjustment made to the cost of acquisition and to the provisional figure for goodwill in comparison with the information given in the quarterly report for the nine months to 30 September 2006:

Provisional difference arising on the acquisition of The BOC Group

in € million	**05.09.2006**
Cost of shares outstanding	12,085
Cost of share options outstanding	188
Provisional acquisition expenses	99
Purchase cost of BOC	**12,372**
Provisional difference between cost and net assets acquired before purchase price allocation at 30 September 2006	**9,333**
Change as a result of adjustment to cost	33
Provisional difference between cost and net assets acquired before purchase price allocation at 31 December 2006	**9,366**
Customer relationships	2,881
Brand name	411
Technologies	217
Other intangible assets	38
Technical equipment	528
Land and buildings	308
Other tangible assets	480
Investments in associates	624
Non-current assets held for sale and disposal groups	1,041
Other assets and other liabilities	–279
Other changes to the opening balance	30
Deferred taxes	–1,716
Provisional goodwill at 31 December 2006	**4,803**

The acquisition of BOC had the following effect on the net assets, financial position and results of operations of The Linde Group:

Impact of acquisition of BOC on net assets, financial position and result of operations

Opening balance at 5 September 2006			
in € million	Book value	Adjustment	Fair value
Non-current assets	4,884	5,351	10,235
Inventories	324	25	349
Cash and cash equivalents	691	–	691
Non-current assets held for sale and disposal groups	1,042	1,041	2,083
Other current assets	938	–	938
Equity	3,037	4,534	7,571
Minority interests	168	–	168
Provisions for pensions and similar obligations	812	–	812
Other non-current liabilities	1,850	1,874	3,724
Current liabilities	1,504	9	1,513
Liabilities directly related to non-current assets held for sale	508	–	508

Group income statement

in € million	5 September – 31 December 2006
Sales	1,923
Cost of sales	1,344
Gross profit on sales	**579**
Other income and other expenses	–572
Operating profit (EBIT)	**7**
Financial result	49
Earnings before taxes on income (EBT)	**56**
Taxes on income	–22
Earnings ater taxes on income	**78**
Attributable to minority interests	11
Attributable to Linde AG shareholders	**67**

Group cash flow statement

in € million	5 September – 31 December 2006
Cash flow from operating activities	193
Cash flow from investing activities	–168
Cash flow from financing activities	–501

In the course of the BOC acquisition, certain conditions were imposed by the competition authorities in the United States and in the European Union. For this reason, the investments in BOC Gazy Poland and part of the helium business are disclosed as non-current assets held for sale in the opening balance sheet. The helium business had already been sold by 30 September 2006. Also included under this heading is the components business of BOC Edwards and the minority interest in AFROX Hospitals which was sold in September 2006. The investments in associates, Japan Air Gases and Indura, were also shown as non-current assets held for sale in the opening balance sheet. As these assets were included in the purchase price allocation at their fair values less costs to sell, there is no profit on disposal when these operations are deconsolidated.

The assets, liabilities and contingent liabilities identified 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, advantageous contracts and current 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 €4.8 billion is mainly due to expected synergies from combining BOC's activities with those of Linde and to assets which cannot be recognised as identifiable intangible assets (such as the quality and level of education of the BOC workforce).

Other acquisitions

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

	Group holding in %	Acquisition cost in EUR 000	Date first included
Karbogaz Karbondioksit ve Kurubuz Sanayi A.S., Istanbul, Turkey	100.0	65,820	31.07.2006
Spectra Gases Inc., Branchburg, US	100.0	82,981	20.09.2006
Refrigeration Equipment Company (Pty) Ltd., South Africa	100.0	12,206	31.12.2006

Karbogaz Karbondioksit ve Kurubuz Sanayi A.S., Istanbul, Turkey

With effect from 31 July 2006, Linde acquired 100 percent of the shares in Karbogaz Karbondioksit ve Kurubuz Sanayi A.S., Istanbul, Turkey (Karbogaz). The company operates in the Turkish market and is principally involved in the sale and production of industrial gases, carbon dioxide and dry ice. The cash purchase price of the company was €65.8 million, including incidental acquisition expenses.

On the date of acquisition, the allocation of the cost of the combination in accordance with IFRS 3 was determined. The following opening balance sheet at fair values has been included in the Group financial statements at 31 December 2006.

Under the purchase price allocation, the figures recognised in the opening balance sheet included customer relationships of €12.6 million, advantageous contracts of €2.4 million and production rights of €3.2 million. The tangible assets were remeasured at their fair values, resulting in a total increase in value of €7.2 million. Goodwill arising on the acquisition was €11.8 million.

Spectra Gases Inc., Branchburg/USA

On 20 September 2006, following receipt of approval for the acquisition from the competition authorities, Linde acquired 100 percent of the shares in Spectra Gases Inc., Branchburg/USA (Spectra). The company focuses mainly on the sale and production of specialty gases. The cash purchase price of the company, including incidental acquisition expenses, was €83.0 million.

The purchase price allocation in accordance with IFRS 3 was determined, a figure which is still provisional at the balance sheet date. The following opening balance sheet at fair values has been included in the Group financial statements at 31 December 2006.

When determining the purchase price allocation, the figures recognised in the opening balance sheet included customer relationships of €21.7 million, brand names of €0.7 million, patents of €0.2 million and internally generated software of €0.7 million. The opening balance sheet also included tangible assets with fair values totalling €16.1 million and inventories with a fair value of €12.4 million. After taking deferred tax into account, the goodwill arising on acquisition was €29.0 million.

The fair values of the assets and liabilities acquired in the fully-consolidated companies are shown in the table below:

in € million	Group	Spectra	Karbogaz	Other
Other non-current assets	192	70	65	57
Inventories	30	13	1	16
Other current assets (excluding cash and cash equivalents)	44	10	7	27
Cash and cash equivalents	5	1	1	3
Non-current liabilities	–35	–5	–6	–24
Current liabilities	–57	–6	–2	–49
Purchase price	**179**	**83**	**66**	**30**
Less cash and cash equivalents	–4	–	–1	–3
Cash outflow	**175**	**83**	**65**	**27**

Included in earnings after taxes on income of The Linde Group is an amount of €0.4 million in respect of Spectra Gases, Inc. and €1.7 million in respect of Karbogaz from the date they were first consolidated.

Sales

Linde AG, Wiesbaden, concluded the sale of the KION Group, agreed on 5 November 2006, to the consortium comprising the financial investors Kohlberg Kravis & Roberts (KKR) and Goldman Sachs Capital Partners. Following the receipt of unconditional approval from the European Commission and from the competition authorities in Switzerland and the United States, the transaction was completed on 28 December 2006.

We also plan to dispose of the BOC Edwards components business. Both parts of the business are disclosed in the Group income statement as discontinued operations. In accordance with IFRS 5, assets included in discontinued operations must no longer be amortised or depreciated. Therefore, earnings in the KION Group and from the BOC Edwards components business increased by €66 million, after taking deferred tax into account.

Further information on discontinued operations is given in Note [47].

The investment in Komatsu Forklift Co. Ltd., Tokyo, Japan, was sold to the joint venture partner on 25 July 2006. Linde AG also sold its subsidiary Linde Ladenbau GmbH & Co. KG to Dolma Holding AG in December 2005. The transfer of Linde Ladenbau GmbH & Co. KG took place on 27 January 2006. On that date, the company was deconsolidated.

[4] Scope of consolidation

The Group financial statements comprise Linde AG and all the companies in which Linde AG holds, either directly or indirectly, the majority of the voting rights and in which it has the power to govern the financial and operating policies, based on the concept of control. Some companies in which Linde has a direct or indirect majority holding are not included in the consolidated financial statements, because Linde cannot exercise control due to other contractual arrangements.

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.

Changes in the Group structure led to the inclusion in the consolidated financial statements of Linde Nippon Sanso Group, Linde (Australia) Pty. Ltd., Australia, Linde Gas BH d. o. o., Bosnia-Herzegovina, Linde Electronics & Specialty Gases (Suzhou) Co. Ltd., Linde Gas Ningbo Ltd. and Linde Gas (Shenzhen) Ltd., China, the Cleaning Enterprises Group, Linde Medical Devices GmbH and Linde Semicon GmbH & Co. KG, Germany, Linde Gas Holdings Ltd. and Linde Helium Holdings Ltd., UK, LINDE GAS BITOLA DOOEL Skopje, Macedonia, and Mecomfa Onroerend Goed B. V., Netherlands.

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.

In the 2006 financial year, there were no significant restrictions in nature or scope on subsidiaries transferring funds in the form of cash dividends to The Linde Group.

The Linde Group comprises the following companies:

	As at 31.12.2005	BOC	Additions	Disposals	As at 31.12.2006
Consolidated subsidiaries	**274**	**373**	**32**	**90**	**589**
of which within Germany	35	3	6	10	34
of which outside Germany	239	370	26	80	555
Subsidiaries reported at acquisition cost	**55**	**–**	**15**	**39**	**31**
of which within Germany	10	–	1	8	3
of which outside Germany	45	–	14	31	28
Companies accounted for using the equity method	**33**	**174**	**9**	**20**	**196**
of which within Germany	8	–	–	8	–
of which outside Germany	25	174	9	12	196

Of the 174 companies accounted for using the equity method, 130 companies are held by joint ventures or associates.

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 § 264b 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	Pullach
Commercium Immobilien- und Beteiligungs-GmbH	Wiesbaden
Commercium Versicherungsvermittlung GmbH	Wiesbaden
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	Wuerzburg
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

A list of the complete shareholdings of The Linde Group and the Group financial statements and Group management report, as well as the Report of the Supervisory Board, are filed in the electronic German Federal Gazette (Bundesanzeiger). Significant Group companies are listed in Note [49].

[5] Foreign currency translation

Transactions in foreign currency have been translated into the relevant functional currency of the individual unit on the transaction date. Any translation differences arising as a result are recognised immediately in profit or loss.

The financial statements of foreign subsidiaries, including fair value adjustments and impairment losses 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.

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

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

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

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

During the year, translation losses of €13 million (2005: gains of €4 million) 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		Annual average rate	
		31.12.2006	31.12.2005	2006	2005
Argentina	ARS	4.036900	3.588800	3.864353	3.620423
Australia	AUD	1.673000	1.617400	1.667950	1.627720
Brazil	BRL	2.819600	2.768200	2.733147	3.000314
Canada	CAD	1.538400	1.373800	1.425529	1.500570
China	CNY	10.304000	9.553900	10.019640	10.185147
Czech Republic	CZK	27.497000	29.090000	28.326712	29.758953
Great Britain	GBP	0.674000	0.687200	0.681825	0.683087
Hungary	HUF	251.440000	252.620000	264.222521	248.308231
Malaysia	MYR	4.658700	4.474300	4.606901	4.697524
Mexico	MXN	14.255600	12.590100	13.712808	13.438515
Norway	NOK	8.229300	7.983300	8.047364	8.006471
Poland	PLN	3.831700	3.844000	3.895625	3.911415
South Africa	ZAR	9.246200	7.511500	8.677765	7.910495
South Korea	KRW	1,227.370000	1,192.730000	1,199.536593	1,268.935460
Sweden	SEK	9.025000	9.401600	9.251892	9.298144
Switzerland	CHF	1.607700	1.556700	1.573323	1.548299
Turkey	TRY	1.868100	1.595000	1.808592	1.657730
USA	USD	1.319800	1.183900	1.256756	1.239135

[7] Accounting policies

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

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

Recently issued accounting standards

The IASB has revised numerous standards and issued many new ones in the course of its projects to develop IFRS and in its efforts to achieve convergence with US GAAP. These were applied in the Group financial statements from 1 January 2006 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 2006:

- Amendment to IAS 39 and IFRS 4 *(Financial Guarantee Contracts),*
- Amendment to IAS 21 *(Net Investment in a Foreign Operation),*
- IFRIC 4 *(Determining whether an Arrangement contains a Lease),*
- IFRIC 5 *(Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds).*

The following standards have been applied early in the Group financial statements for the year ended 31 December 2006:

- IFRIC 7 *(Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies),*
- IFRIC 8 *(Scope of IFRS 2),*
- IFRIC 9 *(Reassessment of Embedded Derivatives),*
- IFRIC 10 *(Interim Financial Reporting and Impairment).*

In addition, the following standards have been issued by the IASB or IFRIC in the course of the 2006 financial year, but have not been applied in the Group financial statements for the year ended 31 December 2006, as they are not yet mandatory or have not yet been adopted by the European Commission:

- Amendment to IAS 1 *(Capital Disclosures),*
- Amendment to IFRS 4 *(Revised Guidance on Implementing IFRS 4),*
- IFRS 7 *(Financial Instruments – Disclosures),*
- IFRS 8 *(Operating Segments),*
- IFRIC 11 *(IFRS 2 – Group and Treasury Share Transactions),*
- IFRIC 12 *(Service Concession Arrangements).*

These standards will not be applied by Linde AG until the 2007 financial year or later. IAS 1, IFRS 7 and IFRS 8 will all result in changes to the information given in the Notes to the Group financial statements or more information being given. The impact of the other standards on the net assets, financial position and results of operations in the 2007 financial year will not be significant overall.

Changes in accounting policies

In the 2006 financial year, The Linde Group has applied IFRIC 4 *Determining whether an Arrangement contains a Lease* for the first time. The application of IFRIC 4 was mandatory from 1 January 2006. As a result of the change in accounting policy required by IFRIC 4, the prior year figures have been adjusted ("Adjusted").

In accordance with the criteria set out in IFRIC 4, certain contracts in relation with technical equipment in the Gases Division, in particular certain on-site plants and ECOVAR®-plants, must be classified as embedded finance leases. As a result, when IFRIC 4 is first applied, the accounting treatment involves the implied sale of tangible assets and the recognition of the future minimum lease payments due from the customer, equivalent to the net investment in the lease, under receivables from financial services. Intra-Group profits and losses on plants built by the Engineering Division which were eliminated in prior years have been eliminated through the income statement.

In future, a one-off amount will be recognised in sales on the completion and bringing on stream of the plant, whereas prior to the application of the new rule the sale was recognised over the estimated useful life of the plant or over the term of the on-site contract.

In 2006, the classification of financing costs in relation to pension provisions was also adjusted in line with IAS 19. As a result of the acquisition of BOC and the disposal of the KION Group, a major part of the pension obligations will be financed by externally managed pension assets from the 2006 financial year, which is intended eventually to reduce the financing costs of these obligations. To date, the interest cost in the pension provisions and the expected return on plan assets have been recognised in functional costs. In 2006, the financing costs have been included in the financial result for the first time, as they arise from the way in which pension obligations are financed. This means that more relevant information can be shown about the impact of the pension obligations on the results of operations. Because of this change in accounting policy, the disclosure in 2005 has been adjusted ("Adjusted").

The adjustments to the prior year figures had the following effects on equity at 31 December 2005 and on earnings after taxes on income in the 2005 financial year:

Group balance sheet

in € million	31.12.2005
Equity at 31.12.2005 – as reported	**4,413**
Adjustment for change in accounting treatment of certain plants in the Gases Division, which must be recognised as finance leases (IFRIC 4)	
Change in tangible assets	–282
Change in inventories	26
Change in receivables from financial services	348
Deferred taxes	–32
Equity at 31.12.2005 – adjusted	**4,473**

Group income statement

in € million			January to December 2005
Earnings after taxes on income – as reported			**510**
Adjustment for change in accounting treatment of certain plants in the Gases Division, which must be recognised as finance leases (IFRIC 4)			
Change in sales			10
Change in cost of sales			11
Change in finance income from leases			20
Reclassification of financing costs relating to pension provisions in accordance with IAS 19	Continuing operations	Discontinued operations	
Change in cost of sales	–13	–9	–22
Change in marketing and selling expenses	–5	–3	–8
Change in research and development costs	–1	–1	–2
Change in administration expenses	–6	–2	–8
Change in other operating income	–	–	–
Change in other operating expenses	–	–	–
Change in interest income	31	23	54
Change in interest charges	56	38	94
Deferred tax expense	–	–	6
Earnings after taxes on income – adjusted			**523**

In comparison with the information disclosed in the first quarter of 2006 on the adjustment made to prior year figures to take account of the application of IFRIC 4 for the first time, there have been changes to some figures in order to correct errors.

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

Revenue from long-term contracts is 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 indirect costs including depreciation of production plant, amortisation of certain intangible assets and inventory write-downs. Cost of sales also includes additions to the provisions for warranties and provisions for losses on orders. Warranty provisions are established for the estimated cost at the date of sale of that particular product, or are based on the stage of completion of the plant in the case of long-term contracts. Provisions for losses on orders are made in full in the reporting period in which the estimated total cost of the particular contract exceeds the expected revenue.

Research and development costs

Research costs and development costs which cannot be capitalised are recognised in the income statement when they are incurred.

Financial result

The financial result includes the interest charge on liabilities, which is calculated on the basis of the effective interest rate method, dividends, exchange gains and losses, interest income on receivables and profits and losses on financial instruments recognised in profit or loss. From 2006, the interest cost relating to pension provisions and the loss on remeasurement of embedded derivatives have been included in interest cost.

Interest income is 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, from 2006, the expected return on plan assets relating to pension obligations and the gain on remeasurement of embedded derivatives are disclosed in interest income.

Intangible assets

Intangible assets comprise goodwill, customer relationships, development costs, patents, software, licences and similar rights.

Purchased and internally-generated intangible assets are stated at acquisition 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 to an impairment test at least 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 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, goodwill is allocated to the smallest cash-generating unit 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 carried out at the level of the smallest cash-generating unit. This is the cash-generating unit on the acquisition of which that portion of the goodwill arose, based on the existing acquisition structure. As a result, goodwill has been allocated to around 100 different cash-generating units, each with an immaterial individual value, and will be tested for impairment in each individual cash-generating unit. Of the goodwill of €7,522 million, €20 million relates to the Engineering Division and €7,502 million to the Gases Division. 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 constant yield 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 constant yield was discounted, 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. The pre-tax interest rate on which this was based was 10.2 percent (2005: 9.6 percent) for Group-wide funds. The average declining growth rate for discounting the constant yield applied throughout the Group was 2 percent.

Intangible assets with finite useful lives are amortised over the estimated useful life of the assets. 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 period of the contractual relationship underlying the customer relationship, or on the basis of observable customer behaviour. If there are any indications of impairment in the intangible assets, an impairment test is performed in accordance with IAS 36, for which the same procedure is adopted as that described above for intangible assets with indefinite useful lives.

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 (i.e. acquisition/manufacturing cost net of depreciation) had no impairment loss been recognised. This does not apply to goodwill.

Costs incurred in connection with acquisition and in-house development of computer 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 purchase 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. The depreciation method and the estimated useful lives of assets are reviewed on an annual basis and adapted to the conditions at the time.

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

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

If significant events or market developments indicate an impairment in the value of the asset, Linde reviews the recoverability of the carrying amount of the asset (including capitalised development costs) by testing for impairment. The carrying amount of the asset is compared with the recoverable amount, which is defined as the higher of the asset's 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 total discounted cash flows, 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 carrying amount of the asset is increased to a maximum figure of the carrying amount that would have been determined (i.e. acquisition/manufacturing cost net of depreciation) had no impairment loss been recognised.

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

Financial assets

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

According to IAS 39 *Financial Instruments: Recognition and Measurement,* securities included in non-current or current assets must be categorised as assets held for trading, available for sale or held to maturity. The Linde Group does not hold any securities for trading. Available-for-sale securities are stated at fair value if this can be reliably determined. Unrealised gains and losses, including deferred tax, are recognised separately in equity until they are realised. If no market price is available, 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.

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 cost 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 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). The contracts are disclosed under receivables or payables from percentage of completion. If the cumulative contract output (costs incurred plus profits disclosed) exceeds payments on account on an individual contract, the construction contract is disclosed under Receivables from percentage of completion. 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 in Other operating income at Group level. Interest which does not relate to long-term construction contracts is shown in the Financial result.

Receivables and other assets

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

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

Derivative financial instruments

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

Under IAS 39 *Financial Instruments: Recognition and Measurement,* all derivative financial instruments are reported at fair value on the trading day, irrespective of their purpose or the reason for which they were acquired. Changes in the fair value of derivative financial instruments, where hedge accounting is used, are either 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 net 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 hedge-ineffective portion of the changes in fair value is recognised immediately in net 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 entity, 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, 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 [36].

Deferred taxes

Deferred tax assets and liabilities are accounted for in accordance with IAS 12 *Income Taxes* under the liability method in respect of all temporary differences between the carrying amount of 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, based on tax laws enacted in the individual countries.

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 accounting principles. Actuarial gains and losses are recognised directly in equity.

The expense arising from additions to the provisions, including the relevant interest portion, is allocated to the functions 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 over 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, Linde acts as a reinsurer in respect of some of the above-mentioned insurance contracts and is therefore exposed to certain insurance risks according to IFRS 4. By accepting these insurance risks, the company benefits from the lower loss ratio in The Linde Group compared with the industry average.

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

Financial debt and liabilities

Financial debt is reported at 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.

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

Accounting for leases

Lease agreements are classified as finance leases if they transfer substantially all the risks and rewards 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 Leased assets at the fair value of the leased property or, if lower, at the present value of the minimum lease payments, while the corresponding liabilities to the lessor are recognised in the balance sheet as Liabilities from financial services. Depreciation charged on the leased 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.

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

To support sales, KION Group companies lease various products, principally industrial trucks, to their customers (sales financing).

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

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

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

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

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

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

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

Non-current assets and disposal groups are disclosed separately in the balance sheet as held for sale, if they can be sold in their current state and the sale is probable. 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 and
- → the assessment of the recoverability of deferred tax assets.

An impairment test is carried out annually on goodwill at the level of the smallest cash-generating unit to which the goodwill has been allocated on the basis of our operational three-year plan, assuming growth rates specific to the division for the following period. Any changes in these key factors may possibly result in higher or lower impairment losses being 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 €412 million or €435 million respectively. This change in parameters would have no effect on earnings, as actuarial gains and losses are recognised directly in equity.

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

Deferred tax assets in respect of unused tax losses are recognised on the basis of an assessment of their future recoverability, i.e. when there is sufficient tax 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.

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	2006	Adjusted 2005
Revenue from the sale of products and services	6,703	4,747
Revenue from long-term construction contracts	1,410	1,137
Continuing operations	**8,113**	**5,884**
Discontinued operations	4,326	3,627
Group	**12,439**	**9,511**

[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	2006	2005
Profit on disposal of non-current assets	26	25
Ancillary revenue	33	15
Financial result from long-term contracts	32	18
Exchange rate differences	51	52
Income from release of provisions	26	15
Miscellaneous operating income	109	84
Other operating income	**277**	**209**

Other operating expenses

in € million	2006	2005
Expenses related to pre-retirement part-time work schemes	8	6
Loss on disposal of non-current assets	21	7
Exchange rate differences	55	63
Doubtful debts, payment shortfalls and write-downs on other assets	38	21
Miscellaneous operating expenses	25	9
Other operating expenses	**147**	**106**

Other operating income of €277 million includes amounts relating to discontinued operations of €84 million (2005: €54 million). Other operating expenses of €147 million includes amounts relating to discontinued operations of €54 million (2005: €28 million).

[11] Non-recurring items

Non-recurring items in the 2006 financial year comprise:

Profit on disposal of the KION Group

In the course of the strategic reorganisation of The Linde Group into the Gases and Engineering Divisions, the KION Group was sold on 28 December 2006 and deconsolidated. In the run-up to the disposal, the former Material Handling business segment was made legally independent by transferring part of the business, transferring assets and making sales. All the German and foreign investments in companies and the Linde Material Handling division, Aschaffenburg, which was not legally independent and belonged to Linde AG, were bundled into KION Group GmbH.

The newly-established KION Group was valued as a going concern at 30 September 2006 at €3.952 billion. This formed the basis for the contract of sale with the consortium comprising the financial investors Kohlberg Kravis Roberts & Co. (KKR) and Goldman Sachs Capital Partners. Before the legal transfer takes place, KION Group GmbH will pay out an advance distribution to Linde AG. After taking this dividend into account, and after the settlement of intercompany receivables and payables and the deduction of other liabilities, there was a net cash inflow of €2.550 billion (excluding cash and cash equivalents transferred). The profit on deconsolidation was €1.929 billion.

Costs arising from the transformation of The Linde Group

In the course of the reorganisation of The Linde Group, various 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 parts of the business, etc.

Costs arising from the transformation of The Linde Group

in € million	2006	2005
Restructuring costs	106	–
Internal and external communications costs	20	–
Consultancy costs	100	–
Integration and other costs	89	–
Group	**315**	**–**

[12] Income from associates

Income from associates in the 2006 financial year was €35 million (2005: €1 million).

[13] Financial income and expenses

Financial income

in € million	2006	Adjusted 2005
Interest and similar income	127	73
Income from investments	5	–
Investment income from pension plan assets	125	31
Continuing operations	**257**	**104**
Discontinued operations	67	45
Group	**324**	**149**

Financial expenses

in € million	2006	Adjusted 2005
Interest and similar charges	369	144
Interest cost of pension obligations	129	56
Amortisation of financial assets and securities held as current assets	1	1
Continuing operations	**499**	**201**
Discontinued operations	96	93
Group	**595**	**294**

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 2006 financial year, the interest cost for pension provisions and the expected return on plan assets are shown in financial expenses and financial income respectively.

[14] Taxes on income

Taxes on income in The Linde Group can be analysed as follows:

Taxes on income

in € million	2006	Adjusted 2005
Current tax expense and income	163	243
Tax expense and income relating to prior periods	33	6
Deferred tax income and deferred tax expense	–52	–17
Taxes on income	**144**	**232**
Discontinued operations	525	53
	669	285

The income tax expense disclosed for the 2006 financial year of €669 million is €291 million lower than the expected income tax expense of €960 million, a theoretical figure arrived at by applying the German tax rate of 37.9 percent (2005: 37.9 percent) to Group earnings before taxes on income. Tax effects directly recognised in equity are shown in detail in Note [27].

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

in € million	2006	Adjusted 2005
Earnings before taxes on income	2,527	808
Income tax rate of Linde AG (including trade tax)	38%	38%
Expected income tax expense	**960**	**307**
Foreign tax rate differential	–51	–61
Reduction in tax due to tax-free income	–489	–11
Increase in tax due to non-tax-deductible expenses	71	39
Tax expense and income relating to prior periods	33	6
Effect of changes in tax rate	–2	–5
Change in other permanent differences	106	–
Other	41	10
Income tax expense disclosed	**669**	**285**
Effective tax rate	26%	35%

In the 2006 financial year, the corporation tax rate in Germany was 25 percent (2005: 25 percent). Taking into account an average rate for trade earnings tax of 11.5 percent and the solidarity surcharge rate of 1.4 percent, this gives a tax rate for German companies of 37.9 percent (2005: 37.9 percent).

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

No deferred tax is calculated in respect of retained profits in subsidiaries, as the profits are indefinitely reinvested in these operations or are not subject to taxation.

Deferred tax assets and liabilities

in € million	2006 Deferred tax assets	2006 Deferred tax liabilities	Adjusted 2005 Deferred tax assets	Adjusted 2005 Deferred tax liabilities
Intangible assets and tangible assets	118	2,099	91	485
Financial assets	99	260	17	128
Current assets	658	468	143	269
Provisions	160	120	295	43
Liabilities	435	691	264	49
Tax loss carryforwards and tax credits	108	–	112	–
Valuation allowance	–15	–	–75	–
Amounts offset	–1,323	–1,323	–602	–602
	240	**2,315**	**245**	**372**

The significant increase in deferred tax liabilities is as a result of the purchase price allocation on the acquisition of The BOC Group in 2006, and relates mainly to intangible and tangible assets.

Deferred tax assets in respect of provisions include €30 million (2005: €113 million), which relates to entries recognised directly in equity. The change in the 2006 financial year was €83 million. The carrying amount of deferred tax assets is reduced to the extent that it is no longer probable that the deferred tax asset will be utilised. A valuation allowance of €15 million (2005: €75 million) has therefore been recognised against the deferred tax assets to reduce the potential tax savings of €43 million (2005: €234 million), as it is not probable that the underlying tax loss carryforwards and tax credits of €26 million (2005: €209 million) and deductible temporary differences of €17 million (2005: €25 million) will be utilised. Of the total potential tax savings less the valuation allowance of €43 million (2005: €234 million), €9 million (2005: €75 million) may be carried forward for up to ten years and €17 million (2005: €132 million) may be carried forward for longer than ten years.

Tax loss carryforwards

in € million	2006	2005
May be carried forward for up to 10 years	24	85
May be carried forward for longer than 10 years	81	49
May be carried forward indefinitely	82	222
	187	**356**

Although some of the unused tax losses were utilised during the year, the reduction in tax loss carryforwards is due mainly to the disposal of unused tax losses on the sale of the KION Group, which was not compensated for by the addition of tax loss carryforwards relating to The BOC Group.

[15] Earnings per share

in € million/Shares in thousands	January to December 2006 Continuing operations	Discontinued operations	Group	January to December 2005 [1] Continuing operations	Discontinued operations	Adjusted Group
Earnings after taxes on income attributable to Linde AG shareholders	201	1,637	1,838	366	148	514
Plus: increase in profit due to dilutive effect of convertible bond	14	–	14	13	–	13
Profit after adjusting for dilutive effects	215	1,637	1,852	379	148	527
Weighted average number of shares outstanding	138,166	138,166	138,166	119,564	119,564	119,564
Dilution as a result of the Linde Management Incentive Programme	543	543	543	358	358	358
Effect of dilutive convertible bond	9,519	9,519	9,519	9,738	9,738	9,738
Weighted average number of shares outstanding – fully diluted –	148,228	148,228	148,228	129,660	129,660	129,660
Earnings per share in €	**1.45**	**11.85**	**13.30**	**3.06**	**1.24**	**4.30**
Earnings per share in € – fully diluted –	**1.45**	**11.04**	**12.49**	**2.92**	**1.14**	**4.06**

[1] Adjusted.

In May 2004, The Linde Group issued a convertible bond with a nominal amount of €550 million. The dilutive effects of issuing future shares were taken into account in the calculation of earnings per share, to the extent that the bond had not yet been converted into equity.

For the calculation of the adjusted earnings per share, see Note [48].

[16] Other information on the Group income statement

in € million	2006	2005
Cost of raw materials, supplies, finished and unfinished goods, and merchandise	5,396	4,084
Cost of external services	438	350
Cost of materials	**5,834**	**4,434**
Wages and salaries	2,189	1,627
Social security contributions	455	383
Pension costs and personnel welfare costs	165	123
of which pension costs €162 million (2005: €122 million)		
Personnel costs	**2,809**	**2,133**

Notes to the Group balance sheet

[17] Goodwill/Other intangible assets

Movements in the intangible assets of The Linde Group during the 2006 financial year and in the previous year were as follows:

Acquisition/Manufacturing cost in € million	Goodwill	Capitalised development costs	Other intangible assets	Total
At 1 Jan. 2005	**2,788**	**257**	**296**	**3,341**
Currency adjustments	7	1	5	13
Changes in Group structure/acquisitions	17	–	–	17
Additions	11	53	65	129
Disposals	–	–	12	12
Transfers	–	–	1	1
At 31 Dec. 2005/1 Jan. 2006	**2,823**	**311**	**355**	**3,489**
Currency adjustments	–11	2	–2	–11
Additions as a result of acquisitions	4,863	–	3,760	8,623
Additions	1	53	63	117
Disposals	33	366	158	557
Transfers	–	–	2	2
Reclassification as assets held for sale	–117	–	–97	–214
At 31 Dec. 2006	**7,526**	**–**	**3,923**	**11,449**

Accumulated amortisation in € million	Goodwill	Capitalised development costs	Other intangible assets	Total
At 1 Jan. 2005	–	135	141	276
Currency adjustments	–	–	3	3
Changes in Group structure/acquisitions	–	–	–	–
Amortisation for the year	–	46	40	86
Disposals	–	–	12	12
Transfers	–	–	–	–
At 31 Dec. 2005/1 Jan. 2006	–	181	172	353
Currency adjustments	–	1	−2	−1
Additions as a result of acquisitions	–	–	90	90
Amortisation/impairment for the year	4	32	93	129
Disposals	–	214	83	297
Transfers	–	–	–	–
Reclassification as assets held for sale	–	–	−26	−26
At 31 Dec. 2006	4	–	244	248
Net book value at 31 Dec. 2006	7,522	–	3,679	11,201
Net book value at 31 Dec. 2005	2,823	130	183	3,136

In the balance sheet at 31 December 2006, the total figure for goodwill is €7.522 billion (2005: €2.823 billion). Of this amount, €4.803 billion arose as a result of the acquisition of BOC, while €60 million relates to other acquisitions in the 2006 financial year. Goodwill arising on the acquisition of the AGA Group in 1999, which has a net book value of €2.386 billion (2005: €2.495 billion), is the largest single item.

Those additions to goodwill which relate to the acquisition of BOC will be subject to an impairment test for the first time in the 2007 financial year, once the final results of the purchase price allocation are available and once the figures have been allocated to the cash-generating units. The remaining goodwill was reviewed for impairment on 30 November 2006, and an impairment loss of €4 million was recognised.

The impairment losses recognised in respect of goodwill are based on a revised estimate of the future results of operations of various cash-generating units.

Included in other intangible assets is a figure of €3.679 billion (2005: 313 million), which comprises mainly intangible assets identified in the course of the purchase price allocation as a result of the BOC acquisition. For a detailed analysis of these assets, see Note [3].

Also included in other intangible assets is the BOC brand name acquired, which is disclosed at a figure of €411 million (2005: €0 million). 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, in accordance with IAS 38. In 2006, development costs were no longer recognised as assets, as the conditions for their recognition were not met. The capitalised development costs of €130 million disclosed in 2005 related solely to the KION Group.

[18] Tangible assets

Movements in the tangible assets of The Linde Group during the 2006 financial year and in the previous year were as follows:

Acquisition/Manufacturing cost in € million	Land, land rights and buildings	Technical equipment and machinery	Fixtures, furniture and equipment	Payments in advance and plants under construction	Total
At 1 Jan. 2005	**1,856**	**4,941**	**2,656**	**236**	**9,689**
Currency adjustments	43	151	100	11	305
Changes in Group structure/ acquisitions	−3	−9	−1	1	−12
Additions	38	249	176	252	715
Disposals	27	47	86	5	165
Transfers	31	106	35	−200	−28
At 31 Dec. 2005	**1,938**	**5,391**	**2,880**	**295**	**10,504**
Restatement in accordance with IFRIC 4	–	−442	–	−15	−457
At 1 Jan. 2006	**1,938**	**4,949**	**2,880**	**280**	**10,047**
Currency adjustments	−29	−134	−28	−3	−194
Additions as a result of acquisitions	919	6,995	109	355	8,378
Additions	90	183	167	390	830
Disposals	575	658	431	141	1,805
Transfers	37	−14	−20	−8	−5
Reclassification as assets held for sale	−30	−256	−243	−19	−548
At 31 Dec. 2006	**2,350**	**11,065**	**2,434**	**854**	**16,703**

Accumulated depreciation in € million	Land, land rights and buildings	Technical equipment and machinery	Fixtures, furniture and equipment	Payments in advance and plants under construction	Total
At 1 Jan. 2005	**880**	**3,176**	**1,819**	**–**	**5,875**
Currency adjustments	14	82	64	–	160
Changes in Group structure/ acquisitions	–2	–9	–1	1	–11
Depreciation for the year	59	266	180	–	505
Disposals	16	30	77	–	123
Transfers	3	–8	–6	–1	–12
At 31 Dec. 2005	**938**	**3,477**	**1,979**	**–**	**6,394**
Restatement in accordance with IFRIC 4	–	–175	–	–	–175
At 1 Jan. 2006	**938**	**3,302**	**1,979**	**–**	**6,219**
Currency adjustments	–12	–100	–14	–	–126
Additions as a result of acquisitions	228	3,735	29	–	3,992
Write-backs	–	–	–	–	–
Depreciation for the year	70	500	182	–	752
Disposals	269	579	317	–	1,165
Transfers	–	1	–1	–	–
Reclassification as assets held for sale	–11	–179	–60	–	–250
At 31 Dec. 2006	**944**	**6,680**	**1,798**	**–**	**9,422**
Net book value at 31 Dec. 2006	**1,406**	**4,385**	**636**	**854**	**7,281**
Net book value at 31 Dec. 2005, adjusted	**1,000**	**1,647**	**901**	**280**	**3,828**

As a result of the purchase price allocation in accordance with IFRS 3 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 €6 million (2005: €10 million) were recognised during the year in respect of tangible assets, while impairment losses previously recognised of €3 million were reversed (2005: €0 million).

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 €4 million (2005: €1 million) were capitalised, based on an interest rate of 5.20 percent (2005: 3.20 percent).

The acquisition/manufacturing cost of tangible assets was reduced in the financial year by grants for air separation plants of €6 million (2005: €1 million).

Land and buildings of €13 million (2005: €35 million) were pledged as security.

[19] Investments in associates/Other financial assets

Movements in the financial assets of The Linde Group during the 2006 financial year and in the previous year were as follows:

Acquisition cost in € million	Investments in associates and joint ventures	Affiliated companies	Other investments	Non-current loans [1]	Total
At 1 Jan. 2005	**149**	**50**	**20**	**18**	**237**
Currency adjustments	1	2	–	–	3
Changes in Group structure/ acquisitions	–	–15	–	–	–15
Additions	24	13	4	14	55
Disposals	8	1	3	10	22
Transfers	4	–	–4	–	–
At 31 Dec. 2005/1 Jan. 2006	**170**	**49**	**17**	**22**	**258**
Currency adjustments	1	–2	–1	–	–2
Additions as a result of acquisitions	1,143	45	35	347	1,570
Additions	15	50	3	12	80
Disposals	187	126	20	8	341
Transfers	15	–4	–8	–3	–
Reclassification as assets held for sale	–	–	–	–	–
At 31 Dec. 2006	**1,157**	**12**	**26**	**370**	**1,565**

[1] €326 million (2005: €10 million) of the non-current loans relates to loans to associates.

Accumulated depreciation in € million	Investments in associates and joint ventures	Affiliated companies	Other investments	Non-current loans	Total
At 1 Jan. 2005	10	3	1	1	15
Currency adjustments	–	–	–	–	–
Changes in Group structure/ acquisitions	–	–	–	–	–
Write-ups	–	–	–	–	–
Write-downs	1	–	–	–	1
Disposals	–	1	–	–	1
Transfers	–	–	–	–	–
At 31 Dec. 2005/1 Jan. 2006	11	2	1	1	15
Currency adjustments	–	–	–	–	–
Additions as a result of acquisitions	48	–	–	39	87
Write-ups	1	–	–	–	1
Write-downs	11	–	–	–	11
Disposals	–	1	–	–	1
Transfers	1	–	–1	–	–
Reclassification as assets held for sale	–	–	–	–	–
At 31 Dec. 2006	70	1	–	40	111
Net book value at 31 Dec. 2006	1,087	11	26	330	1,454
Net book value at 31 Dec. 2005	159	47	16	21	243

Of the impairment losses recognised in respect of financial assets, €11 million (2005: €1 million) related to the Gases Division. Impairment losses are based on a revised estimate of the future results of operations of individual reporting units.

Major associates and joint ventures are listed in Note [49]. The associated companies included have the following combined assets:

Balance sheet in € million	At equity companies 31.12.2006	At equity companies 31.12.2005
Non-current assets	1,175	396
Inventories	105	65
Other current assets	153	107
Cash and cash equivalents	100	26
Total assets	**1,533**	**594**
Equity	450	177
Minority interests	28	–
Non-current liabilities	568	29
Current liabilities	487	388
Total equity and liabilities	**1,533**	**594**

Income statement in € million	At equity companies 31.12.2006	At equity companies 31.12.2005
Sales	550	538
Cost of sales	461	433
Gross profit on sales	**89**	**105**
Other income and other expenses	−44	−87
Operating profit (EBIT)	**45**	**18**
Financial result	−1	−5
Earnings before taxes on income (EBT)	**44**	**13**
Taxes on income	14	7
Earnings after taxes on income	**30**	**6**

[20] Leased assets

The leased assets of The Linde Group related in 2005 mainly to the KION Group. Movements in leased assets during the 2006 financial year and in the previous year were as follows:

Acquisition/Manufacturing cost in € million	Leased assets
At 1 Jan. 2005	**1,138**
Currency adjustments	20
Changes in Group structure/acquisitions	10
Additions	281
Disposals	212
Transfers	28
At 31 Dec. 2005/1 Jan. 2006	**1,265**
Currency adjustments	5
Additions as a result of acquisitions	254
Additions	284
Disposals	1,481
Transfers	3
Reclassification as assets held for sale	–75
At 31 Dec. 2006	**255**

Accumulated depreciation in € million	Leased assets
At 1 Jan. 2005	**564**
Currency adjustments	10
Changes in Group structure/acquisitions	5
Depreciation for the year	191
Disposals	142
Transfers	12
At 31 Dec. 2005/1 Jan. 2006	**640**
Currency adjustments	4
Additions as a result of acquisitions	166
Write-ups	–
Depreciation for the year	150
Disposals	752
Transfers	–
Reclassification as assets held for sale	–36
At 31 Dec. 2006	**172**
Net book value at 31 Dec. 2006	**83**
Net book value at 31 Dec. 2005	**625**

Of the additions to leased assets, €24 million related to The Linde Group and €260 million (2005: €274 million) to the KION Group.

Included in leased assets are assets held under the following types of lease agreements. In 2005, these related almost solely to the KION Group:

	Operating leases as lessor		Sales with guaranteed residual values		Finance leases as lessee		Total	
in € million	2006	2005	2006	2005	2006	2005	2006	2005
Land and buildings	–	–	–	–	26	22	26	22
Industrial trucks	–	449	–	124	–	5	–	578
Technical equipment	–	9	–	–	51	3	51	12
Fixtures, furniture and equipment	–	–	–	–	2	13	2	13
Costs of concluding contracts	–	–	–	–	4	–	4	–
	–	**458**	**–**	**124**	**83**	**43**	**83**	**625**

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

Leased assets held under operating leases include on the one hand assets leased to customers with a value of €0 million (2005: €242 million), financed principally using the KION Group’s own resources. On the other hand, they include assets leased to customers with a value of €0 million (2005: €216 million), which were refinanced by sale and leaseback transactions with leasing companies.

Future minimum lease payments to be received from customers under non-cancellable operating leases amount to €0 million (2005: €385 million, of which €359 million related to the KION Group). These are analysed by due date as follows:

in € million	31.12.2006	31.12.2005
Future minimum lease payments to be received		
Due within one year	–	134
Due in one to five years	–	238
Due after more than five years	–	13
	–	**385**

Buildings, technical equipment, fixtures, furniture and other equipment held under finance leases are also disclosed here. The corresponding lease liabilities are reported under the heading Liabilities from financial services. The underlying leased assets in the financial year totalled €83 million (2005: €43 million, of which €19 million related to the KION Group); the corresponding depreciation charge was €21 million (2005: €12 million).

[21] Inventories

in € million	2006	Adjusted 2005
Raw materials and supplies	213	195
Work in progress, goods and services	198	208
Finished goods	230	449
Merchandise	79	115
Payments in advance to suppliers	271	83
	991	**1,050**

Included in the total are inventories of €111 million (2005: €505 million) reported at their net realisable value. The write-down on the gross value was €19 million (2005: €97 million).

[22] Receivables and other assets

	Non-current		Current		Total	
in € million	2006	Adjusted 2005	2006	Adjusted 2005	2006	Adjusted 2005
Receivables from financial services	913	448	88	105	1,001	553
Receivables from percentage-of-completion contracts	–	–	46	28	46	28
Receivables from affiliated companies	–	–	3	4	3	4
Receivables from related companies	–	–	2	40	2	40
Other trade receivables	–	8	1,536	1,492	1,536	1,500
Trade receivables	–	8	1,587	1,564	1,587	1,572
Tax claims	1	3	248	106	249	109
Receivables from affiliated companies	–	–	10	3	10	3
Receivables from related companies	–	–	4	42	4	42
Miscellaneous receivables and assets	284	71	491	174	775	245
Other receivables and other assets	285	74	753	325	1,038	399

Receivables from financial services

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

Following the disposal of the KION Group on 28 December 2006, Receivables from financial services in The Linde Group relate 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	31.12.2006	Adjusted 31.12.2005
Gross investment	**1,366**	**729**
Due within one year	144	136
Due within one to five years	583	314
Due in more than five years	639	279
Present value of minimum lease payments	**1,001**	**553**
Due within one year	88	105
Due within one to five years	377	236
Due in more than five years	536	212
Unearned finance income	**365**	**176**

Included in the gross investment are unguaranteed residual values accruing to the benefit of the lessor of €0 million (2005: €22 million).

The receivables include minimum lease payments relating to non-cancellable subleases of €0 million (2005: €220 million).

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 €1.801 billion (2005: €2.052 billion), offset against advances received of €2.811 billion (2005: €2.734 billion), giving rise to receivables of €46 million (2005: €28 million) and liabilities of €1.056 billion (2005: €710 million).

Other receivables and other assets

Other receivables and other assets comprise mainly other receivables and other assets due from people outside the company of €341 million (2005: €166 million), other assets relating to pensions (i. e. prepaid pension costs) of €270 million (2005: €2 million) and the fair values of derivative financial instruments of €135 million (2005: €67 million).

[23] Securities

Only available-for-sale securities of €42 million (2005: €5 million) are included under this heading.

[24] Cash and cash equivalents

Cash and cash equivalents of €621 million (2005: €906 million) comprise cash in hand, cash at banks and commercial papers. The cash at banks and the commercial papers have a maturity of three months or less.

[25] Prepaid expenses and deferred charges

The whole amount will be realised within one year.

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

IFRS 5 has applied from 1 January 2005 for non-current assets held for sale and disposal groups. For a detailed list of non-current assets held for sale and disposal groups, see Note [47].

[27] 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.

Statement of changes in Group equity

in € million	Capital subscribed	Capital reserve	Retained earnings
At 31 Dec. 2004 – as reported	**305**	**2,663**	**1,283**
Adjustments:			
Change in accounting policy IFRS 2		17	–17
Change in accounting policy IAS 19	–	–	4
Change in accounting policy IFRIC 4	–	–	45
At 1 Jan. 2005 – restated	**305**	**2,680**	**1,315**
Dividend payments[1]	–	–	–149
Change in currency translation differences	–	–	–
Financial instruments	–	–	–
Earnings after taxes on income, restated	–	–	514
Changes as a result of share option scheme	2	24	
Other changes	–	–	–
At 31 Dec. 2005/1 Jan. 2006 – adjusted	**307**	**2,704**	**1,680**
Dividend payments[1]	–	–	–168
Change in currency translation differences	–	–	–
Financial instruments	–	–	–
Amount arising from the 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
At 31 Dec. 2006	**411**	**4,648**	**3,226**

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

	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
	−205	–	−3	–	4,043	38	4,081
	–	–	–	–	–	–	–
	–	–	–	−139	−135	–	−135
	–	–	–	–	45	–	45
	−205	–	−3	−139	3,953	38	3,991
	–	–	–	–	−149	−1	−150
	159	–	–	–	159	1	160
	–	–	−6	–	−6	–	−6
	–	–	–	–	514	9	523
	–	–	–	–	26	–	26
	–	–	–	−73	−73	2	−71
	−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

Capital subscribed, authorised and conditionally authorised capital; subscription rights

The company's subscribed capital at the balance sheet date amounts to €411,484,275.20 and is fully paid up. It is divided into 160,736,045 shares at a par value of €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). In the course of financing the offer to the shareholders of The BOC Group plc, part of Authorised Capital I and all of Authorised Capital II were utilised in 2006:

At the Shareholders' Meeting on 8 June 2005, the Executive Board was authorised to increase subscribed capital by up to €80,000,000 until 7 June 2010 against cash contributions by issuing, on one or more occasions, new bearer shares, with the approval of the Supervisory Board (Authorised Capital I). 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 may be granted the subscription rights to which they are entitled when they exercise their rights of conversion or option rights or settle the conversion obligation. The Executive Board can also, with the approval of the Supervisory Board, exclude subscription rights for an amount of €3,500,000 to the extent necessary to issue employee shares. In addition, the Executive Board can, with the approval by the Supervisory Board, exclude the subscription rights of shareholders for an amount of up to 10 percent of the capital subscribed available at the time of the resolution concerning the use of 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 Shareholders' Meeting on 8 June 2005, the Executive Board was also authorised to increase subscribed capital by up to €40,000,000 until 7 June 2010 against cash or non-cash contributions by issuing, on one or more occasions, new bearer shares, with the approval of the Supervisory Board (Authorised Capital II). If the capital increase was by way of cash contributions, the Executive Board was 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 may be granted the subscription rights to which they are entitled when they exercise their rights of conversion or option rights, or settle the conversion obligation. The Executive Board can also, with the approval of the Supervisory Board, exclude subscription rights if the capital increase is by way of non-cash contributions for the purpose of acquiring subsidiaries or investments, or forming business combinations.

As a result of the mandate it acquired for Authorised Capital I and Authorised Capital II, the Executive Board resolved on 23 June 2006, with the approval of the Supervisory Board also dated 23 June 2006, to use €54,893,465.60, part of Authorised Capital I, and €40,000,000, all of Authorised Capital II, and to increase subscribed capital by €94,893,465.60, from €306,851,957.76 to €401,745,423.36, against cash contributions by issuing 37,067,760 new bearer shares at a par value of €2.56 per share. At the same time, the Executive Board, with the approval of the Supervisory Board, within the terms of the resolutions passed at the Shareholders' Meeting on 8 June 2005, excluded the subscription rights of shareholders relative to Authorised Capital I and Authorised Capital II in respect of 2,782,176 shares, so as to grant the holders of the €550 million 2004/2009 1.25 percent convertible bonds, issued by Linde Finance B.V. and guaranteed by Linde AG ("convertible bonds"), subscription rights for new shares equivalent to those they would be due on exercising their conversion right. The new shares are entitled to dividend as from 1 January 2006. They were transferred to the consortium banks with instructions to offer them for subscription to the shareholders of Linde AG and to the holders of the convertible bonds. The new shares were offered for subscription to the shareholders in the ratio of 7:2, at a subscription price of €49.50 per new share. For each convertible bond with a nominal amount of €100,000, 1,770.4755 subscription rights were attributed, which entitled the holder to subscribe for 550.8501 new shares at the subscription price.

The subscription rights could be exercised during the period from 27 June 2006 until 10 July 2006 inclusive. In the period from 27 June 2006 to 6 July 2006 inclusive, the subscription rights were traded in the official market, on the floor of the Frankfurt stock exchange.

The increase in share capital of €94,893,465.60 from €306,851,957.76 to €401,745,423.36 and the extinguishment of Authorised Capital II were entered in the company's Commercial Register on 5 July 2006. The registered subscribed capital of €401,745,423.36 is divided into 156,931,806 shares. Outside the Commercial Register, there was a further increase in subscribed capital at 31 December 2006 of a total of €9,738,851.84 from €401,745,423.36 to €411,484,275.20, divided into 160,736,045 shares as a result of the issue of 3,216,935 new shares as a result of the exercise of the convertible bond issued by Linde Finance B.V. in 2004 in the context of the conditionally authorised increase in share capital of up to €50,000,000 resolved for this purpose at the Shareholders' Meeting on 17 May 2000 and as a result of the issue of 587,304 new shares out of 2002 conditionally authorised capital to operate the Management Incentive Programme for executives (2002 conditionally authorised capital) in return for payment of the relevant exercise price.

The authorised capital at the balance sheet date was €25,106,534.40. After part of the authorised capital was used in the course of the increase in share capital in July 2006, an amount of €54,893,465.60, the Executive Board is also entitled according to a resolution passed at the Shareholders' Meeting on 8 June 2005 to increase subscribed capital by up to €25,106,534.40 until 7 June 2010 by issuing, on one or more occasions, new bearer shares against cash contributions, with the approval of the Supervisory Board. 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 may be granted the subscription rights to which they are entitled when they exercise their rights of conversion or option rights or settle the conversion obligation. The Executive Board can also, with the approval of the Supervisory Board, exclude subscription rights for an amount of €3,500,000 to the extent necessary to issue employee shares. In addition, the Executive Board can, 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. The upper limit of 10 percent of the share capital is reduced by that proportion of the share capital attributable to own shares which were sold on the creation of Authorised Capital I while excluding the subscription rights of shareholders and by that proportion of the share capital attributable to the rights to subscribe for shares which were established in accordance with §§ 221(4) and 186(3) sentence 4 of the German Stock Corporation Law (AktG) while excluding subscription rights.

The reduction in Authorised Capital I by €54,893,465.60, from €80,000,000 to €25,106,534.40 was entered in the Commercial Register on 5 July 2006.

The conditionally authorised capital, comprising 2002 conditionally authorised capital, 2005 conditionally authorised capital and a further conditionally authorised capital, was €104,247,267.84 at the balance sheet date.

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

At the Shareholders' Meeting on 17 May 2000, conditionally authorised capital of up to €50,000,000 was approved, which will only be issued if the holders of convertible bonds or warrant-linked bonds issued by

16 May 2005 use their rights of conversion or option rights, or if the holders of such convertible bonds settle the conversion obligation.

In May 2004, convertible bonds were issued through the fully-owned subsidiary Linde Finance B.V. with a total nominal amount of €550,000,000, while excluding shareholders' subscription rights. Each holder of one of the total of 5,500 convertible bonds, each with a nominal amount of €100,000 is entitled to exercise the right during the exercise period to convert the bond into 1,770.4755 shares, subject to the provisions set out in the bond terms and conditions. The convertible bonds grant, subject to adjustments to the conversion rate, conversion rights to a proportion of the shares in the subscribed capital of up to €24.93 million through the issue of up to 9,737,615 shares.

In 2006, due to the exercise of the conversion rights relating to 1,817 convertible bonds with a nominal value totalling €181,700,000, 3,216,935 new shares were issued. As a result, the conditionally authorised capital agreed at the Shareholders' Meeting on 17 May 2000 was reduced by €8,235,353.60 from €50,000,000 to €41,764,646.40. The subscribed capital increased as result in 2006. For 3,683 convertible bonds, each with a nominal amount of €100,000, each with the right to be converted into 1,770.4775 shares, the conversion right had not yet been exercised at the balance sheet date.

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 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 €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 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.

Following the exercise of options under the Management Incentive Programme for the first time in 2005, and the consequent reduction in 2002 conditionally authorised capital to €13,986,119.68, divided into 5,463,328 shares, further options were exercised in 2006: on payment of the respective exercise prices in accordance with the option terms and conditions, 587,304 shares in total were made available in 2006 out of 2002 conditionally authorised capital. As a result, the 2002 conditionally authorised capital was reduced by €1,503,498.24 from €13,986,119.68 to €12,482,621.44, divided into 4,876,024 shares. The issued share capital increased in 2006 as a result.

The Company is also authorised by a resolution passed at the Shareholders' Meeting on 4 May 2006 to acquire up to 10 percent of capital subscribed through the purchase of own shares, expiring on 31 October 2007. At this meeting, the previous authorisation which was due to expire on 30 November 2006 was revoked.

Notification of voting rights

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

Commerzbank Aktiengesellschaft, Frankfurt am Main, informed us in writing on 7 February 2006 that it was correcting its notification dated 21 October 2005. On 21 October 2005, it informed us that, as the parent company of Atlas-Vermögensverwaltungs-GmbH, Louisenstrasse 63, 61348 Bad Homburg v. d. H., as a result of an intra-group share transfer from Commerzbank Aktiengesellschaft, Kaiserstrasse 16, 60311 Frankfurt am Main, to Atlas-Vermögensverwaltungs-GmbH on 14 October 2005, the latter had exceeded the 5 percent and 10 percent thresholds and that its share of the voting rights in Linde AG amounted to 10.04 percent. According to the information available to Commerzbank at the time of writing on 7 February 2006, options under share option schemes were exercised in Linde AG, which resulted in an increase in shares outstanding. Therefore, Atlas-Vermögensverwaltungs-GmbH only exceeded the 5 percent threshold on 14 October 2005, as its share of the voting rights at that date was 9.9958 percent. The number of shares transferred to Atlas-Vermögensverwaltungs-GmbH remained the same at 11,978,440. These voting rights are attributable to Commerzbank Aktiengesellschaft in accordance with § 22(1), sentence 1, No. 1 WpHG. With the 0.0810 percent held by Commerzbank Aktiengesellschaft in accordance with § 21(1) WpHG, the total voting rights of Commerzbank Aktiengesellschaft in Linde AG at 14 October 2005 amounted to 10.08 percent.

Commerzbank Aktiengesellschaft, Frankfurt am Main, informed us in writing on 12 July 2006 in accordance with § 21(1) WpHG that its share of the voting rights in Linde Aktiengesellschaft, Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, had fallen below the threshold of 10 percent on 5 July 2006 and amounted to 7.70 percent. 7.63 percent of the voting rights were attributable to Commerzbank Aktiengesellschaft, Kaiserstrasse 16, 60311 Frankfurt am Main, in accordance with § 22(1), sentence 1, No. 1 WpHG. After the exercise of subscription rights relating to the increase in share capital against cash contributions, which had already been completed at the time of writing, the share of voting rights of Commerzbank Aktiengesellschaft at the date of the letter was 9.78 percent.

Allianz Aktiengesellschaft, Munich, notified us in writing on 27 June 2006 in accordance with §§ 21(1), 22(1), sentence 1, No. 1, and 24 WpHG that as a result of internal restructuring:

The share of voting rights held by AZ-LIN Vermögensverwaltungsgesellschaft GmbH & Co. KG, formerly AZ-LIN Vermögensverwaltungsgesellschaft mbH, Königinstrasse 28, 80802 Munich, in Linde AG fell below the 10 percent threshold on 23 June 2006 and now amounts to 5.47 percent. The share of voting rights held by Allianz Versicherungs-Aktiengesellschaft, Königinstrasse 28, 80802 Munich, in Linde AG exceeded the 5 percent threshold on 26 June 2006 and is now 5.62 percent. Of these, 5.47 percent are attributable to Allianz Versicherungs-Aktiengesellschaft in accordance with § 22(1), sentence 1, No. 1 WpHG. The share of voting rights held by AZL-Alico Vermögensverwaltungsgesellschaft mbH, Königinstrasse 28, 80802 Munich, in Linde AG exceeded the 5 percent threshold on 23 June 2006 and is now 5.47 percent. The share of voting rights held by Allianz Lebensversicherungs-Aktiengesellschaft, Reinsburgstrasse 19, 70178 Stuttgart, in Linde AG exceeded the 5 percent threshold on 23 June 2006 and is now 5.61 percent. Of these, 5.47 percent of the voting rights are attributable to Allianz Lebensversicherungs-Aktiengesellschaft in accordance with § 22(1), sentence 1, No. 1 WpHG. The share of voting rights held by Jota-Vermögensverwaltungsgesellschaft mbH, Königinstrasse 28, 80802 Munich, in Linde AG exceeded the 5 percent threshold on 23 June 2006 and is now 5.61 percent. These voting rights are attributable to Jota-Vermögensverwaltungsgesellschaft mbH in accordance with § 22(1), sentence 1, No. 1 WpHG. The share of voting rights held by AZ Beteiligungs-Management GmbH, Königinstrasse 28, 80802 Munich, in Linde AG exceeded the 5 percent threshold on 23 June 2006 and is now 5.47 percent. These voting rights are attributable to AZ-Beteiligungs-Management GmbH in accordance with § 22(1), sentence 1, No. 1 WpHG. The share of voting rights held by Allianz Aktiengesellschaft, Königinstrasse 28, 80802 Munich, in Linde AG has not changed sufficiently to require notification.

Allianz Aktiengesellschaft, Munich, also informed us in writing on 17 July 2006 in accordance with § 21(1) WpHG that its share of the voting rights in Linde AG fell below the 10 percent threshold on 11 July 2006 and is now 9.10 percent. These voting rights are attributable to Allianz Aktiengesellschaft in accordance with § 22(1), sentence 1, No. 1 WpHG. At the same time, Allianz Aktiengesellschaft notified us in accordance with § 21(1) WpHG in conjunction with § 24 WpHG that the share of the voting rights held by Allianz Deutschland AG, Königinstrasse 28, 80802 Munich, in Linde AG fell below the 10 percent threshold on 11 July 2006 and is 9.03 percent. These voting rights are attributable to Allianz Deutschland AG in accordance with § 22(1), sentence 1, No. 1 WpHG. The share of the voting rights held by AZ-LIN Vermögensverwaltungsgesellschaft mbH & Co. KG, Königinstrasse 28, 80802 Munich, in Linde AG fell below the 5 percent threshold on 11 July 2006 and is now 4.39 percent. The share of the voting rights held by AZ Beteiligungs-Management GmbH, Königinstrasse 28, 80802 Munich, in Linde AG fell below the 5 percent threshold on 11 July 2006 and is now 4.39 percent. These voting rights are attributable to AZ Beteiligungs-Management GmbH in accordance with § 22(1), sentence 1, No. 1 WpHG. The share of the voting rights held by Allianz Versicherungs-Aktiengesellschaft, Königinstrasse 28, 80802 Munich, in Linde AG fell below the 5 percent threshold on 11 July 2006 and is now 4.51 percent. Of these, 4.39 percent of the voting rights are attributable to Allianz Versicherungs-Aktiengesellschaft in accordance with § 22(1), sentence 1, No. 1 WpHG. The share of the voting rights held by AZL-Alico Vermögensverwaltungsgesellschaft mbH, Königinstrasse 28, 80802 Munich, in Linde AG fell below the 5 percent threshold on 11 July 2006 and is now 4.39 percent.

The share of the voting rights held by Allianz Lebensversicherungs-Aktiengesellschaft, Reinsburgstrasse 19, 70178 Stuttgart, in Linde AG fell below the 5 percent threshold on 11 July 2006 and is now 4.52 percent. Of these, 4.39 percent are attributable to Allianz Lebensversicherungs-Aktiengesellschaft in accordance with § 22(1), sentence 1, No. 1 WpHG. The share of the voting rights held by Jota-Vermögensverwaltungsgesellschaft mbH, Königinstrasse 28, 80802 Munich, in Linde AG fell below the 5 percent threshold on 11 July 2006 and is now 4.52 percent. These voting rights are attributable to Jota-Vermögensverwaltungsgesellschaft mbH in accordance with § 22(1), sentence 1, No. 1 WpHG.

Deutsche Bank AG, Frankfurt am Main, informed us in writing on 1 February 2006 in accordance with § 21(1) WpHG that Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt am Main, fell below the 10 percent threshold of voting rights in Linde AG on 14 June 2005 and that now its share of voting rights was 9.99 percent, with the number of its voting rights remaining unchanged at 11,933,405. These voting rights are attributable to Deutsche Bank AG in accordance with § 22(1), sentence 1, No. 1 WpHG. At the same time, Deutsche Bank AG notified us in accordance with §§ 21(1) and 24 WpHG that its subsidiary DB Value GmbH, Scharnhorststrasse 20, 06686 Sössen-Gostau, fell below the 10 percent threshold of voting rights in Linde AG on 14 June 2005 and now had a 9.99 percent share of voting rights, with the number of its voting rights remaining unchanged at 11,933,405. These voting rights are attributable to the subsidiary DB Value GmbH of Deutsche Bank AG in accordance with § 22(1), sentence 1, No. 1 WpHG. Moreover, Deutsche Bank notified us in accordance with §§ 21(1) and 24 WpHG that DB Equity S. à. r. l., 6, avenue Pasteur, L-2310 Luxembourg, fell below the 10 percent threshold of voting rights in Linde AG on 14 June 2005 and now had a 9.99 percent share of voting rights, with the number of its voting rights remaining unchanged at 11,933,405. The fact that the voting rights have fallen below the 10 percent threshold is due to the issue of conditionally authorised capital in Linde AG. This was as a result of share options exercised in 2005.

Deutsche Bank AG, Frankfurt am Main, informed us in writing on 9 February 2006 of the following corrections to its notifications in accordance with §§ 21 ff. WpHG dated 3 November 2005 and 1 February 2006: Deutsche Bank AG informed us in writing on 9 February 2006 as described above in accordance with § 21(1) WpHG that Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt am Main, fell below the 10 percent threshold of voting rights in Linde AG on 14 June 2005 and that it held a 9.99 percent share of voting rights at that date. The voting rights are attributable to Deutsche Bank AG in accordance with § 22(1), sentence 1, No. 1 WpHG and its holding remains unchanged at 11,933,405. At the same time, Deutsche Bank AG notified us in accordance with §§ 21(1) and 24 WpHG that its subsidiary DB Value GmbH, Scharnhorststrasse 20, 06686 Sössen-Gostau, fell below the 10 percent threshold of voting rights in Linde AG on 14 June 2005 and that it held a 9.99 percent share of voting rights at that date. The number of voting rights remains unchanged at 11,933,405. The fact that the voting rights have fallen below the 10 percent threshold is due to the partial issue of conditionally authorised capital in Linde AG. This was due to share options under the Linde Management Incentive Programme being exercised in 2005. Deutsche Bank also notified us in accordance with §§ 21(1), 22(2) and 24 WHG that, with effect from 27 October 2005, its subsidiary DB Value GmbH, Scharnhorststrasse 20, 06686 Sössen-Gostau, no longer held voting rights in Linde AG directly but only as a result of voting rights attributed to it in accordance with § 22(1), No. 1 WpHG, with its share of the voting rights now standing at 9.96 percent. The change in the share of voting rights held is due to the exercise of further options and the associated issue of conditionally authorised capital in Linde AG referred to above. At the same time, Deutsche Bank notified us in accordance with §§ 21(1) and 24 WpHG that DB Equity S. à. r. l., 6, avenue Pasteur, L-2310 Luxembourg, exceeded the 5 percent threshold of voting rights in Linde AG on 27 October 2005 and now has a 9.96 percent share of the voting rights.

On 6 April 2006, Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt am Main, informed us in writing in accordance with §§ 21(1) and 24 WpHG that DB Equity S. à. r. l., 6, avenue Pasteur, L-2310 Luxembourg, fell below the 5 percent threshold of voting rights in Linde AG on 3 April 2006 and now holds a 0.11 percent share of the voting rights. Moreover, Deutsche Bank AG informed us in this notification in accordance with §§ 21(1) and 24 WpHG that its subsidiary DB Value GmbH, Scharnhorststrasse 20, 06686 Sössen/Gostau, fell below the 5 percent threshold of voting rights in Linde AG on 3 April 2006 and now holds a 0.11 percent share of the voting rights. These voting rights are attributable to the subsidiary DB Value GmbH of Deutsche Bank AG in accordance with § 22(1), sentence 1, No. 1 WpHG. Finally, Deutsche Bank also notified us in accordance with § 21(1) WpHG that, with effect from 3 April 2006, Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt am Main, now holds 9.84 percent of the voting rights in Linde AG directly as a result of an intra-group loan against securities. Also attributable to Deutsche Bank AG is a 0.11 percent share of the voting rights in Linde AG in accordance with § 22(1), sentence 1, No. 1 WpHG. The total share of voting rights held by the Deutsche Bank AG Group had not changed sufficiently to require notification.

In a further notification dated 30 May 2006, Deutsche Bank AG, Frankfurt am Main, informed us in accordance with §§ 21(1) and 24 WpHG that its second-tier subsidiary DB Equity S. à. r. l., 6, avenue Pasteur, L-2310 Luxembourg, exceeded the 5 percent threshold of voting rights in Linde AG on 24 May 2006 and now has a 9.95 percent share of the voting rights. Moreover, Deutsche Bank AG informed us in this notification in accordance with §§ 21(1) and 24 WpHG that its subsidiary DB Value GmbH, Scharnhorststrasse 20, 06686 Sössen/Gostau, exceeded the 5 percent threshold of voting rights in Linde AG on 24 May 2006 and now has a 9.95 percent share of the voting rights. These voting rights are attributable to the subsidiary DB Value GmbH of Deutsche Bank AG in accordance with § 22(1), sentence 1, No. 1 WpHG. Finally, Deutsche Bank also informed us in writing on 30 May 2006 in accordance with § 21(1) WpHG that, with effect from 24 May 2006, Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt am Main, as a result of the repayment of an intra-group loan against securities, no longer holds 9.84 percent of the voting rights in Linde AG directly, but has an indirect holding of 9.95 percent, due to the attribution of voting rights in accordance with § 22(1), sentence 1, No. 1 WpHG. The total share of voting rights held by the Deutsche Bank AG Group had not changed sufficiently to require notification.

Furthermore, Deutsche Bank AG, Frankfurt am Main, informed us in writing on 29 November 2006 in accordance with §§ 21(1) and 24 WpHG that, with effect from 29 August 2006 (the date of its merger with Deutsche Bank AG), its former subsidiary DB Value GmbH, Scharnhorststrasse 20, 06686 Sössen/Gostau, fell below the 5 percent threshold of voting rights in Linde AG. DB Value GmbH now holds 0 percent of the voting rights. The total share of voting rights held by the Deutsche Bank AG Group had not changed sufficiently to require notification.

Finally, Deutsche Bank AG, Frankfurt am Main, notified us in writing on 19 December 2006 in accordance with §§ 21(1) and 24 WpHG that its subsidiary DB Valoren S. à. r. l., 6, avenue Pasteur, L-2310 Luxembourg, exceeded the 5 percent threshold of voting rights in Linde AG on 14 December 2006 and now holds 7.87 percent of the voting rights. These voting rights are attributable to the subsidiary DB Valoren S. à. r. l. of Deutsche Bank AG in accordance with § 22(1), sentence 1, No. 1 WpHG. The notification threshold was exceeded here as a result of the restructuring of the Group. The voting rights held by Deutsche Bank AG and its second-tier subsidiary DB Equity S. à. r. l. had not changed sufficiently to require notification.

The Capital Group Companies, Inc., 333 South Hope Street, Los Angeles, CA-90071, USA, informed us in a notification from its legal representative on 13 July 2006 that it exceeded the 5 percent threshold of voting rights in Linde AG on 7 July 2006. Its share of the voting rights is 5.177 percent (which corresponds to 8,123,624 shares). All these voting rights are attributable to the company in accordance with § 22(1), sentence 1, No. 6 in conjunction with § 22(1), sentence 2 and sentence 3 WpHG.

The Capital Research and Management Company, 333 South Hope Street, Los Angeles, CA-90071, USA informed us in a notification from its legal representative on 13 July 2006 that it exceeded the 5 percent threshold of voting rights in Linde AG on 7 July 2006. Its share of the voting rights is 5.177 percent (which corresponds to 8,123,624 shares). All these voting rights are attributable to the company in accordance with § 22(1), sentence 1, No. 6 WpHG.

As evidenced by the notifications in accordance with §§ 21 ff WpHG received in the 2006 financial year and reproduced here, there were no direct or indirect holdings in the capital of Linde AG which exceeded 10 percent of the voting rights at 31 December 2006.

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 €24 million 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 after tax 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.

As a result of the disposal of the KION Group, an amount of €87 million relating to actuarial gains and losses on pension obligations accounted for in Cumulative changes in equity not recognised through the income statement was transferred to retained earnings, as IAS 19 does not stipulate that such accrued amounts be “recycled“, even on the disposal of a subsidiary.

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

	2006			Adjusted 2005		
in € million	Before tax	Tax effect	Net	Before tax	Tax effect	Net
Movement in currency translation differences	**–182**	**–**	**–182**	**159**	**–**	**159**
Movement in unrealised profits/losses from revaluation of securities at fair value						
Movement in accumulated unrealised profits/losses	1	–	1	–	–	–
Realised profits/losses	–	–	–	–	–	–
Unrealised profits/losses on available-for-sale securities	**1**	**–**	**1**	**–**	**–**	**–**
Movement in unrealised profits/losses on derivative financial instruments						
Movement in accumulated unrealised profits/losses	15	–2	13	–12	4	–8
Realised profits/losses	2	–1	1	3	–1	2
Unrealised profits/losses on derivative financial instruments	**17**	**–3**	**14**	**–9**	**3**	**–6**
Movement in actuarial gains/losses on pension provisions	**229**	**–80**	**149**	**–115**	**42**	**–73**

Minority interets

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

in € million	31.12.2006	31.12.2005
African Oxygen Limited, South Africa	92	–
Abelló Linde S. A., Spain	27	24
BOC India Ltd., India	24	–
MIG Production Co. Ltd., Thailand	23	–
Linde Engineering Dalian Co. Ltd., PRC	11	8
Gases Industriales de Colombia S. A., Colombia	7	–
Various other companies	41	17
	225	**49**

[28] Provisions for pensions and similar obligations

in € million	31.12.2006	31.12.2005
Provisions for pensions	1,260	1,122
Provisions for similar obligations	24	0
Total provisions	**1,284**	**1,122**
Pension assets	–270	–2

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

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

The provisions for similar obligations relate to bridging benefit payments in Germany and 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 2006 was €27 million (2005: €16 million). Contributions to state pension schemes in 2006 totalled €88 million (2005: €85 million).

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

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	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Discount rate	4.25%	4.25%	5.10%	4.90%	4.00%	3.80%	5.70%	5.70%	6.75%	7.83%
Expected return on plan assets	5.25%	5.25%	6.60%	5.90%	5.10%	4.80%	7.10%	7.12%	8.15%	9.30%
Growth in future benefits	2.50%	2.50%	4.70%	4.25%	2.90%	2.50%	3.50%	3.81%	5.10%	2.30%
Growth in pensions	1.75%	1.50%	3.20%	2.80%	1.50%	1.30%	2.50%	3.00%	3.80%	3.14%

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 Linde, under its obligation as employer, has the right to receive a refund of the contributions in cash or to reduce future contributions.

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

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

Actuarial gains and losses are 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 2006, a total loss of €63 million (2005: loss of €212 million), after deduction of deferred taxes, was recognised directly in equity.

Reconciliation of the defined benefit obligation and the plan assets:

	Germany		UK	
in € million	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets
At 1 Jan. 2005	**1,031**	**234**	**358**	**297**
Current service cost	23	–	6	–
Interest cost	47	–	20	–
Expected return on plan assets	–	12	–	20
Employers' contributions	–	–	–	17
Employees' contributions	5	5	1	1
Actuarial gains/losses	118	16	26	24
Effects of changes in exchange rates	–	–	9	10
Pension payments made	–48	–	–13	–12
Past service cost	–	–	–	–
Changes in Group structure/other changes	–5	–	–	–
Plan curtailments	–	–	–	–
Plan settlements	–	–	–	–
At 31 Dec. 2005	**1,171**	**267**	**407**	**357**
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
At 31 Dec. 2006	**885**	**275**	**3,250**	**2,834**

	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
	510	**364**	**59**	**51**	**5**	**1**	**1,963**	**947**
	12	–	2	–	–	–	43	–
	22	–	4	–	1	–	94	–
	–	18	–	4	–	–	–	54
	–	12	–	1	–	–	–	30
	5	5	–	–	–	–	11	11
	24	14	3	2	–	–	171	56
	–1	–	9	8	1	–	18	18
	–21	–17	–2	–2	–1	–1	–85	–32
	1	–	–	–	–	–	1	–
	–4	4	–	–	–	–	–9	4
	1	–	–	–	–	–	1	–
	–	–	–	–	–	–	–	–
	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**

Funding status of the defined benefit pension obligations:[1]

	Germany		UK	
in € million	2006	2005	2006	2005
Actuarial present value of pension obligations (defined benefit obligation)	885	1,171	3,250	407
Of which unfunded pension obligations	365	633	4	–
Of which funded pension obligations	520	538	3,246	407
Fair value of plan assets	275	267	2,834	357
Net obligation	**610**	**904**	**416**	**50**
Cumulative effect of asset ceiling	–	–	–	–
Past service cost	–	–	–	–
At 31.12.	**610**	**904**	**416**	**50**
of which pension provision (+)	610	904	416	50
or pension asset (–)	–	–	–	–

[1] Prior year figures restated.

Portfolio structure of plan assets

	31.12.2006	31.12.2005
Shares	56%	40%
Fixed-interest securities	31%	31%
Property	11%	3%
Insurance	1%	10%
Other	1%	16%
	100%	**100%**

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

	Germany		UK	
in € million	2006	2005	2006	2005
Current service cost	34	23	37	6
Interest cost	49	47	73	20
Expected return on plan assets	–14	–12	–84	–20
Amortisation of past service cost	–	–	1	–
Plan curtailments/settlements	–	–	–	–
	69	58	27	6

Other Europe		USA & Canada		Other countries		Total	
2006	2005	2006	2005	2006	2005	2006	2005
577	549	472	75	488	6	5,672	2,208
102	121	1	–	5	5	477	759
475	428	471	75	483	1	5,195	1,449
430	400	638	64	544	–	4,721	1,088
147	**149**	**–166**	**11**	**–56**	**6**	**951**	**1,120**
–	–	–	–	39	–	39	–
–	–	–	–	–	–	–	–
147	**149**	**–166**	**11**	**–17**	**6**	**990**	**1,120**
147	152	82	11	5	6	1,260	1,122
–1	–2	–248	–	–21	–	–270	–2

Other Europe		USA & Canada		Other countries		Total	
2006	2005	2006	2005	2006	2005	2006	2005
16	12	7	2	5	–	99	43
23	22	12	4	11	1	168	94
–20	–18	–18	–4	–13	–	–149	–54
–1	1	–	–	–	–	–	1
–1	–1	–	–	–	–	–1	–1
17	**16**	**1**	**2**	**3**	**1**	**117**	**83**

Actual income on plan assets in external pension funds was €346 million (2005: €110 million). This meant that actual income was significantly higher than expected income on plan assets of €149 million (2005: €54 million).

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 obligation at 31 December 2006 of €5,672 million, –€6 million of the actuarial gains and losses does not arise from changes in assumptions. Of the plan assets of €4,721 million at 31 December 2006, –€197 million of the actuarial gains and losses does not arise from changes in assumptions.

Payments to increase plan assets in external pension funds in the 2007 financial year are expected to amount to €283 million (2005: €29 million). Of this amount, around €190 million 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 expected percentage rate for the prior year.

[29] Other provisions and provisions for insurance contracts

At the Linde balance sheet date Other provisions had the following maturity structure:

	Non-current		Current		Total	
in € million	2006	2005	2006	2005	2006	2005
Provisions for taxes	–	–	221	160	221	160
Obligations from delivery transactions	42	55	357	250	399	305
Warranty obligations and risks from transactions in course of completion	143	24	401	336	544	360
Obligations relating to personnel	73	57	500	351	573	408
Insurance obligations	–	–	55	3	55	3
Other obligations	154	32	193	208	347	240
Miscellaneous provisions	412	168	1,506	1,148	1,918	1,316
Total Other provisions	**412**	**168**	**1,727**	**1,308**	**2,139**	**1,476**

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 1.1.2006	Changes in Group structure [1]	Utilisation	Release	Addition	Transfer	At 31.12.2006
Provisions for taxes	160	–38	114	28	241	–	221
Obligations from delivery transactions	305	18	188	33	303	–6	399
Warranty obligations and risks from transactions in course of completion	360	6	51	23	259	–7	544
Obligations relating to personnel	408	44	306	55	489	–7	573
Insurance obligations	3	34	1	1	20	–	55
Other obligations	240	110	113	41	171	–20	347
Miscellaneous provisions	1,316	212	659	153	1,242	–40	1,918
Other provisions	1,476	174	773	181	1,483	–40	2,139

[1] Including currency differences.

[30] Financial debt

Financial debt comprises interest-bearing obligations of The Linde Group, analysed as follows:

	Non-current				Current		Total	
	Due in 1 to 5 years		Due in more than 5 years		Due within 1 year			
in € million	2006	2005	2006	2005	2006	2005	2006	2005
Subordinated bond	–	–	1,455	396	–	–	1,455	396
Convertible bond	367	500	–	–	–	–	367	500
Other bonds	882	1,035	300	–	664	209	1,846	1,244
European Commercial Papers (ECP)	–	–	–	–	224	–	224	–
Bank loans and overdrafts	6,499	64	1	2	204	210	6,704	276
	7,748	1,599	1,756	398	1,092	419	10,596	2,416

Of the bank loans and overdrafts, an amount of €1.6 million (2005: €4.5 million) is secured by mortgages. The weighted average interest rate for bank loans and overdrafts was 5.1 percent in 2006 (2005: 4.3 percent).

The bonds are analysed as follows:

Fixed-interest bonds

Issuer	Nominal volume in relevant currency (ISO code)	€ million [1]	Average weighted residual term (in years)	Average weighted effective interest rate [2] in percent
Linde Finance B. V., Amsterdam	2,344 million EUR	2,314	4.67	5.9
Linde Finance B. V., Amsterdam	250 million GBP	368	9.68	8.3
Linde Finance B. V., Amsterdam	2,000 million JPY	13	2.41	1.3
Linde Finance B. V., Amsterdam	510 million SKK	15	1.08	8.0
BOC	100 million GBP	148	10.83	12.3
BOC	355 million ZAR	39	1.42	8.2
BOC	400 million GBP	597	5.70	6.3
BOC	11,000 million JPY	70	2.83	0.8
BOC	8 million USD	6	5.75	3.4
		3,570		

Variable-interest bonds

Issuer	Nominal volume in relevant currency (ISO code)	€ million [1]	Average weighted residual term (in years)	Average weighted effective interest rate [2] in percent
Linde Finance B. V., Amsterdam	500 million CZK	18	1.49	2.9
Linde Finance B. V., Amsterdam	80 million EUR	80	2.51	4.3
		98		

[1] Includes adjustments relating to hedging transactions.

[2] Effective interest rate in relevant currency.

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

Of these, bonds with a value of €1,255 million (2005: €1,063 million) are in a fair value hedge and bonds with a value of €0 million (2005: €38 million) in a cash flow hedging relationship.

Subordinated bond

In July 2006, subordinated bonds for €700 million and £250 million 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 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 can be made up if Linde makes payments for securities pari passu, subordinated securities or shares.

In July 2003, a subordinated bond for €400 million was issued. It has no final maturity date, although there is a right to call the loan from 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 5 years has lapsed, all the cancelled coupon payments are made up.

Convertible bond

In May 2004, a convertible bond with a nominal amount of €550 million 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 [27] on equity. As a result of the positive trend in the Linde AG share price, a total amount of €182 million of the convertible bond was converted into equity in the 2006 financial year. This is equivalent to 3,216,935 shares.

In the 2006 financial year, due to the good liquidity situation of The Linde Group, eight bonds in total with a nominal amount of €203 million (2005: €142 million) were unwound on schedule.

Syndicated credit

The acquisition of The BOC Group was secured through credit facilities arranged in March 2006 for £8.9 billion and €2 billion (revolver) provided by five banks (Commerzbank AG, Deutsche Bank AG, Dresdner Kleinwort Wasserstein, Morgan Stanley Bank International Limited and The Royal Bank of Scotland plc). This loan undertaking was then syndicated to 50 banks worldwide. The syndicated credit line also serves as back-up for our €1 billion Commercial Paper Programme (see glossary) and replaces the €1.8 billion syndicated credit line agreed in 2005.

[31] Liabilities from financial services

Liabilities from financial services have been reduced significantly from the previous year as a result of the sale of the KION Group.

In the 2006 financial year, there are liabilities from financial services of €49 million. In 2005, liabilities from financial services comprised mainly obligations under finance leases of €410 million from sale and leaseback transactions to refinance lease agreements with customers.

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

Liabilities from financial services

in € million	31.12.2006	31.12.2005
Total minimum lease payments (gross)	**55**	**556**
Due within one year	14	185
Due in one to five years	32	345
Due in more than five years	9	26
Present value of minimum lease payments	**49**	**511**
Due within one year	12	173
Due in one to five years	29	316
Due in more than five years	8	22
Finance charge included in the minimum lease payments	**6**	**45**

[32] Trade payables, Other liabilities

	Non-current		Current		Total	
in € million	2006	2005	2006	2005	2006	2005
Percentage of completion (PoC)	–	–	1,056	710	1,056	710
Other	3	4	893	757	896	761
Trade payables	**3**	**4**	**1,949**	**1,467**	**1,952**	**1,471**
Advance payments received from customers	3	19	68	55	71	74
Taxes	15	14	335	137	350	151
Social security	–	–	16	50	16	50
Liabilities due to affiliated companies	–	–	–	8	–	8
Liabilities due to related companies	–	–	1	1	1	1
Sundry liabilities	100	59	404	230	504	289
Other liabilities	**118**	**92**	**824**	**481**	**942**	**573**
	121	**96**	**2,773**	**1,948**	**2,894**	**2,044**

Percentage of completion trade payables of €1.056 billion (2005: €710 million) relate to advance payments received on construction contracts, where these exceed the state of completion of the contract.

Of the sundry liabilities, €0 million (2005: €30 million) are secured by mortgages.

[33] Deferred income

Deferred income comprises:

	Non-current		Current		Total	
in € million	2006	2005	2006	2005	2006	2005
Deferred income from leases	–	65	2	96	2	161
Other deferred income	–	4	57	28	57	32
	–	**69**	**59**	**124**	**59**	**193**

Deferred income from leases in 2005 related principally to the deferral of revenue from the sale of industrial trucks, where the risks associated with residual value remain with The Linde Group. It also included profits from sale and leaseback transactions, amortised on a straight-line basis over the term of the underlying lease agreement.

The deferred income from leases in 2006 is due within the following periods:

	Non-current		Current		Total	
in € million	2006	2005	2006	2005	2006	2005
Deferred income on sales with guaranteed residual values	–	48	–	55	–	103
Deferred income on sale and leaseback transactions	–	14	–	39	–	53
Miscellaneous	–	3	2	2	2	5
	–	**65**	**2**	**96**	**2**	**161**

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

In connection with the classification of various assets as non-current assets held for sale (see Note [26]), the categories of liabilities disclosed in Note [47] have been included under this heading.

Other information

[35] Share option scheme

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 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. Moreover, if Linde uses own shares, it can avoid diluting the equity of the company. The decisions as to how the option entitlements will be met will be made in each case by the appropriate executive bodies of the company, which will be 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 2005 and 2006 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.

According to IFRS 2 Share-based Payment, the total value of share options granted to management will be determined at the issue date using an option 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 will generally be the same as the agreed qualifying period. The other side of the entry will be made directly in equity (in the capital reserve).

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

Option values

	Options originally issued						
	Executive Board	Other management	Total	Opening balance	Exercised in 2006	Expired in 2006	31.12.2006
1st tranche (2002)	240,000	760,000	1,000,000	954,600	297,550	1,000	656,050
2nd tranche (2003)	240,000	777,600	1,017,600	462,128	66,104	9,300	386,724
3rd tranche (2004)	240,000	764,500	1,004,500	991,700	223,650	4,000	764,050
4th tranche (2005)	230,000	875,700	1,105,700	1,105,700	–	6,000	1,099,700
5th tranche (2006)	250,000	1,086,500	1,336,500	1,336,500	–	3,000	1,333,500
Total	**1,200,000**	**4,264,300**	**5,464,300**	**4,850,628**	**587,304**	**23,300**	**4,240,024**

As a result of the exercise of 587,304 options (2005: 536,672), capital subscribed increased in 2006 by €1 million (2005: €2 million) and the capital reserve rose by €30 million (2005: €17 million).

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 €9.84, in the second tranche €7.16, in the third tranche €7.92, in the fourth tranche €6.92 and in the fifth tranche €11.24. The following measurement parameters were used:

Black-Scholes option price 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 (€)[1]	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

[1] 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:

Option rights

	Value of option rights €[1]	31.12.2002 € million	31.12.2003 € million	31.12.2004 € million	31.12.2005 € million	31.12.2006 € 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
5th tranche (2006)	11.24	–	–	–	–	5
Total		**2**	**7**	**8**	**7**	**10**

[1] At issue date.

[36] Derivative financial instruments

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

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

The counterparties have first-class credit ratings. The creditworthiness of the contracting parties is constantly monitored and is subject to clearly defined limits.

Currency risks

Foreign currency risks are hedged in The Linde Group in accordance with the Treasury Risk Guideline. Hedging is carried out by Linde AG at the centre of the Group as well as at individual company level, based on fixed minimum hedging rates. In determining the hedging rates, we distinguish between batch business and project business. Basic hedging strategies and additional hedging decisions are determined and implemented by a central committee, the Treasury Committee. The principal hedging instruments are forward exchange contracts and in addition we use currency swaps and currency options, as long as there are no country-specific restrictions in force.

At the company level, we hedge highly probable expected future transactions, based on a rolling 15-month budget, and off-balance-sheet fixed obligations. These hedges are generally accounted for as cash flow hedges in accordance with IAS 39.

As a result of the acquisition of BOC, translation risks have also been hedged for the first time. This is to take account of the increased currency risk in the balance sheet.

The change in fair value of the derivatives is disclosed in Cumulative changes in equity not recognised through the income statement. In 2006, the positive fair values of derivatives recognised in equity amounted to €18 million (2005: €1 million) and the negative fair values to €7 million (2005: €26 million). Derivatives with a negative fair value of €7 million (2005: €15 million) are transferred from equity to current earnings in one year and of €0 million (2005: €11 million) in one to five years. Derivatives with a positive fair value of €17 million (2005: €1 million) are transferred from equity to current earnings in one year and of €1 million (2005: €0 million) in one to five years.

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

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

In the case of hedges of a net investment in a foreign entity, 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 2006, unrealised gains and losses arising from these hedging instruments amounted to €1 million (2005: €0 million). Derivatives with a positive fair value of €0 million (2005: €0 million) are transferred from equity to current earnings in one year. Derivatives with a negative fair value of €1 million (2005: €0 million) are transferred from equity to current earnings.

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

Interest rate risks

Interest rate risks are primarily managed centrally by The Linde Group. The hedging strategy and the level of the hedging rate are again determined by the Treasury Committee. Their decisions are based partly on sensitivity analyses of the interest rate risk positions of the most important currencies. Hedging against the exposure to interest rate risks has assumed greater importance for The Linde Group as a result of the refinancing of the acquisition of The BOC Group.

The Group is refinanced mainly through the issue of bonds and medium-term notes and the drawing down of loans from the syndicated credit line in various currencies. Linde hedges the exposure to the resulting future interest rate and currency risks by entering into appropriate interest rate swaps, combined interest rate/currency swaps and interest rate options. These economic hedges are reflected in the balance sheet by applying the rules for hedge accounting. Where future cash flows of interest and capital are hedged, this always gives rise to a cash flow hedge. The change in fair value of these swaps is recognised directly in Cumulative changes in equity not recognised through the income statement and disclosed separately.

In addition, the exposure to interest rate risk on the issue of future bonds and medium-term notes is hedged using forward starting swaps. The changes in the fair value of these swaps are also recognised directly in equity. In 2006, the negative fair value of these derivatives amounted to €14 million (2005: €0 million) and the positive fair value of these derivatives was €3 million (2005: €0 million). Derivatives with a negative fair value of €14 million (2005: negative fair value of €0 million) are recognised in profit or loss in over five years and derivatives with a positive fair value of €3 million (2005: positive fair value of €0 million) in over five years.

Interest rate derivatives, which hedge the exposure to future changes in the fair value of assets and liabilities as a result of interest rate and currency volatility, are accounted for under the rules for fair value hedges. In the 2006 financial year, the total positive fair values of these derivatives was €19 million (2005: €37 million), while negative fair values amounted to €10 million (2005: €20 million). In addition to hedges of capital market liabilities and financial assets at the individual level, Linde also manages interest rate risks carefully at Group level. To achieve this, it enters into interest rate swaps and interest rate options, which have the effect of transforming liabilities at variable interest rates into fixed-interest liabilities.

At 31 December 2006, around 50 percent of the Group exposure was financed at variable rates.

Price change risks

To hedge against price change risks, a small number of electricity and diesel derivatives are used in the Gases and Engineering Divisions.

The changes in the fair value of these derivatives are recognised directly in equity as cash flow hedges. In the 2006 financial year, the total positive fair values of these derivatives was €5 million (2005: positive fair values of €13 million) and the total negative fair values of these derivatives was €2 million (2005: negative fair values of €0 million). Derivatives with a negative fair value of €2 million (2005: negative fair value of €0 million) are recognised in the income statement in one year and derivatives with a positive fair value of €3 million (2005: positive fair value of €9 million) in one year and derivatives with a positive fair value of €2 million (2005: positive fair value of €4 million) in one to five years .

Measurement information for financial instruments

The fair value of financial instruments is determined using stock exchange prices, reference prices (e.g. ECB reference prices) or recognised calculation models.

Options are valued by external partners using the Black-Scholes pricing model. Futures are valued with recourse to prices in the relevant stock markets. All other derivative financial instruments are measured by discounting future cash flows using the net present value method. These calculations are based on the following interest curves:

Interest curves

in € million	EUR	USD	GBP	JPY	PLN	CZK	SKK
Interest for six months	3.85%	5.34%	5.37%	0.61%	4.20%	2.54%	4.50%
Interest for one year	4.02%	5.29%	5.53%	0.74%	4.40%	2.73%	4.40%
Interest for five years	4.06%	5.07%	5.41%	1.38%	5.00%	3.37%	4.18%
Interest for ten years	4.13%	5.16%	5.14%	1.82%	5.08%	3.70%	4.18%

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

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

Fair value of derivative financial instruments – Assets

in € million	Non-current: Due in 1 to 5 years 2006	Non-current: Due in 1 to 5 years 2005	Non-current: Due in more than 5 years 2006	Non-current: Due in more than 5 years 2005	Current: Due within 1 year 2006	Current: Due within 1 year 2005	Total 2006	Total 2005
Forward exchange transactions [1]	3	–	–	–	41	10	44	10
Foreign currency options	–	–	–	–	20	–	20	–
Swap transactions	25	40	8	1	23	2	56	43
Interest rate options	–	1	8	–	–	–	8	1
Electricity derivatives	5	4	–	–	2	9	7	13
	33	**45**	**16**	**1**	**86**	**21**	**135**	**67**

[1] Including embedded derivatives from hybrid contracts.

Fair value of derivative financial instruments – Liabilities

in € million	Non-current: Due in 1 to 5 years 2006	Non-current: Due in 1 to 5 years 2005	Non-current: Due in more than 5 years 2006	Non-current: Due in more than 5 years 2005	Current: Due within 1 year 2006	Current: Due within 1 year 2005	Total 2006	Total 2005
Forward exchange transactions [1]	–	11	–	–	31	27	31	38
Foreign currency options	–	–	–	–	9	–	9	–
Swap transactions	15	12	14	2	3	26	32	40
Interest rate options	–	1	–	–	–	–	–	1
Electricity derivatives	–	–	–	–	3	–	3	–
	15	**24**	**14**	**2**	**46**	**53**	**75**	**79**

[1] Including embedded derivatives from hybrid contracts.

Nominal amounts – Assets

in € million	Non-current: Due in 1 to 5 years 2006	Non-current: Due in 1 to 5 years 2005	Non-current: Due in more than 5 years 2006	Non-current: Due in more than 5 years 2005	Current: Due within 1 year 2006	Current: Due within 1 year 2005	Total 2006	Total 2005
Forward exchange transactions [1]	346	5	–	–	3,163	625	3,509	630
Foreign currency options	–	–	–	–	806	–	806	–
Swap transactions	418	1,075	598	120	1,005	84	2,021	1,279
Interest rate options	25	25	850	–	–	–	875	25
Electricity derivatives	3	19	–	–	5	31	8	50
	792	**1,124**	**1,448**	**120**	**4,979**	**740**	**7,219**	**1,984**

[1] Including embedded derivatives from hybrid contracts.

Nominal amounts – Liabilities

	Non-current				Current		Total	
	Due in 1 to 5 years		Due in more than 5 years		Due within 1 year			
in € million	2006	2005	2006	2005	2006	2005	2006	2005
Forward exchange transactions [1]	111	346	–	–	3,512	941	3,623	1,287
Foreign currency options	–	–	–	–	682	–	682	–
Swap transactions	643	406	714	95	260	249	1,617	750
Interest rate options	25	25	–	–	–	–	25	25
Electricity derivatives	5	–	–	–	21	–	26	–
	784	777	714	95	4,475	1,190	5,973	2,062

[1] Including embedded derivatives from hybrid contracts.

Linde is not aware of high concentrations of payment risk for our derivative financial instruments. The maximum payment risk is the carrying amount of the individual financial assets. The same applies to prior year figures.

[37] Group cash flow statement

The cash flow statement shows the source and application of funds in the 2006 and 2005 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, cheques in hand, balances with the German Federal Bank, 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 determined on the basis of payments, whereas the cash flow from operating activities is derived indirectly from net income after taxes on income.

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 received and income taxes paid included in the cash flow from operating activities are disclosed separately. Cash inflows from associates and joint ventures are disclosed in cash inflows from operating activities, starting in the 2006 financial year. From the 2006 financial year, interest payments have been disclosed in cash flow from financing activities. The prior year figures have been adjusted accordingly. In the KION Group, which has now been sold, the change in leased assets has been disclosed under operating activities, as the leasing business is used primarily to promote sales and is therefore a key component of operating activities. The disclosure of the cash flows arising from the sale is therefore the same, irrespective of the way the sale is financed.

Investing activities comprise additions to tangible assets, financial assets and intangible assets, as well as additions to capitalised development costs. Additions and disposals have been translated at average rates. Additions to securities held as current assets are also shown here.

[38] Segment information

Segment information by activity

The segment information by activity is based on the products and services offered by the Group.

The Gases Division focuses on the production, sale and distribution of gases for applications in industry, medicine, environmental protection and in research and development. In addition, this division offers technical application know-how, specialised services and the necessary hardware to use the various gases. In addition to the former Linde Gas division, the new Gases Division also includes the gases operations of BOC acquired on 5 September 2006.

The Engineering Division is involved in the 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 in 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.

The "Consolidation and other" column includes amounts which cannot be allocated to the segments. These include expenses incurred by the Corporate Centre. Also included here are minor Group activities which cannot be allocated to a particular segment, such as Gist. Consolidation entries made to reconcile segment figures to total Group figures are also recorded here. The prior year figures have been adjusted to reflect the changes in the presentation of the segments.

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

Intra-Group transactions are generally conducted under the same conditions as for non-related third parties. The capital expenditure relates to additions to intangible and tangible assets.

Segment information by region

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

Segment assets/liabilities

in € million	31.12.2006	Adjusted 31.12.2005
Non-current segment assets (excluding tax receivables and deferred tax assets)	21,216	8,359
Current segment assets (excluding tax receivables)	6,291	3,905
Segment assets	**27,507**	**12,264**
Deferred tax and tax receivables	489	354
Total assets	**27,996**	**12,618**
Pension provisions	1,284	1,122
Non-current liabilities (excluding pension provisions and deferred tax liabilities)	10,059	2,654
Current liabilities (excluding pension provisions and tax liabilities)	5,541	3,686
Segment liabilities	**16,884**	**7,462**
Minority interests	225	49
Equity	8,000	4,424
Total taxes	2,887	683
Total equity and liabilities	**27,996**	**12,618**

[39] Employees

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

	2006	2005
Germany	7,165	7,165
Other Europe	14,501	8,813
North America	6,127	3,834
South America	2,277	1,844
Africa	1,849	1
Asia/Australia	4,928	1,279
Continuing operations	**36,847**	**22,936**
Discontinued operations	21,988	19,145
Group	**58,835**	**42,081**

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

After the transfer of €700 million to other revenue reserves, the unappropriated profit in Linde AG was €736,603,995.68.

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	31.12.2006	31.12.2005
Intangible assets	56	83
Tangible assets	302	360
Financial assets	18,376	6,916
Non-current assets	**18,734**	**7,359**
Inventories	1,414	1,468
Less advance payments received from customers	–1,414	–1,468
	–	–
Receivables and other assets	499	441
Securities	–	56
Cash and cash equivalents	27	341
Current assets	**526**	**838**
Prepaid expenses and deferred charges	**37**	**50**
Total assets	**19,297**	**8,247**

Balance sheet of Linde AG – Equity and liabilities

in € million	31.12.2006	31.12.2005
Capital subscribed	411	307
Conditionally authorised capital €104 million (2005: €114 million)		
Capital reserve	4,614	2,682
Revenue reserves	1,328	628
Unappropriated profit	737	168
Equity	**7,090**	**3,785**
Special tax-allowable reserves	**14**	**14**
Provisions for pensions and similar obligations	761	864
Other provisions	735	558
Provisions	**1,496**	**1,422**
Liabilities	**10,697**	**3,026**
Total equity and liabilities	**19,297**	**8,247**

Income statement of Linde AG

in € million	2006	Adjusted 2005
Sales	**2,711**	**3,089**
Cost of sales	2,060	2,358
Gross profit on sales	**651**	**731**
Marketing and selling expenses	239	241
Research and development costs	68	81
General administration expenses	330	308
Other operating income	203	139
Other operating expenses	486	64
Investment income	1,277	156
Income from other securities and loans in financial assets	1	–
Other interest and similar income		
of which from affiliated companies €23 million (2005: €12 million)	45	28
Amortisation of financial assets and securities held as current assets	349	13
Interest and similar charges		
of which from affiliated companies €221 million (2005: €79 million)	376	107
Profit on ordinary activities	**329**	**240**
Non-recurring items		
Profit on disposal of investments	1,444	413
Change in measurement of pensions	–	–286
Taxes on income	–336	–81
Net income	**1,437**	**286**
Transfer to revenue reserves	700	118
Unappropriated profit	**737**	**168**

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 9 March 2007, it proposes the following appropriation of profit to be voted on at the Shareholders' Meeting on 5 June 2007: the distribution of a dividend of €1.50 per share entitled to dividend (2005: €1.40).

The amount to be distributed will therefore be €241,104,067.50, based on 160,736,045 (2005: 119,864,046) shares entitled to dividend. The remaining amount of €495,499,928.18 (2005: €248,689.87) will be carried forward to the following year.

[41] Approval of the Group financial statements

On 2 March 2007, the Executive Board of Linde AG released the Group financial statements for submission to the Supervisory Board. It is the responsibility of the Supervisory Board to examine the Group financial statements and to state whether it approves them.

[42] Related party transactions

In addition to the subsidiaries included in the Group financial statements, Linde AG is related, directly or indirectly, while carrying out its normal business activities, to a multiplicity of affiliated but not consolidated companies, joint ventures and associates. The business relationships with these companies are conducted under 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 in the 2006 financial year was as follows:

Services provided by the Group to related parties:

	2006				2005			
in € million	With non-consolidated subsidiaries	With associates or joint ventures	With other related parties	Total	With non-consolidated subsidiaries	With associates or joint ventures	With other related parties	Total
Sales from engineering services to related parties	34	26	–	60	20	–	–	20
Revenue from the sale of industrial gases to related parties	–	3	–	3	–	–	–	–
Other revenue from the sale of finished or unfinished goods or services to related parties	7	122	1	130	24	168	2	194
Other income from the sale of property and other non-current assets to related parties	–	2	–	2	–	3	–	3

Services provided by related parties to the Group:

in € million	2006 With non-consolidated subsidiaries	2006 With associates or joint ventures	2006 With other related parties	2006 Total	2005 With non-consolidated subsidiaries	2005 With associates or joint ventures	2005 With other related parties	2005 Total
Industrial gases purchased from related parties	3	4	4	11	2	13	–	15
Lease agreements with related parties	–	–	–	–	–	–	–	–
Material Handling services purchased from related parties	–	4	–	4	–	5	–	5
Finished or unfinished goods or services purchased from related parties	36	33	1	70	74	50	6	130
Other operating expenses arising from the purchase of property and other non-current assets from related parties	–	–	–	–	–	2	–	2

Some of the members of the Supervisory Board and the Executive Board are, or have been in the past year, active as members of the Supervisory or Executive Boards of other companies. Linde has a normal business relationship with almost all these companies. The sale of products and services to these companies takes place under the same conditions as for non-related third parties. The current business relationships with the shareholders, Deutsche Bank AG, Commerzbank AG and Allianz 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.

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

in € million	2006 With non-consolidated subsidiaries	2006 With associates or joint ventures	2006 With other related parties	2006 Total	2005 With non-consolidated subsidiaries	2005 With associates or joint ventures	2005 With other related parties	2005 Total
Receivables from related parties	1	383	–	384	8	27	1	36
Liabilities to related parties	13	2	5	20	5	37	1	43
Provision for doubtful debts in respect of related parties	–	–	–	–	–	1	–	1

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

Supervisory Board

In the 2006 financial year, the total emoluments of the Supervisory Board for discharging their duties in the parent company and in the subsidiaries, including VAT, amounted to €2,289,750 (2005: €2,124,192). Of this amount, €918,964 (2005: €892,504) related to fixed emoluments and €1,307,565 (2005: €1,200,600) 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 €	2006	2005
Fixed emoluments	4,011,749	2,655,627
Variable emoluments	7,826,005	7,030,000
Total cash emoluments	**11,837,754**	**9,685,627**

In the 2006 financial year, under the Linde Management Incentive Programme, 250,000 subscription rights (2005: 230,000) were granted to members of the Executive Board as part of their total emoluments. These had a fair value at the issue date of €11.24 (2005: €6.92) per subscription right, which gives a total of €2,810,000 (2005: €1,591,600).

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

Total remuneration paid to former members of the Executive Board and their dependants amounted to €5,380,252 (2005: €2,385,616).

A provision of €39,062,290 (2005: €34,504,903) 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 €37,982,947 (2005: €34,504,903 in accordance with § 6a of the German Income Tax Act, or EStG) was also made.

The remuneration report presents the basic features and the structure of the remuneration of the Executive Board and the Supervisory Board. It has been included in the Group management report on pages 25–29 of the 2006 annual report.

[44] Declaration of compliance with the Corporate Governance Code

On 9 March 2007, the Executive Board and the Supervisory Board of Linde AG approved the prescribed declaration pursuant to § 161 of the German Stock Corporation Law (AktG) on the recommendations of the German Corporate Governance Code and made it available to shareholders on a permanent basis. The declaration of compliance has been published on the Internet at www.linde.com/InvestorRelations/CorporateGovernance.

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

[45] Contingent liabilities and Other financial commitments

Contingent liabilities

in € million	31.12.2006	31.12.2005
Bills endorsed and discounted	–	21
Guarantees	13	81
Warranties	80	66
	93	**168**

For one Board member, a rental guarantee was assumed, which is included in contingent liabilities.

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	31.12.2006	31.12.2005
Capital expenditure commitment	114	41
Obligations under non-cancellable operating leases	440	539
Obligations arising from the purchase of companies	–	126
Other	148	74
	702	**780**

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

in € million	31.12.2006	31.12.2005
Nominal future minimum lease payments		
Due within one year	129	145
Due in one to five years	206	291
Due in more than five years	105	103
	440	**539**

Some of the future minimum lease payments relate to leased buildings, technical equipment, fixtures, furniture and equipment (procurement leases). In addition, in 2005 they included industrial trucks refinanced through sale and leaseback transactions, which were then subleased to the end customer (sale and leaseback subleases).

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

	Procurement leases		Sale and leaseback subleases	
in € million	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Nominal future minimum lease payments (disbursements)				
Due within one year	129	90	–	55
Due in one to five years	206	186	–	105
Due in more than five years	105	100	–	3
	440	**376**	**–**	**163**
Nominal future minimum lease payments (receipts)				
Due within one year	–	–	–	54
Due in one to five years	–	–	–	105
Due in more than five years	–	–	–	5
	–	**–**	**–**	**164**

[46] Auditors' fees and services

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

in € million	2006	2005
Audit (including expenses)	10	8
Other reports	4	–
Tax consultancy	1	1
Other services	2	–
	17	**9**

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

in € million	2006	2005
Audit (including expenses)	2	1
Other reports	–	–
Tax consultancy	–	1
Other services	1	1
	3	**3**

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

Other reports comprises mainly 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 proposed or current business transactions.

[47] 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. As a result of conditions imposed by the US competition authorities on 30 June 2006, a total of eight air separation plants in the US were classified as non-current assets held for sale.

Other conditions imposed by the competition authorities related to the gases business in the UK and Australia (Linde Gas UK Ltd., West Bromwich, England, and Linde Gas Pty. Ltd., Yennora NSW, Australia), and in Poland (BOC Gazy Sp. z. o. o, Poland). These companies were disclosed as non-current assets held for sale. Linde’s holding in the joint venture Japan Air Gases Ltd. was also reclassified, and a contract of sale was agreed on 21 December 2006. Contracts of sale were also signed on 8 January 2007 for BOC Gazy Sp. z. o. o., on 20 December 2006 for Linde Gas Australia and on 1 February 2007 for the Chilean joint venture Indura S. A.

In addition, on 1 November 2006, the environmental technology segment of Linde-KCA-Dresden GmbH was disclosed under non-current assets held for sale, with a contract of sale being agreed on 21 December 2006.

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 KION Group was deconsolidated on the completion of the sale transaction on 28 December 2006.

The income statement was divided into continuing operations, i. e. our gas and engineering activities, and discontinued operations, i. e. the KION Group.

BOC Edwards (components business)

In the course of the BOC acquisition, the components business of BOC Edwards was classified as a discontinued BOC operation of Linde in the opening balance sheet at 5 September 2006. Linde expects to dispose of this business within the next twelve months. The electronics business of BOC Edwards is remaining in The Linde Group.

All the assets and liabilities attributable to the BOC Edwards components business were reclassified in the balance sheet at 31 December 2006 and disclosed under Non-current assets held for sale and disposal groups and Liabilities directly related to non-current assets held for sale. From the date of acquisition on 5 September, the income statement was divided into continuing gas and engineering operations and discontinued operations, i.e. the BOC Edwards components business.

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:

Non-current assets held for sale and liabilities directly related to non-current assets held for sale

in € million	Air separation plants in US	BOC Edwards	Japan Air Gases	BOC Poland	Indura	Other	Total
Intangible assets	142	38					180
Other non-current assets	115	507	468	359	107	172	1,728
Inventories	1	134	–	–	–	2	137
Cash and cash equivalents	–	111	–	–	–	2	113
Other current assets	18	229	–	–	–	30	277
Total non-current assets held for sale and disposal groups	**276**	**1,019**	**468**	**359**	**107**	**206**	**2,435**
Provisions for pensions and similar obligations	–	–	–	–	–	–	–
Other non-current provisions	6	118	–	–	–	–	124
Non-current liabilities	1	3	–	–	–	–	4
Current liabilities	2	261	–	–	–	44	307
Total liabilities directly related to non-current assets held for sale	**9**	**382**	**–**	**–**	**–**	**44**	**435**

Intangible assets which are disclosed as Non-current assets held for sale include goodwill of €109 million.

Discontinued operations

	January to December 2006		January to December 2005	
in € million	KION Group	BOC Edwards	KION Group	BOC Edwards
Sales	4,020	306	3,627	–
Cost of sales	2,952	203	2,693	–
Gross profit on sales	**1,068**	**103**	**934**	**–**
Other income and other expenses	–707	–83	–683	–
Non-recurring items	1,812	–	–	–
Financial income	67	–	45	–
Financial expenses	95	1	93	–
Taxes on income	509	16	53	–
Earnings after taxes on income	**1,636**	**3**	**150**	**–**
Attributable to minority interests	2	–	2	–
Cash flow from operating activities	343	36	270	–
Cash flow from investing activities	–159	–15	–187	–

Balance sheet of KION on deconsolidation

in € million	KION Group
Non-current assets	1,794
Current assets	1,465
Cash and cash equivalents	189
Total non-current assets held for sale and disposal groups	**3,448**
Equity	780
Minority interests	9
Provisions for pensons and similar obligations	387
Other non-current provisions	516
Current liabilities	1,756
Total liabilities directly related to non-current assets held for sale	**3,448**

[48] 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 on the acquisition of BOC in accordance with IFRS 3 and for non-recurring items.

Adjusted income statement

	31.12.2006			31.12.2005
in € million	As reported	Non-GAAP adjustment	Key financial figures	Key financial figures
Sales	12,439	–	12,439	9,511
Cost of sales	−8,547	124	−8,423	−6,472
Gross profit on sales	**3,892**	**124**	**4,016**	**3,039**
Research and development costs, marketing, selling and administration expenses	−2,873	62	−2,811	−2,190
Other operating income and expenses	−130	–	−130	−103
Income from associates	35	–	35	1
Non-recurring items	1,614	−1,614	–	–
Financial result	−271	–	−271	−145
Taxes on income	−669	234	−435	−285
Earnings after taxes on income	**1,858**	**−1,194**	**664**	**523**
Attributable to minority interests	20	–	20	9
Attributable to Linde AG shareholders	**1,838**	**−1,194**	**644**	**514**
Equity including minority interests	8,225	−1,194	7,031	4,473
Financial debt	10,596	–	10,596	2,416
Plus: liabilities from financial services	49	–	49	511
Less: receivables from financial services	−1,001	–	−1,001	−553
Less: cash and cash equivalents	−663	–	−663	−911
Net financial debt	**8,981**	**–**	**8,981**	**1,463**
Net pension obligations	1,014	–	1,014	1,120
Capital employed	**18,220**	**−1,194**	**17,026**	**7.056**
Earnings per share in €	**13.30**	**–**	**4.66**	**4.30**
Earnings per share in € – fully diluted	**12.49**	**–**	**4.44**	**4.06**
Return on capital employed (ROCE) in %	**22.1**	**–**	**11.4**	**13.7**

[49] Significant Group companies

Due to the fact that the reporting structures in Linde and BOC were still different at 31 December 2006, significant Group companies and reporting units are shown separately for Linde and BOC. The disclosure of the Linde companies is based on legal entities, some of which are listed by country.

The entities shown for BOC are for reporting purposes only, which may include several legal entities. The figures relate to the period from September to December 2006.

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.

Affiliated companies

	Country (registered office)	Holding in %	Sales in € million	Earnings in € million
Gases Division				
Linde Gas Austria	A	100.0	137	58
Linde Gas Brazil	BR	100.0	173	15
PanGas	CH	100.0	97	22
Linde Gas Colombia	CO	100.0	57	12
Linde Technoplyn	CZ	100.0	172	38
Linde Gas Produktionsgesellschaft mbH & Co. KG	D	100.0	322	6
Linde Gas Therapeutics GmbH & Co. KG	D	100.0	66	1
Tega-Technische Gase und Gasetechnik GmbH	D	100.0	57	1
Linde Gas Denmark	DK	100.0	43	3
Abelló Linde Spain	E	74.8	108	13
Linde Gas France	F	99.8	251	18
Linde Gas Finland	FIN	100.0	129	22
Linde Hellas E. P. E.	GR	100.0	39	3
Linde Gas Ungarn AG	H	100.0	118	27
Linde Gas Italy	I	100.0	179	3
Linde Gas Mexico	MEX	100.0	59	12
Linde Gas Norway	N	100.0	122	27
nv Hoek Loos	NL	100.0	294	51
Linde SOGAS, LDA	P	100.0	31	5
Linde Gas Poland	PL	99.9	101	20
Linde Gas Puerto Rico	PR	100.0	33	–6
AGA S. A.	RA	100.0	33	2
Linde Gas Chile	RCH	100.0	54	6
Linde Gas Romania	RO	100.0	70	21
AGA AB	S	100.0	328	125
Singapore Syngas Pte. Ltd.	SGP	100.0	83	21
Linde Gas USA	USA	100.0	837	46
AGA Gas C. A.	YV	100.0	32	8

Affiliated companies

	Country (registered office)	Holding in %	Sales in € million	Earnings in € million
Engineering Division				
Linde Kryotechnik AG	CH	100.0	40	8
Linde Engineering (Dalian) Co. Ltd.	CN	56.0	35	2
Linde-KCA-Dresden GmbH	D	100.0	260	1
Selas-Linde GmbH	D	100.0	106	2
Linde Impianti Italia S.p.A.	I	100.0	28	1
LPM, S.A. de C.V.	MEX	100.0	61	5
LINARCO LTD	SA	100.0	63	2
Linde Engineering USA	USA	100.0	307	7
Linde Process Plants, Pty. Ltd.	ZA	100.0	34	2

	Country (principal unit)		Sales in € million Sept.–Dec. 2006	Earnings in € million Sept.–Dec. 2006
BOC (Reporting units)				
BOC Gases Australia	AUS		184	21
BOC Gases Canada	CDN		71	–2
Cryostar France	F		40	2
BOC Gases UK	GB		322	35
Gist Business	GB		209	11
BOC India	IND		29	–
BOC Gases Ireland	IRL		30	4
BOC Gases New Zealand	NZ		29	5
BOC Gases Korea	ROK		30	–
BOC Thailand	THA		33	–1
BOC Gases USA	USA		256	33
BOC Americas (PGS) Inc	USA		81	–13
BOC Global Helium Inc	USA		16	1
African Oxygen Limited	ZA		161	14

Associates and joint ventures

	Country (registered office)	Direct holding in %
Gases Division		
Ossigeno S. A.	CH	66.7
Shanghai Hualin Industrial Gases Co. Ltd.	CN	50.0
GI/LINDE ALGERIE	DZ	40.0
HELISON PRODUCTION S. p. A.	DZ	51.0
Ibérica de Gases S. A.	E	50.0
Oxigeno de Sagunto SL	E	50.0
TLF Tjeldbergoddens Luftgassfabrik DA	N	37.8
OCAP CO2 v. o. f.	NL	50.0
Linde Gaz Brazi S. R. L.	RO	51.0
BOC (reporting units)		
Auscom (Elgas)	AUS	50.0
BOC TISCO Gases Co. Ltd.	CN	50.0
Nanjing BOC-YPC Gases Co. Ltd.	CN	50.0
Maanshan BOC-Ma Steel Gases Co. Ltd.	CN	50.0
South China Joint Ventures	CN	50.0
BOC-SPC Gases Company Ltd.	CN	50.0
BOC Qilu Gases Company Ltd.	CN	50.0
BOC LH Industrial Gases (Suzhou) Co. Ltd.	CN	50.0
BOC LH China	CN	50.0
Lienhwa Precision Gases (Chengdu) Co. Ltd.	CN	50.0
Bellary Oxygen Company Private Limited	IND	50.0
Malaysian Oxygen	MAL	50.0
Compania de Nitrogeno de Cantarell, SA de CV	MEX	65.0
BOC Lienhwa	RC	50.0
Singapore Oxygen	SGP	50.0
Asia Union Electronic Chemical Corporation	THA	50.0
East Coast Oxygen Company	USA	50.0

[50] Events after the balance sheet date

BOC Poland

On 8 January 2007, Linde sold BOC's Polish gases activities (BOC Gazy Sp. z. o. o.) at a price of €370 million to Air Products and Chemicals, Inc. In the 2006 financial year, BOC Gazy achieved sales of around €126 million and earnings before interest, tax, depreciation and amortisation (EBITDA) of just under €38 million. The disposal was made as a result of an antitrust condition imposed by the European Commission for the acquisition of The BOC Group plc by Linde.

Linde Gas Australia

Subsequent to the signing of a preliminary agreement on 26 November 2006, a contract has been agreed with the Australian company Wesfarmers Energy Limited for the sale of Linde's Australian gases operations (Linde Gas Australia) at an enterprise value of around €300 million. The disposal of Linde Gas Australia was an antitrust condition imposed by the Australian Competition & Consumer Commission (ACCC) in connection with the acquisition of The BOC Group plc.

Indura, Chile

On 31 January 2007, The Linde Group sold its 41 percent holding in the Chilean gases company Indura at an enterprise value of around €150 million to its joint venture partner, the family company Inversiones Y Desarrollos (Invesa), Santiago, Chile.

Indura expects to achieve sales of around €160 million for the 2006 financial year and EBITDA of around €40 million.

Linde Gas Mexico

On 20 February 2007, the industrial gases and medical gases business of The Linde Group in Mexico, formerly managed by the subsidiary AGA S. A. de C. V., was sold to the US company Praxair, Inc., Danbury, CT. The purchase price was not disclosed by the contracting parties. The Mexican business of BOC which became part of The Linde Group on the acquisition of The BOC Group plc is not affected by this sale.

Sakiz, Russia

On 11 January 2007, Linde acquired the Russian firm SaKiZ (ZAO Samarsky Oxygen Plant), a regional supplier of industrial gases which has its registered office in Samara in southern Russia. The purchase price was not disclosed by the contracting parties.

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 form. SaKiZ is the market leader in the fast-growing economy of the Volga region.

Linde and Air Liquide reorganise their joint ventures in Asia

The Linde Group and the global industrial and medical gases company Air Liquide signed agreements on 21 February 2007 for the reorganisation of their joint ventures in Asia.

When it receives clearance from the appropriate competition authorities, Linde will acquire Air Liquide's holdings in the gases companies Malaysian Oxygen (Malaysia) and Hong Kong Oxygen & Acetylene (Hong Kong). In return, Linde will sell its holdings in Singapore Oxygen (Singapore), Eastern Industrial Gases (Thailand), Vietnam Industrial Gases (Vietnam) and Brunei Oxygen (Brunei) to Air Liquide. On the completion of these transactions, Linde will receive net purchase consideration of €275 million.

Following these transfers, Linde will hold 100 percent of the shares in Hong Kong Oxygen & Acetylene and 45 percent of the shares in Malaysian Oxygen. On completion of the contract of sale with Air Liquide, Linde will be obliged to make an official offer to the free float shareholders to acquire the remaining 55 percent of the shares of Malaysian Oxygen. This will enable Linde to achieve the position it is seeking as a majority shareholder in Malaysian Oxygen. Including a 20 percent premium on the average share price over the past three months weighted by volume, the offer to the free float shareholders to acquire the remaining 55 percent of the shares in Malaysian Oxygen will be based on consideration of around €249 million. Malaysian Oxygen, which has about 880 employees, achieved sales in the year ended 30 September 2006 of around MYR 637 million (equivalent to €139 million).

The share of sales acquired by Linde in the course of these transactions was around €125 million and the share of sales disposed of by Linde was €110 million, based on the figures for the 2006 financial year.

One of the conditions imposed by the European Commission when it approved the acquisition of The BOC Group plc by Linde, a transaction completed on 5 September 2006, was the reorganisation of Linde's holdings in certain joint ventures in the Asia/Pacific region. Linde agreed at that time to terminate existing joint ventures between BOC and Air Liquide to the extent required by the Commission, either by selling BOC holdings or by acquiring Air Liquide holdings in the joint ventures.

Other than the events mentioned above, there have been no significant events for The Linde Group between 31 December 2006 and 2 March 2007.

Declaration of the Executive Board

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

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

Our efficient internal management and control systems and the use of uniform guidelines throughout the Group ensure the reliability of this data. We have received confirmation from those responsible in each division and from the chief executives of each company of the soundness of the financial data reported to the Corporate 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.

Wiesbaden, 2 March 2007

Professor Dr Wolfgang Reitzle
Chief Executive Officer
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

Trevor Burt
Member of the Executive Board
of Linde AG

Georg Denoke
Member of the Executive Board
of Linde AG

Auditors' report

We have audited the consolidated financial statements, prepared by Linde AG, comprising the balance sheet, income statement, statement of recognised income and expense, cash flow statement and notes to the Group financial statements, together with the Group management report for the business year from 1 January to 31 December 2006. The preparation of the consolidated financial statements and the Group management report in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and the additional requirements of German commercial law pursuant to § 315a (1) of the German Commercial Code (HGB) are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the European Union and with the additional requirements of German commercial law pursuant to § 315a (1) of the German Commercial Code (HGB), and 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, 2 March 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Professor Dr Rolf Nonnenmacher	Michael Gewehr
Wirtschaftsprüfer	Wirtschaftsprüfer

Further Information

Other Board memberships
(As at 31 December 2006)

Supervisory Board

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

Dr Manfred Schneider
Chairman of the Supervisory Board of Linde AG

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

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

Michael Diekmann
Second Deputy Chairman of the Supervisory Board of Linde AG
Chairman of the Executive Board of Allianz SE

→ External offices:
BASF AG
Deutsche Lufthansa AG

→ Group offices:
Allianz Deutschland AG (Chairman)
Allianz Global Investors AG (Chairman)
Dresdner Bank AG (Chairman)

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

Dr 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,
Member of the Executive Board of Landesverband
Bayern der Deutschen Schutzvereinigung
für Wertpapierbesitz e. V. (DSW)

Dr Clemens Börsig
(appointed on 30 June 2006)
Chairman of the Supervisory Board of Deutsche Bank AG

→ External offices:
Deutsche Bank AG (Chairman)
Deutsche Lufthansa AG
Heidelberger Druckmaschinen AG

→ External offices:
Foreign & Colonial Eurotrust plc., London
(non-executive member of the Board of Directors)

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

Gerhard Full
Former Chairman of the Executive Board
of Linde AG

→ Membership of other German supervisory boards.

→ Membership of comparable German and foreign boards.

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

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

→ External offices:
Steigenberger Hotels AG

→ Group offices:
Eurohypo Aktiengesellschaft
(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)

Professor Dr Jürgen Strube
Chairman of the Supervisory Board of BASF Aktiengesellschaft

→ External offices:
Allianz Deutschland AG
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.

Members of the Supervisory Board who retired in the 2006 financial year:

(The information provided relates to the date of retirement.)

Dr Josef Ackermann
(retired on 30 June 2006)
Chairman of the Management Board and Chairman of the Group Executive Committee of Deutsche Bank AG

→ External offices:
Bayer AG
Deutsche Lufthansa AG
Siemens AG

Joachim Hartig
(retired on 28 December 2006)
Chairman of the Works Council of Works I and II of Linde Material Handling GmbH & Co.KG

Kay Pietsch
(retired on 28 December 2006)
Chairman of the Hamburg Works Council, STILL GmbH

Frank Zukauski
(retired on 28 December 2006)
Director of the Cylinder Components Centre of STILL GmbH

Members of the Supervisory Board appointed in January 2007:

(The information provided relates to the date of appointment.)

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

→ Membership of other German supervisory boards.

Executive Board

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

Professor Dr Wolfgang Reitzle
Chief Executive Officer

→ External offices:
Allianz Lebensversicherungs-AG
Deutsche Telekom AG

→ 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
(appointed on 12 September 2006)

Georg Denoke
Member of the Executive Board
(appointed on 12 September 2006)

→ Group offices:
The BOC Group plc, UK
(Member of the Board of Directors)

Dr Peter Diesch
Member of the Executive Board
(retired on 31 December 2006)

→ External offices:
Delton AG

Hubertus Krossa
Member of the Executive Board
(retired on 31 January 2007)

→ External offices:
Bauknecht Hausgeräte GmbH
Linde Material Handling Verwaltungs-GmbH
STILL GmbH

J. Kent Masters
Member of the Executive Board
(appointed on 12 September 2006)

→ Group offices:
African Oxygen Limited, South Africa (Chairman of the Board of Directors)
The BOC Group plc, UK
(Member of the Board of Directors)

→ Membership of other German supervisory boards.

→ Membership of comparable German and foreign boards.

Management organisation

(As at 9 March 2007)

Executive Board	Regional/operational responsibilities	Central functions
Professor Dr Wolfgang Reitzle, Chief Executive Officer	Gist Division, non-core businesses	Communications & Investor Relations, Group Information Services, Group Human Resources, Group Legal, Internal Audit, SHEQ, Six Sigma, Corporate Strategy
Dr Aldo Belloni	Europe and Middle East, Global Business Unit Healthcare, Engineering Division	Innovation Management
J. Kent Masters	Americas and Africa, Global Business Unit Tonnage (On-Site), Business Area Bulk	
Trevor Burt	Asia/Pacific, Business Areas Packaged Gases and Electronics Gases	
Georg Denoke		Group Accounting & Reporting, Financial Control, Procurement, Group Treasury, Financial Transition, Capital Expenditure, Mergers & Acquisitions, Growth & Performance, Risk Management, Insurance, Tax

Divisions

Gases Division	Engineering Division	Gist Division
For the organisation of this division,	Werner Schwarzmeier, Spokesman	Martin Gwynn
see diagram below.	Dr Markus Raab	
	Dr Bruno Ziegler	

Gases Division

RBU[1] Continental and Northern Europe Peter Stocks	**RBU North America** Pat Murphy	**RBU Greater China** Steven Fang
RBU UK and Ireland Mike Huggon	**RBU South America** Clemis Miki	**RBU South and East Asia** Sanjiv Lamba
RBU Eastern Europe and Middle East Dr Hans-Hermann Kremer	**RBU Africa** Rick Hogben	**RBU South Pacific** Colin Isaac
GBU[2] Healthcare Lars Källsäter	**GBU Tonnage (On-Site)** Dr Rainer Schlicher	**Asian Joint Venture Management** Peter Owen
	BA[3] Bulk Neil Greenfield	**BA Packaged Gases** Alan Watkins
		BA Electronics Gases Noel Leeson

1 RBU: Regional Business Unit.
2 GBU: Global Business Unit.
3 BA: Business Area.

Global functions

Communications, Investor Relations	Dr Harry Roegner
Group Information Services	Peter Dew
Group Human Resources	James Cullens
Group Legal	Nick Deeming
Internal Audit	Thomas Müller
SHEQ	Phil Graham
Six Sigma	Hanns-Jürgen Nick
Corporate Strategy	Michael Ullrich

Additional central functions

Procurement	Christoph Clausen
Group Accounting & Reporting	Björn Schneider
Financial Control, Capital Expenditure	Jürgen Nowicki
Group Treasury	Erhard Wehlen
Financial Transition	Charles Spence
Growth & Performance	Mark Motter
Innovation Management	Professor Dr Hans Kistenmacher
Mergers & Acquisitions	Matthias von Plotho
Risk Management & Insurance	Peter Petz
Tax	Michael Weißberg

Review of the year

January
Linde AG confirms its interest in acquiring the British company The BOC Group. This friendly approach is based on a cash offer of 1,500 British pence per share. A merger of the two companies would be a logical step, as Linde and BOC complement each other almost perfectly, both in terms of their markets and their products.

February
The Executive Board of Linde presents the annual financial statements for the 2005 financial year. "We have become more effective and efficient and are therefore well-equipped for the tasks which lie ahead," sums up Professor Dr Wolfgang Reitzle, Chief Executive Officer of Linde AG. Given the positive overall business performance, the Executive Board proposes to the Supervisory Board that a resolution be put to the vote at the Shareholders' Meeting on 4 May 2006 to increase the dividend from €1.25 to €1.40 per share.

March
Linde makes a conditional offer to purchase all the shares in The BOC Group for 1,600 British pence per share in cash. The BOC Board of Directors proposes recommending the acceptance of this offer by its shareholders. The submission of the acquisition offer is conditional on the approval of the EU and US competition authorities. The offer requires the approval of the BOC shareholders and the relevant English courts. The transaction is due to be completed in the third quarter of 2006.

April
In the first quarter of the 2006 financial year, Linde achieves significant increases in sales and operating profit (EBIT) and confirms its forecast for the whole year. "We have taken advantage of the good economic environment and have begun the new financial year at full pelt," comments CEO Reitzle.

May
The syndication of the credit which Linde AG will use to finance the acquisition of BOC is completed. The transaction involves Deutsche Bank, Commerzbank, Dresdner Kleinwort Wasserstein, Morgan Stanley and the Royal Bank of Scotland. The value of the credit is around €15 billion.

June
The European Commission approves the acquisition of The BOC Group by Linde AG, subject to certain conditions. These relate to the disposal of Linde's gases business in the UK, BOC's gases operations in Poland and some customer contracts for ethylene oxide in the UK and Ireland. Linde also agrees to dispose of various helium supply contracts and to terminate certain joint ventures between BOC and Air Liquide in the Asia/Pacific region to the extent agreed with the Commission.

July
The US Federal Trade Commission (FTC) issues its approval of the acquisition of The BOC Group by Linde, subject to certain disposals. Linde agrees to sell eight air separation plants in the United States. Linde will also dispose of three supply contracts for liquefied helium with suppliers in the United States, Russia and Poland, together with the associated plants.

Via its financing subsidiary Linde Finance B. V., Linde issues a hybrid bond in two tranches worth a total of €1.05 billion. The transaction is substantially oversubscribed.

At the same time, Linde successfully increases its share capital. Around 99.9 percent of the subscription rights for new shares are exercised. The proceeds of the issue are around €1.8 billion. The capital increase and the hybrid bond are part of the refinancing of the offer to acquire all the shares in The BOC Group.

In the first six months of 2006, Linde achieves significant increases in sales and operating profit (EBIT). "What's special about this half-year is that we have continued to improve our business operations, while at the same time successfully meeting the additional challenges in the run-up to the proposed acquisition of BOC," explains CEO Reitzle.

August
Qatar Shell GTL Ltd, which belongs to the Royal Dutch Shell Group, and Qatar Petroleum award Linde the contract to build eight large air separation plants for the Pearl Gas-To-Liquids (GTL) plant in Ras Laffan Industrial City, Qatar. The Pearl GTL plant will be the largest integrated complex of its kind in the world. Linde will supply the plants to produce the required amount of oxygen, around 860,000 cubic metres per hour, making this the largest contract for air separation plants ever put out to tender.

The shareholders of The BOC Group ratify the proposed acquisition of the company by Linde at extraordinary general meetings in accordance with British legal procedures.

September

The merger of Linde and BOC to form The Linde Group creates a world-leading industrial gases and engineering group. On a pro forma basis, The Linde Group achieves annual sales of around €12 billion and, with about 53,000 employees worldwide, an operating profit (EBIT) of €1.6 billion. The Corporate Centre of the Group is established in two locations. The principal place of business is Munich, which is where the Executive Board is based, while a second head office with support functions is based in Surrey, England, near the former headquarters of The BOC Group.

The global interests of The Linde Group are also reflected at the highest management level of the new group. The top management team will consist of five members, led by Professor Wolfgang Reitzle (57), the Chief Executive Officer of Linde AG. The other members of the Executive Board will be Dr Aldo Belloni (56), already a member of the Executive Board of Linde AG, Kent Masters (46) and Trevor Burt (48) from the former BOC organisation, and Georg Denoke (41), previously responsible for finance at Linde Gas. He succeeds Dr Peter Diesch, who will leave the Group at the end of the year of his own volition.

October

In Lohhof near Munich, The Linde Group opens the Linde Hydrogen Center. This facility, unique in terms of its intended use, combines the functions of a hydrogen fuelling station with those of a technology test centre, training establishment and presentation platform. The capital outlay for the Hydrogen Center, which is equipped with the most up-to-the-minute technology, is €3 million. The Center highlights the leading role of The Linde Group in the field of hydrogen technology.

November

The Linde Group achieves double-digit increases in sales and operating profit in the third quarter and, following the radical reorganisation of the past few months, paves the way for a successful future. “I am very confident that this trend will persist and that we will be able to exploit the huge opportunities for growth and synergies presented by the merger with BOC,” says Wolfgang Reitzle, the Chief Executive Officer of Linde AG.

The KION Group, which The Linde Group set up as a new legally independent umbrella company for the three brands (Linde, Still and OM) of forklift trucks and logistics equipment, is sold at a price of €4 billion to a consortium comprising the financial investors Kohlberg Kravis Roberts & Co. (KKR) and Goldman Sachs Capital Partners. The validity of the contract is dependent on the receipt of approval from the appropriate competition authorities. This is a further milestone in the conversion of The Linde Group into a pure gases and engineering group.

December

Linde and the petrochemical company SINOPEC Qilu enter into an agreement to set up a joint venture company with equal shares, as well as a long-term supply agreement for industrial gases. The joint venture, which is called Zibo BOC Qilu Gases Co. Ltd, has an investment volume of around USD 64 million. In addition to the two existing air separation plants which SINOPEC Qilu brings into the joint venture, a new air separation plant is to be built in Zibo in the Chinese province of Shandong by March 2008. This will have a capacity of 1,500 tons of oxygen per day. The joint venture will supply SINOPEC Qilu, other companies in the region and export markets with more than 4,000 tons of oxygen, nitrogen and argon per day.

Imprint

Imprint

Published by
Linde AG
Abraham-Lincoln-Strasse 21
65189 Wiesbaden
Germany

Design
Peter Schmidt Group, Hamburg

Text
Linde AG

Photography
Claudia Kempf, pp. 004 and 007
Peter Ginter, p. 013

Production, typesetting and lithography
Brand Implementation GmbH, Hamburg

Printed by
Offsetdruck Raff, Riederich

Contact details

Linde AG
Leopoldstrasse 252
80807 Munich
Germany
Phone +49.89.35757-01
Fax +49.89.35757-1075
www.linde.com

Communications
Phone +49.89.35757-1321
Fax +49.89.35757-1398
E-Mail info@linde.com

Investor Relations
Phone +49.89.35757-1321
Fax +49.89.35757-1398
E-Mail investorrelations@linde.com

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. 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
12 March 2007
Pinakothek der Moderne, Munich

Analysts' Conference
12 March 2007
Pinakothek der Moderne, Munich

Interim Report
January – March 2007
4 May 2007

Shareholders' Meeting 2007
5 June 2007, 10 a.m.
International Congress Center, Munich

Dividend Payment
6 June 2007

Interim Report
January – June 2007
27 July 2007

Autumn Press Conference
30 October 2007
Munich

Interim Report
January – September 2007
30 October 2007

Shareholders' Meeting 2008
3 June 2008, 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

		2002	2003	2004	2005	2006
Sales	€ million	8,726	8,992	9,421	9,511	12,439
In Germany	%	22.9	22.9	21.4	20.1	17.2
Outside Germany	%	77.1	77.1	78.6	79.9	82.8
Earnings						
EBITDA[3]	€ million	1,436	1,444	1,541	1,705	2,216
EBITA/EBIT[3]	€ million	647	544	785	953	1,371
Earnings before taxes on income (EBT)	€ million	356	287	518	808	2,527
Earnings after taxes on income – attributable to Linde AG shareholders	€ million	240	108	266	514	1,838
Earnings per share[1]	€	2.01	0.91	2.23	4.30	13.30
Dividends	€ million	135	135	149	168	241
Dividend per share	€	1.13	1.13	1.25	1.40	1.50
No. of shares (at 31 December)	in 000s	119,262	119,262	119,327	119,864	160,736
Asset structure						
Non-current assets	€ million	8,037	7,702	7,675	7,832	20,019
Inventories	€ million	994	1,107	942	1,050	991
Trade receivables[2]	€ million	1,874	1,760	1,668	2,125	2,588
Cash and cash equivalents	€ million	480	561	567	911	663
Other assets	€ million	821	785	739	700	3,735
Total assets	€ million	12,206	11,915	11,591	12,618	27,996
Capital structure						
Equity	€ million	4,119	3,886	4,081	4,473	8,225
Provisions	€ million	2,146	2,227	2,124	2,598	3,423
Financial debt	€ million	3,294	2,991	2,535	2,416	10,596
Other liabilities	€ million	2,647	2,811	2,851	3,131	5,752
Total equity and liabilities	€ million	12,206	11,915	11,591	12,618	27,996
Cash flow statement						
Capital expenditure (including financial assets)	€ million	668	719	785	919	1,051
Amortisation and depreciation	€ million	759	763	726	601	900
Cash flow from operating activities	€ million	1,145	1,281	1,249	1,501	1,227
Employees		46,034	46,164	41,383	42,229	55,445
In Germany	%	38.1	37.3	35.4	34.6	24.4
Outside Germany	%	61.9	62.7	64.6	65.4	75.6
Key ratios						
Equity ratio	%	33.7	32.6	35.2	35.4	29.4
Return on capital employed (ROCE)[3]	%	7.0	7.7	10.8	13.7	11.4
EBITA/EBIT margin[3]	%	7.4	7.6	8.2	10.0	11.0
Cash flow from operating activities as percentage of sales	%	13.1	14.2	13.3	15.8	9.9

Comparatives for 2002 to 2004 as reported. Comparatives for 2005 have been adjusted.

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

[2] Includes receivables from financial services.

[3] Before non-recurring items and, for EBIT, before amortisation of fair value adjustments identified in the course of the purchase price allocation.

Glossary

Commercial Paper Programme
Programme for short-term notes on the capital market.

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

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.

Currency swaps
Swaps of capital amounts denominated in different currencies.

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.

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.

EBITDA
Abbreviation for Earnings before Interest, Tax, Amortisation of intangible assets and Depreciation of tangible assets.

Good Manufacturing Practice (GMP)
Quality control guidelines regulating production processes and environments for manufacturing pharmaceuticals, APIs and medical products, foods and animal feed. The European Commission, American FDA and International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use (ICH) have all issued guidelines in this area.

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

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

Ionic compressor
Ionic compressors represent a quantum leap in gas compression technology, compressing gases at a constant temperature and operating without fixed (metal) compression pistons. Ionic compressors are based on three key elements:
- → Use of innovative ionic liquids (organic salts with melting points between –90 °C and +100 °C)
- → Replacement of the conventional fixed piston with a liquid piston
- → Near-isothermal compression in a single step, up to a compression ratio of one to thirty thanks to an internal cooling mechanism.

The benefits of this technology include: significant reduction in wear-and-tear parts, extended maintenance intervals, very low energy consumption in theory and practice thanks to isothermal compression, and multiple potential applications, for instance at natural gas and hydrogen fuelling stations.

Laser welding
A procedure in which the energy required for soldering is obtained from a laser beam. The high intensity of the beam generates a vapour capillary at the welding point, enabling high-speed welding, deep penetration and minimal distortion.

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.

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

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

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

Steam cracker
Plant used for cracking and processing hydrocarbons to produce ethylene and propylene (also called olefin plant).

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

Superconductor
Material that abruptly loses its electrical resistance and expels its interior magnetic field when cooled below its critical temperature, close to absolute zero.

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 logarythmic normal distribution of changes in market prices. Market price volatility is derived from historical time series.

Wafer
In the semiconductor, photovoltaic and micromechanics industries, a wafer is a circular or square slice, around one mm thick, on which electronic and micromechanical components or photoelectric layers are constructed. These slices are usually made of monocrystalline silicon with diameters of between 150 and 300 mm, although 450 mm is under discussion. The larger the wafer, the more integrated circuits (chips) it can hold, so the cheaper the production.

Published by

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

Contact details

Linde AG
Leopoldstrasse 252
80807 Munich
Germany
Phone +49.89.35757-01
Fax +49.89.35757-1075
www.linde.com