LINDE FINANCE B.V.

(a limited liability company incorporated under the laws of The Netherlands)

up to €1,300,000,000 Fixed to Floating Rate Subordinated Bonds of 2006 Due 2066
up to £893,620,000 Fixed to Floating Rate Subordinated Bonds of 2006 Due [2066] [2068]

(with the total issue volume in both currencies in the aggregate not exceeding the equivalent of €1,300,000,000)

unconditionally and irrevocably guaranteed, on a subordinated basis, by

LINDE AKTIENGESELLSCHAFT

(a stock corporation incorporated under the laws of the Federal Republic of Germany)

LINDE FINANCE B.V. (the **"Issuer"**) will issue up to €1,300,000,000 aggregate principal amount of Fixed to Floating Rate Subordinated Bonds (the ***€-Bonds***) and up to £893,620,000 aggregate principal amount of Fixed to Floating Rate Subordinated Bonds (the ***£-Bonds***; the €-Bonds and the £-Bonds are jointly referred to as the ***Bonds***) on July [14], 2006 at an issue price of [98.00 – 101.00] per cent. of the principal amount of such Bonds. The obligations of the Issuer in respect of the Bonds are subordinated in insolvency or similar proceedings and rank senior only to claims of the shareholders of the Issuer and other subordinated obligations of the Issuer not expressed to rank *pari passu* with the Bonds. Linde Aktiengesellschaft (the ***Guarantor*** or the ***Company***, and together with its subsidiaries on a consolidated basis, unless the context otherwise requires, ***we, us, our,*** or the ***Group***) has given subordinated unconditional and irrevocable guarantees (the ***Subordinated Guarantees*** or the ***Guarantees***) for the due payment of principal of, and interest on, and any other amounts expressed to be payable under the Bonds. The Bonds and the Subordinated Guarantees will be governed by the laws of the Federal Republic of Germany. The Bonds may be transferred in book-entry form only. The €-Bonds will be issued in denominations of €1,000 and the £-Bonds will be issued in denominations of £1,000. The €-Bonds will bear interest from and including July [14], 2006 to but excluding July [14], 2016 at a rate of [5.75 – 9.75] per cent. per annum, payable annually in arrears on July [14] in each year, commencing on July [14], 2007. The £-Bonds will bear interest from and including July [14], 2006 to but excluding July [14], [2016][2018], at a rate of [6.75 – 10.75] per cent. per annum, payable semi-annually in arrears on January [14] and July [14] of each year commencing on January [14], 2007. Thereafter, unless previously redeemed, the €-Bonds will bear interest at a rate of [1.50 – 5.75] per cent. plus 1.00 per cent. per annum above the Euro-zone inter-bank offered rate for three months Euro deposit and the £-Bonds will bear interest at a rate of [1.50 – 5.75] per cent. plus 1.00 per cent. per annum above the London inter-bank offered rate for three-months deposits in Pound Sterling, payable quarterly in arrears on October [14], January [14], April [14] and July [14] in each year (each a ***Floating Interest Payment Date***). **The Issuer may elect to defer any interest payment at any time. The Issuer may pay such deferred interest at any time and must pay such deferred interest under certain circumstances described in the "Terms and Conditions of the €-Bonds – Interest" and in the "Terms and Conditions of the £-Bonds – Interest"**. The Terms and Conditions of the Bonds (the ***Terms and Conditions***) provide that accrued interest not paid on the Fixed or Floating Interest Payment Date immediately following its accrual will constitute Arrears of Interest (as defined in the Terms and Conditions) that will not be payable until a later date unless the Issuer otherwise elects. Arrears of Interest will not themselves bear interest. Investors will always have a claim to receive a cash payment in respect of outstanding Arrears of Interest. However, the obligation of the Issuer to pay outstanding Arrears of Interest in certain circumstances is subject to the condition precedent that (i) the Guarantor has raised the cash proceeds from the issuance or sale of shares of the Guarantor and (ii) that such raising of capital is possible for the Guarantor according to applicable law.

The Bonds will be redeemed at par, plus accrued interest, if any, in case of the €-Bonds on July [14], 2066 and in case of the £-Bonds on July [14], [2066][2068]. The Bonds are subject to redemption (in whole, but not in part) at their principal amount at the option of the Issuer in case of the €-Bonds on July [14], 2016 and in case of the £-Bonds on July [14], [2016][2018] or on any Floating Interest Payment Date thereafter. If prior to, in case of the €-Bonds July [14], 2016, and in case of the £-Bonds July [14], [2016][2018], either a Gross-up Event, a Capital Event, a Tax Event, an Accounting Event or a BOC Event or in case of the €-Bonds a Conversion Event (each of them as defined in the Terms and Conditions) occurs, the Issuer may call and redeem the Bonds (in whole but not in part) at any time on the giving of not less than 30 and not more than 60 days' irrevocable notice to the holders of the Bonds in accordance with the Terms and Conditions. Any exercise of such early redemption option requires prior payment of Arrears of Interest in accordance with the Terms and Conditions. The Bonds are also subject to early redemption in case of minimal outstanding amounts and upon a Change of Control (as defined in the Terms and Conditions).

Each of the €-Bonds and the £-Bonds will initially be represented by a temporary global bearer bond (each a ***Temporary Global Bond***) without compensation coupons which will be deposited with a common depositary for Clearstream Banking, société anonyme, Luxembourg, and Euroclear Bank S.A./N.V. as operator of the Euroclear System (together the ***Clearing System***). Each Temporary Global Bond will be exchangeable for a permanent global bearer bond (the ***Permanent Global Bond*** and, each of the Temporary Global Bond and the Permanent Global Bond, a **"Global Bond"**) without interest coupons not earlier than 40 and not later than 180 days after the issue of the relevant Temporary Global Bond upon certification as to non-U.S. beneficial ownership in accordance with the rules and operating procedures of the Clearing System. Payments on a Temporary Global Bond will only be made against presentation of such certifications. No definitive bonds or interest coupons will be issued.

Application has been made to the Irish Financial Services Regulatory Authority (the ***IFSRA***), as competent authority under Directive 2003/71/EC of the European Parliament and the Council of November 4, 2003 (the ***Prospectus Directive***), for this Prospectus to be approved. Application has been made to the Irish Stock Exchange for the Bonds to be admitted to the Official List and trading on its regulated market. The Issuer will request the IFSRA to provide the competent authorities in Austria, Germany, Luxembourg, The United Kingdom and The Netherlands, with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus (Directive 2003/71/EC) Regulations 2005 which implements the Prospectus Directive into Irish law. Prior to the issuance of the certificate of approval to the said competent authorities and publication of the Prospectus, where such publication is required, no public offer of the Bonds will be permissible in Austria, Germany, Luxembourg, The United Kingdom and The Netherlands (see "Subscription and Sale – Selling Restrictions").

The Bonds are expected to be rated upon issuance Baa2 by Moody's Investors Service Limited and BBB– by Standard & Poors (each a ***Rating Agency***). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning Rating Agency.

Investing in the Bonds involves risks. See "Risk Factors" beginning on page 34.

The Bonds have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the *Securities Act*) and are subject to United States tax law requirements. The Bonds are being offered outside the United States by the Managers (as defined in "Subscription and Sale") in accordance with Regulation S under the Securities Act (*Regulation S*), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Joint Lead Managers and Joint Bookrunners

Barclays Capital **Citigroup** **Dresdner Kleinwort** **UBS Investment Bank**

Co-Lead Managers

BNP Paribas **Commerzbank Corporates & Markets** **HSBC** **HVB Corporates & Markets**

The Royal Bank of Scotland **SOCIETE GENERALE Corporate & Investment Banking**

The date of this Prospectus is June 30, 2006. This document constitutes a prospectus for the purposes of the Prospectus Directive on the prospectus to be published when securities are offered to the public or admitted to trading.

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RESPONSIBILITY STATEMENT

Each of the Issuer with its registered office in Amsterdam, The Netherlands, and the Guarantor with its registered office in Wiesbaden, Federal Republic of Germany, accepts responsibility for the information contained in this Prospectus (the ''Prospectus'') and hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its importance.

Each of the Issuer and the Guarantor further confirms that (i) this Prospectus contains all information with respect to the Issuer and the Guarantor as well as to the Guarantor and its subsidiaries taken as a whole (the ''Linde Group'') and to the Bonds and the Guarantees which is material in the context of the issue and offering of the Bonds and the Guarantees, including all information which, according to the particular nature of the Issuer and the Guarantor and of the Bonds and the Guarantees is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer, the Guarantor and the Linde Group and of the rights attached to the Bonds and the Guarantees; (ii) the statements contained in this Prospectus relating to the Issuer, the Guarantor, the Linde Group, the Bonds and the Guarantees are in every material particular true and accurate and not misleading; (iii) there are no other facts in relation to the Issuer, the Guarantor, the Linde Group, the Bonds or the Guarantees the omission of which would, in the context of the issue and offering of the Bonds, make any statement in the Prospectus misleading in any material respect; and (iv) reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements.

NOTICE

No person is authorised to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor or the managers set forth on the cover page (each a ''Manager'' and together the ''Managers''). None of the Managers have independently verified the Prospectus and none of them assumes any responsibility for the accuracy of the information and statements contained in this Prospectus and no representations express or implied are made by the Managers or their affiliates as to the accuracy and completeness of the information and statements herein. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantor or any of their affiliates since the date of this Prospectus, or that the information herein is correct at any time since its date.

Each investor contemplating purchasing any Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer and the Guarantor. This Prospectus does not constitute an offer of Bonds or an invitation by or on behalf of the Issuer, the Guarantor or the Managers to purchase any Bonds. Neither this Prospectus nor any other information supplied in connection with the Bonds should be considered as a recommendation by the Issuer, the Guarantor or the Managers to a recipient hereof and thereof that such recipient should purchase any Bonds.

This Prospectus does not constitute, and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

The offer, sale and delivery of the Bonds and the distribution of this Prospectus in certain jurisdictions are restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantor and the Managers to inform themselves about and to observe any such restrictions. In particular, the Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the ''Securities Act'') and are subject to U.S. tax law requirements. Subject to certain limited exceptions, the Bonds may not be offered, sold or delivered within the United States or to U.S. Persons (within the meaning of Regulation S under the Securities Act).

IN CONNECTION WITH THE ISSUE OF THE BONDS, CITIGROUP (THE ''STABILISING MANAGER'') (OR PERSONS ACTING ON ITS BEHALF) MAY OVERALLOT BONDS (PROVIDED THAT THE AGGREGATE PRINCIPAL AMOUNT OF THE BONDS ALLOTED DOES NOT EXCEED 105% OF THE AGGREGATE PRINCIPAL AMOUNT OF THE BONDS) OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON ITS BEHALF) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN AT ANY TIME ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST

END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE DATE OF ISSUE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. SUCH STABILISATION SHALL BE IN COMPLIANCE WITH ALL LAWS, REGULATIONS AND RULES OF ANY RELEVANT JURISDICTION.

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts and events. This applies, in particular, to statements in this Prospectus containing information on future earning capacity, plans and expectations regarding our business and management, our growth and profitability, and general economic and regulatory conditions and other factors that affect us.

Forward-looking statements in this Prospectus are based on current estimates and assumptions that we make to the best of our present knowledge. These forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results, including our financial condition and results of operations, to differ materially from and be worse than the results that we have expressly or implicitly assumed or described in these forward-looking statements. Our business is also subject to a number of risks and uncertainties that could cause a forward-looking statement, estimate or prediction in this Prospectus to become inaccurate. Accordingly, investors are strongly advised to read the following sections of this Prospectus: ‘‘Summary,’’ ‘‘Risk Factors,’’ ‘‘Management's Discussion and Analysis of Financial Condition and Results of Operations,’’ ‘‘Business’’ and ‘‘Recent Developments and Outlook.’’ These sections include more detailed descriptions of factors that might have an impact on our business and the markets in which we operate.

In light of these risks, uncertainties and assumptions, future events described in this Prospectus may not occur, and forward-looking estimates and forecasts derived from third-party studies that have been reproduced in this Prospectus may prove to be inaccurate. See ‘‘– Presentation of Sources of Market Data; Accounting Regulations; Additional Financial and Numerical Data.’’ In addition, neither we nor the Underwriters assume any obligation, except as required by law, to update any forward-looking statements or to conform these forward-looking statements to actual events or developments.

CURRENCY PRESENTATION

The amounts in this Prospectus in ‘‘€,’’ ‘‘EUR’’ or ‘‘euro’’ refer to the legal currency of the Federal Republic of Germany since January 1, 1999.

The amounts in this Prospectus in ‘‘$,’’ ‘‘U.S.$,’’ ‘‘U.S. dollars’’ or ‘‘USD’’ refer to the legal currency of the United States of America.

The amounts in this Prospectus in ‘‘SEK’’ or ‘‘Swedish krona’’ refer to the legal currency of Sweden.

The amounts in this Prospectus in ‘‘£,’’ ‘‘GBP,’’ ‘‘pounds sterling’’ ‘‘British pound sterling’’ or ‘‘British pounds’’ refer to the legal currency of the United Kingdom of Great Britain and Northern Ireland.

The following table contains information regarding the exchange rates between the U.S. dollar, British pound and Swedish krona and the euro for the periods and dates listed. These exchange rates are based on the public exchange rates fixed daily by the European Central Bank as of the relevant period end dates and the average exchange rates calculated for the relevant periods.

Exchange Rate	January 1 to March 31, 2006	January 1 to December 31, 2005	January 1 to December 31, 2004	January 1 to December 31, 2003
Period end ($ to €)	1.2118	1.1839	1.3640	1.2610
Average ($ to €)	1.2034	1.2391	1.2439	1.1311
Period end (£ to €)	0.6973	0.6872	0.7071	0.7070
Average (£ to €)	0.6865	0.6831	0.6788	0.6919
Period end (SEK to €)	9.4396	9.4016	9.0200	9.0710
Average (SEK to €)	9.3504	9.2981	9.1254	9.1227

PRESENTATION OF SOURCES OF MARKET DATA; ACCOUNTING REGULATIONS; ADDITIONAL FINANCIAL AND NUMERICAL DATA

This Prospectus contains or refers to numerical data, market data, analyst reports, and other publicly available information about our industry and estimates that we have made based largely on published market data or on numerical data derived from publicly available sources. To the extent our estimates are based on information that is not available from publicly available sources, we believe that we have prepared these estimates with due care and that these estimates reproduce the relevant information in a neutral manner. Any information in this Prospectus that we have derived from publicly available sources or that we have otherwise derived from third-party sources has been accurately reproduced with reference to the respective source. To the best of our knowledge, and to the extent that we were able to determine from publicly available sources or information otherwise obtained from third parties, no facts have been omitted that would render the statements in this Prospectus false or misleading. However, investors should be aware that market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is often inherently predictive and speculative.

Investors should also be aware that we have not verified numerical data, market data, and other information from publicly available sources and assume no liability for the correctness of numerical data, market data, and other information from publicly available sources.

Unless otherwise indicated, the financial information in this Prospectus has been prepared in accordance with IFRS that are applicable as of the relevant reporting date of the respective annual or interim financial statements.

Certain numerical data, financial information and market data in this Prospectus are subject to rounding adjustments that were carried out according to established commercial standards. As a result, the aggregate amounts in this Prospectus may not correspond in all cases to the amounts contained in the underlying sources.

SUMMARY

The following constitutes a summary (the "Summary") of certain essential characteristics and risks associated with Linde Finance B.V. (the "Issuer"), Linde Aktiengesellschaft (the "Guarantor" or the "Company", and together with its subsidiaries on a consolidated basis, unless the context otherwise requires, "we," "us," "our," or the "Group") and the Bonds. This Summary should be read as an introduction to this Prospectus. It does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus. Any decision by an investor to invest in the Bonds should be based on consideration of this Prospectus as a whole. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of such court, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches to those persons who have tabled this Summary including any translation thereof, and applied for its notification, but only if the Summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus.

Summary of Our Business

Business

We are an international technology group headed by Linde Aktiengesellschaft, and we believe that we hold a leading position in our two business segments, Gas and Engineering and Material Handling. In the financial year 2005, we had worldwide sales of €9.501 billion (2004: €8.856 billion (restated and comparable); 2003: €8.992 billion). Our operating profit (EBITA) in 2005 was €913 million (2004: €774 million (restated and comparable); 2003: €683 million, each before special items). As of December 31, 2005, our Group consisted of approximately 270 affiliated companies worldwide and employed a total of more than 42,000 individuals.

Gas and Engineering business segment. Our Gas and Engineering business segment includes all of our activities that are related to industrial and medical gases or to plant engineering. The activities of our Linde Gas division include the production and delivery of cylinder and bulk gases, primarily for industrial applications (including applications in the food industry), an "On-Site" business which supplies customers with industrial gases from plants that are installed on their own premises, and the production of gases for medical applications. In our Linde Engineering division, we concentrate on designing and building technologically advanced plants in, among other areas, ethylene production, air separation, syngas production and hydrogen production.

Material Handling business segment. Our Material Handling business segment manufactures a comprehensive line of products under the brand names Linde, STILL and OM Pimespo, consisting of internal combustion engine forklifts, electric forklifts and other storage and material handling equipment. We also offer a comprehensive line of services from financing to fleet management and are therefore a single-source service provider in all areas of intra-company logistics.

Our Strengths and Corporate Strategy

Strengths

We believe that we will continue to grow in the future and benefit from our competitive strengths, which are described below:

- Leading market position in attractive markets

  We hold a leading market position in a number of attractive markets. In our two business segments, Gas and Engineering and Material Handling, we generate by far the largest portion of our sales in markets in which, based on our own estimates, we are one of the leading companies in terms of revenue. We are also the market leader in business areas, countries and products that are of particular strategic relevance. Through the planned acquisition of The BOC Group plc ("BOC"), we also expect to achieve a leading position in terms of market share in industrial gas manufacturing in the growth regions of Africa and the Asia/Pacific countries, to become one of the two largest companies in the industry in Europe and South America, and to achieve a leading position in North America. Worldwide, we would expect the BOC acquisition to render us a leader in terms of sales among producers of industrial gases. In the past, the attractiveness of the industrial gas market in those countries where we operate has been based on growth rates that were two to two-and-one-half times the growth of the respective local gross domestic product (GDP).

- Global presence in growing markets

  Our On-Site business, i.e., the supply of industrial gases from plants that are installed on the customer's own site, is one of the most important growth areas worldwide for our Linde Gas division. We continue to expand our position in this growing market in Eastern Europe and China among other regions, and with the acquisition of BOC we expect to become the second largest company, in terms of revenues, in this industry worldwide. In 2005, we increased our sales of bulk and cylinder gases, as a result, among other projects, of having built the first special gases plant for the electronics industry in China. We expect that the BOC acquisition would expand our presence in our bulk and cylinder gases sub-segments from approximately 40 to approximately 70 countries, making us the world market leader in bulk gases and providing us with a leading position in cylinder gases.

  We are already the leading industrial gases company in Eastern Europe, one of the three fastest-growing regional markets along with Asia and South America. We expect that the acquisition of BOC would provide us with a leading position in Asia and South America as well.

  In terms of global reach and strong know-how, we also cover the most important markets in terms of revenue growth rate (e.g., hydrogen and special gases).

- Broad product line

  A broad product line enables us to meet the extensive needs of our customers. We offer a wide selection of products in the field of industrial gases, which includes bulk and cylinder gases, medical gases, noble gases (e.g., helium) and the production of liquid hydrogen. These products support a large number of applications in a wide range of market segments, such as the processing, food, steel, chemicals and petrochemicals industries.

  We are also one of the few companies that can offer customers in the gases sector engineering and construction services for air separation and hydrogen plants as single source. Our Linde Engineering division is also one of the world's leading suppliers in the growth segments of olefin plants (for the production of the basic petrochemical products ethylene and propylene) and natural gas liquefaction plants.

  Through our Material Handling business segment, we maintain a strong presence in the manufacturing of industrial trucks and are able to offer customers specific solutions in all segments (Premium, Intralogistics and Value Segment) through our three brands, Linde, STILL and OM Pimespo. The introduction of innovative products in this business segment in the past years has further improved our leading position worldwide and has made us the market leader in Europe.

Group Strategy

The core elements of our strategy include the following:

- Profitable growth and increased earning power

  We intend to continue increasing our earning power in the medium term, in spite of the expected impact of the BOC acquisition, including temporary increases in depreciation and amortization which would result from the identification and recognition of hidden reserves as part of the purchase price allocation process, as well as an overall decrease in our financial results. Accordingly, we are pursuing a strategy of sustainable, profit-oriented growth and continuous increase in the value of the

Company. On the cost side, we are concentrating primarily on increasing efficiency in our production facilities, taking advantage of economies of scale, utilizing our sales and distribution structures more efficiently, and strictly enforcing cost reducing measures. In this context, the performance programs initiated in all business segments will continue to be implemented (“GAP – Growth and Performance” in our Linde Gas division and “GO – Growth and Operational Excellence” in Material Handling). After the BOC acquisition, we plan to expand the GAP program across the combined company. Sustainable profitable growth will be based on revenue-increasing measures and rigorous investment management focusing on portfolio aspects and capital costs whenever investment decisions are made.

- Achievement of synergy effects from the merger with BOC

  We expect that beginning in 2009, the BOC acquisition will generate cost synergies of up to €250 million per year. The synergy effects are to be achieved primarily by optimizing procurement management and increasing purchase volumes, reducing selling and administrative expenses and optimizing supply chain management, including production and distribution and achieving savings in research and development. Sales synergies are also expected from increasing sales volumes in various geographic regions, cross-selling (e.g., in the Healthcare sub-segment) and offering an expanded global line of products and services to our customers. Furthermore, customers worldwide would furthermore benefit from our strong market presence with management, production, sales and engineering in each local region. The transfer of know-how already established within our Group will be intensified between the individual sites and regions, and will be expanded to the new combined company.

- Deleveraging and potential concentration on our Gas and Engineering business segment

  Our acquisition of BOC will significantly increase our net financial debt (non-current and current financial debt less cash and cash equivalents). However, we intend to counteract this effect after the acquisition by taking measures to reduce our financial liabilities such as engaging in divestitures. In particular, we are considering the disposal of our Material Handling business segment by sale or by taking it public, which would enable us to concentrate more effectively on our Gas and Engineering business segment (“pure play”).

Summary of Risk Factors

Risks Related to Our Acquisition Offer to Shareholders of BOC

- Our planned acquisition of BOC will result in a significant increase in our net financial debt and a significant decline in our equity ratio, which is the ratio of shareholders’ equity to total assets. This could lead to a downgrading of our credit rating by rating agencies, which may adversely affect the level of our interest expense. In addition, we cannot exclude the possibility that a potential downgrading of our credit rating to “non-investment grade” might in some cases adversely affect our operations, in particular with respect to the long-term contracts in our Gas and Engineering business segment.

- The new loan agreement that we entered into in connection with our planned acquisition of BOC contains certain covenants that could impair our business flexibility, and the loan agreement can be terminated under certain circumstances.

- We must repay a substantial portion of our new credit facility under the loan agreement by September 2008. An important component of the financing of our planned acquisition of BOC is the divestment of parts of our business, which we expect to complete within the next 18 months. We are not able to predict with certainty whether, at what time or under what conditions we will be able to make these divestments.

- Since the purchase price of BOC will be far in excess of the value of BOC's net assets, our planned acquisition of BOC will generate a significant amount of goodwill, which will be subject to periodic impairment tests.
- Unforeseen difficulties arising as part of our planned acquisition and integration of BOC may have material adverse effects on our business.
- We have not examined the accuracy of the information about BOC that is contained in this Prospectus, nor have we had an opportunity to conduct a comprehensive examination of BOC's non-public records. As a result, completing the acquisition can therefore expose us to unknown risks, which could have a material adverse effect on our business, financial condition and results of operations.
- BOC is a defendant in various class action lawsuits in the United States. As a result, we could be exposed to unknown risks resulting from the acquisition, which could have a material adverse affect on our business, financial condition and results of operations.
- Our acquisition offer for BOC is an important part of our strategy to grow our Linde Gas division. If our acquisition of BOC is unsuccessful, continued market consolidation could lead to our loss of market share.
- Our acquisition offer for BOC remains subject to approval by U.S. anti-trust authorities, or the waiver of such approval requirement. Such approval could be contingent on the compliance with certain requirements. Should we be denied such approval, our acquisition offer would fail. Such failure could lead to reduced synergies of the business combination and/or a loss of market share.
- If our acquisition offer for BOC is unsuccessful, the economic rationale for our capital increase would cease to exist, and adverse financial effects might result.

Risks Relating to Our Business

- General economic conditions and the cyclical nature of our major customer industries could lead to a reduction in demand and therefore have a material adverse effect on our business.
- Because of the international nature of our business, we are exposed to economic, political and legal risks.
- We may not be in a position to continue to develop innovative products or to react in a timely manner to advances in technology.
- We are exposed to a variety of risks related to our investments in new production capacities.
- We require substantial financing and are therefore susceptible to changes in interest rates. Our planned acquisition of BOC will further increase this susceptibility.
- Fluctuations in exchange rates can adversely affect our results of operations.
- Rising prices for energy, raw materials and other goods or services supplied by third parties could have an adverse effect on our results of operations.
- A loss of suppliers or interruptions in the delivery of raw materials, parts, subassemblies or components could have an adverse effect on our business activities.
- Our production plants and products are exposed to operational and accident risks.
- We are subject to many different environmental and other regulatory requirements. The possibility that our Group may be exposed to liability for failure to comply with these requirements or for preexisting contamination cannot be excluded.
- We may be exposed to considerable risks if our products are faulty or fail to satisfy our customers' quality requirements for other reasons.

- In the medical area, we may be subject to product-liability and other claims that could lead to considerable costs and obligations and we may not be able to obtain insurance coverage to cover these claims at all or on appropriate terms.
- The construction of technically complex industrial plants exposes us to a number of technical and organizational risks.
- In the markets we serve, we are exposed to intense competition and to the risk that new and improved products or materials may replace the products we offer.
- We are exposed to risks that customers may default or fail to take delivery in connection with long-term contracts.
- We depend on the uninterrupted operation and continued integration of our computer and data-processing systems.
- We depend on good relations with our employees and their unions.
- We cannot be certain that we will in future be able to recruit or retain qualified employees.
- We may not succeed in adequately protecting our intellectual property and know-how.
- We cannot exclude the possibility that we will infringe the intellectual property rights of third parties or become dependent on licensing intellectual property from third parties.
- We may face tax risks that result from future tax audits.
- We may be exposed to financing and liquidity risks in the event of negative market developments relating to pension plan assets that are invested externally.
- A decrease in the value of used industrial trucks could expose us to risks in connection with long-term rental and leasing contracts.

Risks relating to the Bonds

- The Issuer may defer payments of interest under the Bonds.
- The Issuer may make payments on certain senior instruments and *pari passu* ranking instruments in certain circumstances even if Arrears of Interest are outstanding.
- Bondholders may not receive any payment of Arrears of Interest, if (i) the Guarantor is unable to sell new shares or treasury shares or (ii) compulsory provisions of German stock corporation law prevent the Guarantor from selling or issuing new shares.
- The Bonds are long term securities and Bondholders may only declare the Bonds due and payable in very limited circumstances.
- The Issuer may redeem the Bonds under certain circumstances.
- Bondholders' rights to receive payments on the Bonds are subordinated to the rights of all existing and future creditors.
- The Issuer and the Guarantor are not limited to incur additional indebtedness ranking senior or *pari passu* with the Bonds.
- Upon the acquisition of BOC, the Group will have incurred significant indebtedness and will require a significant amount of cash to serve such indebtedness, including the Bonds.
- The Guarantor has undertaken to effect a tender offer for the benefit of the holders of certain of its securities prior to any early redemption based upon a Change of Control.
- An active trading market may not develop for the Bonds.

- Fixed Rate Securities have a market risk.
- Floating Rate Securities may suffer a decline in interest rate.

Summary of General Information on the Issuer

Registered office and fiscal year of the Issuer	The Issuer is registered in the commercial register of the Amsterdam Chamber of Commerce under number 34115238. Its official seat is in Amsterdam and its registered office address is at Strawinskylaan 3111, Atrium 7th floor, 1077 ZX Amsterdam, The Netherlands. Its telephone number is +31 20 3013 800 and its fax number is +31 20 3013 809. The Issuer's financial year is equal to the calendar year.

Summary of the Management and Principal Shareholders of the Issuer

Supervisory Board and Managing Directors	The members of the Supervisory Board of the Issuer are: Mr. Björn Schneider; Dr. rer. pol. Peter Diesch; Mr. Erhard Hinrich Wehlen. The current managing director of the Issuer is: Mr. Nicolaas Gijsbertus Maria Limmen.
Principal Shareholders	The Issuer is a wholly-owned subsidiary of Linde AG.

Summary of General Information on the Company

Registered office and fiscal year of the Company ..	The Company has its registered office in Wiesbaden and is registered under HRB 10000 in the commercial register maintained by the local court (Amtsgericht) of Wiesbaden. The headquarters of the Company are located at Abraham-Lincoln-Strasse 21, 65189 Wiesbaden (telephone: +49 611 7700). The Company's financial year is the calendar year.

Summary of Management and Principal Shareholders of the Company

Executive board and supervisory board	Our executive board consists of four members as of the date of this Prospectus: Prof. Dr.-Ing. Wolfgang Reitzle (Chairman), Dr.-Ing. Aldo Belloni, Dr. rer. pol. Peter Diesch and Hubertus Krossa. Our supervisory board consists of 16 members. The chairman of the supervisory board is Dr. rer. pol. Manfred Schneider.

Principal shareholders	Shareholder	Percentage of voting rights
	Deutsche Bank AG Taunusanlage 12 60325 Frankfurt am Main	9.95%
	Commerzbank Aktiengesellschaft Kaiserstrasse 16 60311 Frankfurt am Main	10.08%
	Allianz Aktiengesellschaft Königinstrasse 28 80802 Munich	11.32%

Summary with respect to the Bonds

Issuer:	Linde Finance B.V.
Guarantor:	Linde Aktiengesellschaft
Principal Amount:	€-Bonds: [up to €1,300,000,000] £-Bonds: [up to £893,620,000]
Joint Lead Managers:	Barclays Bank plc, Citigroup Global Markets Limited, Dresdner Bank AG London Branch and UBS Limited
Co-Managers:	Bayerische Hypo- und Vereinsbank AG, BNP Paribas, Commerzbank Aktiengesellschaft, HSBC Bank plc, Société Générale Corporate & Investment Banking and The Royal Bank of Scotland
Principal Paying Agent:	Citibank, N.A.
Irish Paying Agent:	Citibank International plc
Calculation Agent:	Citigroup Global Markets Limited
Listing Agent:	NCB Stockbrokers Limited
Issue Price:	[98.00 – 101.00] per cent.
Issue Date:	July [14], 2006
Denomination:	The €-Bonds will be issued in denominations of €1,000. The £-Bonds will be issued in denominations of £1,000.
Form of Bonds:	The Bonds are in bearer form and are issued pursuant to U.S. Treasury Regulation Section 1.163-5(c)(2)(i)(D) (the ***TEFRA D Rules***). Each of the €-Bonds and the £-Bonds are initially represented by a temporary global bond (each a ***Temporary Global Bond***) without coupons which will be deposited with a common depositary for Clearstream Banking, société anonyme, Luxembourg, and Euroclear Bank S.A./N.V. as operator of the Euroclear System (together the ***Clearing System***). Each Temporary Global Bond will be exchangeable for a permanent global bond (the ***Permanent Global Bond*** and, each of the Temporary Global

	Bond and the Permanent Global Bond, a ***Global Bond***) without coupons not earlier than 40 and not later than 180 days after the issue of the relevant Temporary Global Bond upon certification as to non-U.S. beneficial ownership in accordance with the rules and operating procedures of the Clearing System. Payments on the relevant Temporary Global Bond will only be made against presentation of such certification. The Global Bonds shall be signed manually by two authorised signatories of the Issuer and shall each be authenticated by or on behalf of the Principal Paying Agent. No definitive Bonds or interest coupons will be issued.
Maturity:	The €-Bonds will be redeemed on July [14], 2066. The £-Bonds will be redeemed on July [14], [2066][2068].
Early Redemption:	The Bonds are subject to redemption (in whole, but not in part) at their principal amount plus accrued interest, if any, at the option of the Issuer in case of the €-Bonds on July [14], 2016 and in case of the £-Bonds on July [14], [2016][2018] or on any Floating Interest Payment Date thereafter. If prior to in case of the €-Bonds July [14], 2016 and in case of the £-Bonds on July [14], [2016][2018] either a Gross-up Event, a Capital Event, a Tax Event, an Accounting Event or a BOC Event or in case of the €-Bonds a Conversion Event (each of them as defined in the terms and conditions of the Bonds (***Terms and Conditions***)) occurs, the Issuer may call and redeem the Bonds (in whole but not in part) at any time on the giving of not less than 30 and not more than 60 days' irrevocable notice to the holders of the Bonds (***Bondholders***) at the Early Redemption Amount in accordance with the Terms and Conditions. Any exercise of such early redemption option requires prior payment of Arrears of Interest in accordance with the Terms and Conditions. The Issuer may also redeem the Bonds early at the ***Early Redemption Amount*** in case the Bonds have a minimal outstanding amount. The Early Redemption Amount will (i) upon the occurrence of a Gross-up Event and in case of an early redemption for reasons of minimal outstanding amounts equal the principal amount of the Bonds (ii) upon the occurrence of a Capital Event, an Accounting Event or a Tax Event, be calculated as the greater of (x) the aggregate principal amount of the Bonds and (y) the Make-Whole Amount (as defined in the Terms and Conditions) of the Bonds, (iii) in case of a BOC Event equal to [101]% of the principal amount of the Bonds, and (iv) in case of a Conversion Event equal to the greater of the aggregate principal amount of the Bonds and the Special Make-Whole Amount (as defined in the Terms

	and Conditions), in each case plus accrued interest until the date of redemption (exclusive).
Interest:	The €-Bonds will bear interest from and including July [14], 2006 to but excluding July [14], 2016 at a rate of [5.75 – 9.75] per cent. per annum, payable annually in arrears on July [14] in each year, commencing on July [14], 2007. The £-Bonds will bear interest from and including July [14], 2006 to but excluding July [14], [2016][2018], at a rate of [6.75 – 10.75] per cent. per annum, payable semi-annually in arrears on January [14] and July [14] of each year commencing on January [14], 2007. Thereafter, unless previously redeemed, the €-Bonds will bear interest at a rate of [1.50 – 5.75] per cent. plus 1.00 per cent. per annum above the Euro-zone inter-bank offered rate for three months Euro deposit and the £-Bonds will bear interest at a rate of [1.50 – 5.75] per cent. plus 1.00 per cent. per annum above the London inter-bank offered rate for three-months deposits in Pound Sterling, payable quarterly in arrear on October [14], January [14], April [14] and July [14] in each year. In the event of a Change of Control (see below "*Change of Control*"), the interest rate will be increased by 5% per annum. The Issuer may elect to defer any interest payment at any time (see below "*Deferral of Interest Payment*"). The Issuer may pay such deferred interest at any time and must pay such deferred interest under certain circumstances.
Deferral of Interest Payments:	The Terms and Conditions provide that the Issuer may elect that accrued interest will not be payable on the Fixed or Floating Interest Payment Date (as defined in the Terms and Conditions) immediately following its accrual but will instead constitute Arrears of Interest (as defined in the Terms and Conditions) that will not be payable until a later date as specified in the Terms and Conditions unless the Issuer elects to pay such interest. Arrears of Interest will not themselves bear interest. Subject to the conditions set out below under "*Payment of Arrears of Interest and Conditions for such Payment*", the Issuer must pay Arrears of Interest at the earlier of the following dates: (i) the date on which the Guarantor has declared, paid or made a dividend or other distribution on, or in respect of, any class of shares, (ii) the next Interest Payment Date in relation to which the Issuer does not elect to defer interest payments (in whole or in part), (iii) the due date for redemption of the Bonds, (iv) the date on which the Issuer, the Guarantor or any Group Entity (directly, pursuant to any guarantee or otherwise) makes any payment of interest or distribution of any sort on a Junior Security or a Parity Security (each of these terms, as defined in the Terms and Conditions),

	except that any mandatory payment of the Issuer or the Guarantor on a Recurred Optional Interest Payment Date as defined in § 5(3) of the terms and conditions of the €400,000,000 undated subordinated bonds of the Issuer issued in July 2003 (ISIN XS0171231060) (***Subordinated Bonds 2003***) shall not constitute a payment of interest or distribution, and (v) the date on which the Issuer, the Guarantor or any Group Entity redeems, repurchases or otherwise acquires any of the Bonds (in whole or in part), any shares, any Parity Security or any Junior Security against consideration therefor, except in connection with (i) any present or future stock option plan or (ii) a reclassification of shares for shares of another class.
Payment of Arrears of Interest and Conditions for such Payment	In certain circumstances specified above the Issuer is obliged to pay outstanding Arrears of Interest. While investors will have a claim to receive cash for such payments, any obligation to pay Arrears of Interest is subject to the condition that for such payment, the Guarantor has raised cash proceeds from the issuance or sale of shares of the Guarantor equal to the Arrears of Interest payable. Proceeds from the sale of shares cannot come from treasury shares acquired for cash within the last six months before the payment, and new shares can be issued only if such number of shares issued in any twelve months period does not exceed 2% of the number of all shares of the Guarantor on the first day of such period for this purpose. Any payment of Arrears of Interest is further subject to the condition that no compulsory provisions of German corporate law prevent the Guarantor from raising capital in the manner just described.
Replacement at Redemption:	Except in case of redemption following a Conversion Event or a BOC Event, the Issuer intends to redeem the principal amount of the Bonds with proceeds raised through the issuance or sale of shares and/or the issuance of New Securities (as defined in the Terms and Conditions), in each case with an aggregate equity credit at least equal to the aggregate equity credit, as defined by the rating agencies from whom the Guarantor is assigned sponsored ratings, then ascribed to the Bonds either by the Guarantor or a finance entity of the Group of the Guarantor, within a period of six months prior to the redemption date of the Bonds.
Taxation:	All payments (including payments by the Guarantor under the Subordinated Guarantees (as defined below)) in respect of the Bonds shall be made free and clear of, without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed or levied, collected, withheld or assessed by The Netherlands or the Federal Repub-

	lic of Germany or any political subdivision or any authority of or in the Netherlands or the Federal Republic of Germany that has power to tax, unless such withholding or deduction is required by law. In such event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as will result in receipt by the Bondholders of the same amounts as they would have received if no such withholding or deduction had been required, except for the customary exceptions as set out in the Terms and Conditions.
Status of the Bonds:	The obligations of the Issuer under the Bonds constitute unsecured and subordinated obligations of the Issuer ranking (i) senior to the Issuer's share capital, (ii) *pari passu* among themselves and with any obligations of the Issuer under the Subordinated Bonds 2003 and (iii) junior to all other present or future unsubordinated obligations of the Issuer and subordinated obligations of the Issuer that are expressed to rank senior to the Bonds, except in each case as otherwise required by mandatory provisions of law. In the event of the liquidation, dissolution, insolvency, composition or other proceedings for the avoidance of insolvency of the Issuer no amounts shall be payable in respect of the Bonds until the claims of all unsubordinated and subordinated creditors of the Issuer the claims of which are expressed to rank senior to the Bonds shall have first been satisfied in full.
Guarantees:	The Guarantor has given subordinated unconditional and irrevocable guarantees for the due and timely payment of principal and interest on the Bonds and any other amounts payable on the Bonds by the Issuer according to the Terms and Conditions (the ***Subordinated Guarantees*** or the ***Guarantees***). Except for obligations arising from Arrears of Interest in a winding-up or liquidation of the Guarantor, which shall rank *pari passu* with the Guarantor's share capital, the obligations of the Guarantor under the Subordinated Guarantees constitute unsecured and subordinated obligations of the Guarantor ranking (i) senior to the Guarantor's share capital, (ii) pari passu among themselves and with any obligations of the Guarantor under the subordinated guarantee in relation to the Subordinated Bonds 2003, and (iii) junior to all other present or future unsubordinated and subordinated obligations of the Guarantor expressed to rank senior to the claims under the Subordinated Guarantees, except as otherwise required by mandatory law. In the event of the dissolution, liquidation, insolvency or any proceeding for the avoidance of the insolvency of the Guarantor no amounts shall be payable under the Subordinated Guarantees until the claims of all unsubordinated and

	subordinated creditors of the Guarantor the claims of which are expressed to rank senior to the Subordinated Guarantees of the Guarantor shall first have been satisfied in full. No Bondholder may set-off any claims arising under the Subordinated Guarantees against any claims that the Guarantor may have against it. The Guarantor may not set-off any claims it may have against the Bondholders against any of its obligations under the Subordinated Guarantees. No security is, or shall at any time be, provided by the Guarantor or any other person securing rights of the Bondholders under the Subordinated Guarantees.
Negative Pledge:	The Terms and Conditions will not contain a negative pledge provision.
Cross Default:	The Terms and Conditions do not contain a cross default clause of the Issuer and the Guarantor.
Change of Control:	If a Change of Control has occurred, the Issuer may call and redeem the Bonds (in whole but not in part) at their principal amount, plus any interest accrued until the redemption date (exclusive) on the giving of not less than 30 and not more than 60 days' irrevocable notice to the Bondholders with the redemption becoming effective no later than 60 days following the occurrence of a Change of Control.
Listing:	Application has been made for the Bonds to be admitted to the Official List and trading on the regulated market of the Irish Stock Exchange.
Governing Law:	The Bonds and the Subordinated Guarantees will be governed by German law (save for the subordination provision of the Bonds which will be governed by Dutch law).
Selling Restrictions:	There will be specific restrictions on the offer and sale of the Bonds and the distribution of offering materials in the European Economic Area, the United States of America and the United Kingdom of Great Britain and Northern Ireland.
Jurisdiction:	Non-exclusive place of jurisdiction for any legal proceedings arising under the Bonds is Frankfurt am Main.
Clearance and Settlement:	The Bonds will be accepted for clearing through Clearstream Banking, société anonyme, Luxembourg, and Euroclear Bank S.A./N.V., as operator of the Euroclear system.
Security Codes:	€-Bonds: ISIN : XS0259604329 £-Bonds: ISIN : XS0259607777
Availability of Documents:	This Prospectus and the documents incorporated by reference herein can either be found on the website of the Irish Stock Exchange or are obtainable in printed form at the address of the Guarantor and the Irish Paying Agent.

Publication of Pricing Parameters:	All information in this Prospectus which is dependant on the pricing of the Bonds and is still in square brackets, in particular the interest, the aggregate principal amount, the issue price, the early redemption amounts of the Bonds and the maturity date of the £-Bonds will be published on the internet on the website of the Guarantor as soon as practicable after these parameters have been determined. This information, including the final maturity date of the £-Bonds, will be determined by the Issuer and the Guarantor on the basis of investor demand in the marketing of the Bonds.

Selected Consolidated Financial and Other Data

The following tables provide a summary of our selected consolidated financial and other data as of and for the years ended December 31, 2003, 2004 and 2005 and the three months (unaudited) ended March 31, 2005 and 2006, as well as a summary of the unaudited illustrative financial information (Linde including BOC) contained in this Prospectus the "Illustrative Financial Information (Linde including BOC)". The selected consolidated financial and other data was obtained or derived from our consolidated financial statements prepared in accordance with IFRS and additional unaudited historical data. Due to a number of changes to standards relevant under IFRS and the sale of our Refrigeration business segment in the year ended December 31, 2004, as well as the elimination of scheduled amortization on goodwill, our annual financial statements as of and for the year ended December 31, 2004 were restated and made comparative as part of the preparation of our annual financial statements as of and for the year ended December 31, 2005. In addition, the comparative data from our consolidated interim financial statements as of and for the three months ended March 31, 2006 were restated in compliance with the first-time obligatory application of accounting standards, as well as to reflect the changes as of December 31, 2005. Our EBITA has been calculated based on our net income before taxes on income, net financial result and scheduled amortization of goodwill. As of March 31, 2006, we use EBIT to measure the comparability of our financial statements. For the years ended December 31, 2003 and 2004, EBIT was calculated by deducting goodwill amortization from EBITA. As goodwill may no longer be amortized due to a change in IFRS, with the exception of goodwill impairment losses, EBIT equals EBITA. KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft audited the consolidated financial statements prepared in accordance with IFRS for the financial years ended December 31, 2003, 2004 and 2005. Our consolidated interim financial statements prepared under IFRS for the periods ended March 31, 2005 and March 31, 2006 are unaudited.

The Illustrative Financial Information (Linde including BOC) contained in this Prospectus as of and for the three months ended March 31, 2006 and for the year ended December 31, 2005, has not been audited or subjected to other review. The Illustrative Financial Information (Linde including BOC) includes BOC in addition to the subsidiaries consolidated in our Group. For purposes of the preparation of the Illustrative Financial Information (Linde including BOC) in the income statement for the period from January 1 through December 31, 2005, we assumed the acquisition had taken place as of January 1, 2005. For purposes of the preparation of the Illustrative Financial Information (Linde including BOC) in the illustrative balance sheet as of March 31, 2006 and the illustrative income statement for the period from January 1 through March 31, 2006, we assumed the acquisition had taken place as of January 1, 2006. The Illustrative Financial Information (Linde including BOC) as included in this Prospectus is not pro forma financial information within the meaning of Commission Regulation (EC) 809/2004 of April 29, 2004. At the current stage of the acquisition process, in which we intend to acquire all shares of BOC, BOC as the target company is not permitted to disclose certain financial and other information to us (including under Rule 20 of the City Code on Takeovers and Mergers), or to make it otherwise available to us. Among other requirements, BOC would have to make any such disclosed information public. Accordingly, we are also not entitled to have this information disclosed to us. This information primarily concerns the details of accounting principles (the exercise of certain options) at BOC and information on a number of assets (including intangible assets) of

BOC that would be necessary for purchase price allocation. Even if the exchange of information were possible before the acquisition is consummated, the time required to incorporate this information in the financial figures would mean that reliable results would not be available before the acquisition was consummated. (Even after all information is available, IFRS 3 "Business Combinations" allows for a period of up to twelve months for the final purchase price allocation.) Because of the lack of access to BOC's financial information, we are unable to provide pro forma financial information that complies with the requirements of Annex II of Commission Regulation (EC) 809/2004 of April 29, 2004, and with the requirements of the Accounting Practice Statement of the IDW (Institute of German Public Accountants) regarding pro forma financial information. In particular, the consistency of accounting and measurement methods is not guaranteed, nor has a preliminary allocation of the purchase price been taken into account. Instead of pro forma financial information, we have provided Illustrative Financial Information (Linde including BOC) with the aim of providing an indication of the financial condition and results of operations (within certain ranges) of the Group as a whole, after consummation of the acquisition.

The Illustrative Financial Information (Linde including BOC) was prepared purely for illustrative purposes. The Illustrative Financial Information (Linde including BOC) contains uncertainties and assumptions. For this reason, the information presented is not an indicator of what our actual financial condition and results of operations would have been if the structure we assumed in the Illustrative Financial Information (Linde including BOC) had already existed as of January 1, 2005 or as of January 1, 2006. In addition, this information is not intended to be used to forecast our future financial condition or results of operations. Please note that the Illustrative Financial Information (Linde including BOC) is only meaningful when read in conjunction with the companies' relevant historical financial statements.

The selected consolidated financial and operating data reproduced below is only an introduction. You should base your investment decisions on an examination of the entire Prospectus.

Selected data from our consolidated financial statements and selected data from the Illustrative Financial Information (Linde including BOC)

Selected data from our consolidated income statement and selected data from the Illustrative Financial Information (Linde including BOC)

	Consolidated financial information						Illustrative financial information (Linde including BOC)	
	Three months ended March 31,		Year ended December 31,				Three months ended March 31,	Year ended December 31,
	2006	2005[(1)]	2005	2004[(2)]	2004	2003	2006	2005
	(unaudited)		(€ millions)				(€ millions) (unaudited)	
Sales	2,415	2,118	9,501	8,856	9,421	8,992	3,851	14,780
Cost of sales	1,636	1,447	6,483	6,091	6,539	6,215	–	–
Research and development costs	47	44	174	166	177	172	–	–
Operating profit (EBIT)	225	165	913	774[(3)]	785[(3)]	683[(3)(4)]	378	1,559
Net interest	(18)	(24)	(124)	(127)	(129)	(142)	(166)	(740)
Minority interests	(1)	(1)	(9)	(5)	(5)	(1)	(13)	(106)
Net income after minority interests	134	89	501	380	274	108	142	644

(1) Restated.

(2) Restated and comparable.

(3) EBITA in 2003 and 2004.

(4) Before special items in 2003.

Selected data from our consolidated balance sheet and selected data from the Illustrative Financial Information (Linde including BOC)

	Consolidated financial information					Illustrative Financial Information (Linde including BOC)
	As of March 31,	As of December 31,				As of March 31,
	2006	2005	2004[1]	2004	2003	2006
		(€ millions)				(€ millions)
	(unaudited)					(unaudited)
Cash and cash equivalents and securities	877	911	567	567	561	1,613
Current assets (excluding cash and cash equivalents and securities)	3,314	3,049	3,004	3,028	3,334	4,905
Non-current assets	8,450	8,566	8,064	7,996	8,020	22,937
TOTAL ASSETS	12,641	12,526	11,635	11,591	11,915	29,455
Current liabilities	3,986	3,983	3,482	3,482	3,771	6,159
Non-current liabilities	4,048	4,130	4,207	4,028	4,258	16,603
Minority interests	52	49	38	38	35	240
Total equity (excluding minority interests)	4,555	4,364	3,908	4,043	3,851	6,453
TOTAL EQUITY AND LIABILITIES	12,641	12,526	11,635	11,591	11,915	29,455

(1) Restated and comparable.

Selected data from our consolidated cash flow statement

	Three months ended March 31,		Year ended December 31,			
	2006	2005[1]	2005	2004[2]	2004	2003
			(€ millions) (unaudited)			
Cash flow from operating activities	214	137	1,435	1,255	1,249	1,281
Cash flow from investing activities	(139)	(167)	(823)	(731)	(744)	(655)
Cash flow from financing activities	(109)	(84)	(283)	(585)	(499)	(425)

(1) Restated.

(2) Restated and comparable.

Selected data from our segment report

	Gas and Engineering					
	Three months ended March 31,		Year ended December 31,			
	2006	2005[1]	2005	2004[2]	2004	2003
	(€ millions excluding employee figures) (unaudited)					
Sales	1,494	1,333	5,831	5,406	5,406	5,031
EBIT	211	169	783	682[3]	684[3]	634[3](4)
Earnings before taxes on income	200	154	691	575	474	413
Cash flow from operating activities	–	–	1,213	990	990	957
Capital expenditure (excluding financial assets)	–	–	635	511	511	406
Employees (as of December 31 or March 31, as applicable)	22,482	22,057	22,191	21,787	21,787	21,292

(1) Restated.

(2) Restated and comparable.

(3) EBITA in 2003 and 2004.

(4) Before special items in 2003.

	Material Handling					
	Three months ended March 31,		Year ended December 31,			
	2006	2005[1]	2005	2004[2]	2004	2003
	(€ millions excluding employee figures) (unaudited)					
Sales	922	771	3,628	3,372	3,372	3,063
EBIT	47	26	223	194[3]	191[3]	156[3][4]
Earnings before taxes on income	39	18	191	144	134	45
Cash flow from operating activities	–	–	248	268	268	321
Capital expenditure (excluding financial assets)[5]	–	–	191	176	176	162
Employees (as of December 31 or March 31, as applicable)	19,421	18,848	19,323	18,878	18,878	17,932

[1] Restated.

[2] Restated and comparable.

[3] EBITA in 2003 and 2004.

[4] Before special items in 2003.

[5] Not including leased assets.

	Corporate					
	Three months ended March 31,		Year ended December 31,			
	2006	2005[1]	2005	2004[2]	2004	2003
	(€ millions excluding employee figures) (unaudited)					
Sales	(1)	14	42	78	65	32
EBIT	(33)	(30)	(93)	(102)[3]	(99)[3]	(121)[3][4]
Earnings before taxes on income	(31)	(32)	(93)	(97)	(94)	(174)
Cash flow from operating activities	–	–	(26)	(3)	(3)	(33)
Capital expenditure (excluding financial assets)	–	–	25	31	31	10
Employees (as of December 31 or March 31, as applicable)	501	791	715	718	718	492

[1] Restated.

[2] Restated and comparable.

[3] EBITA in 2003 and 2004.

[4] Before special items in 2003.

ZUSAMMENFASSUNG

Die folgende Zusammenfassung fasst ausgewählte wesentliche Informationen und Risiken in Bezug auf Linde Finance B.V. (die „Emittentin"), Linde Aktiengesellschaft (die „Garantin" oder die „Gesellschaft" und zusammen mit ihren konsolidierten Tochter- und Beteiligungsgesellschaften, soweit sich aus dem Zusammenhang nichts anderes ergibt „wir", „uns", „unsere", „Linde", der „Linde-Konzern" oder der „Konzern") dieses Prospekts zusammen. Die Zusammenfassung ist als Einführung zu diesem Prospekt zu verstehen und enthält nicht alle für den Anleger wichtigen Informationen. Ein Anspruch auf Vollständigkeit der Zusammenfassung wird nicht erhoben. Sie ist den übrigen Angaben im Prospekt entnommen und steht unter deren Vorbehalt. Anleger sollten ihre Anlageentscheidung bezüglich der in diesem Prospekt beschriebenen Schuldverschreibungen auf die Prüfung des gesamten Prospekts stützen. Für den Fall, dass von einem Anleger vor einem Gericht Ansprüche aufgrund der in diesem Prospekt enthaltenen Informationen geltend gemacht werden, ist der als Kläger auftretende Anleger in Anwendung der einzelstaatlichen Rechtsvorschriften der Staaten des Europäischen Wirtschaftsraums gegebenenfalls verpflichtet, die Kosten für die Übersetzung des Prospekts vor Prozessbeginn zu tragen. Die Personen, die diese Zusammenfassung einschließlich ihrer Übersetzungen erstellt und ihre Notifizierung beantragt haben, tragen die zivilrechtlich Haftung hierfür, jedoch nur sofern die Zusammenfassung irreführend, fehlerhaft oder mit den übrigen Teilen des Prospekts unvereinbar ist.

Zusammenfassung der Geschäftstätigkeit

Geschäftstätigkeit

Linde ist ein internationaler Technologiekonzern unter Leitung der Linde Aktiengesellschaft mit einer nach eigener Einschätzung führenden Stellung in den beiden Unternehmensbereichen Gas und Engineering sowie Material Handling. Im Geschäftsjahr 2005 hat Linde einen Umsatz von weltweit € 9,501 Mrd. erzielt (2004: € 8,856 Mrd. (restated und vergleichbar); 2003: € 8,992 Mrd.). Das operative Ergebnis (EBITA) betrug in 2005 € 913 Mio. (2004: € 774 Mio. (restated und vergleichbar); 2003: € 683 Mio., jeweils vor Sondereinflüssen). Der Konzern bestand zum 31. Dezember 2005 aus rund 270 Konzerngesellschaften im In- und Ausland mit insgesamt über 42.000 Mitarbeitern.

Unternehmensbereich Gas und Engineering. Der Unternehmensbereich Gas und Engineering umfasst alle Aktivitäten des Linde-Konzerns im Zusammenhang mit technischen und medizinischen Gasen sowie dem Anlagenbau. Die Aktivitäten des Geschäftsbereichs Linde Gas umfassen die Herstellung und Lieferung von Flaschen- und Flüssiggasen vor allem für industrielle Anwendungen (einschließlich der Lebensmittelindustrie), das sog. On-site-Geschäft, bei dem die Kunden mit Industriegasen aus Anlagen versorgt werden, die bei ihnen installiert werden, sowie die Herstellung von Gasen für Anwendungen in der Medizin. Im Geschäftsbereich Linde Engineering konzentriert sich Linde auf die Planung und Errichtung von technologisch anspruchsvollen Anlagen, insbesondere im Bereich der Ethylenerzeugung, Luftzerlegung, Synthesegaserzeugung und Wasserstoffproduktion.

Unternehmensbereich Material Handling. Der Unternehmensbereich Material Handling umfasst unter den Marken Linde, STILL und OM Pimespo ein umfassendes Produktprogramm aus Gabelstaplern mit Verbrennungsmotoren, Elektrostaplern und anderen Lagertechnikgeräten. Linde bietet darüber hinaus ein umfassendes Service- und Dienstleistungsangebot an, das von der Finanzierung bis hin zum Flottenmanagement reicht, und ist damit ein umfassender Dienstleister in allen Bereichen der Intralogistik.

Stärken und Konzernstrategie von Linde

Stärken

Nach Einschätzung der Gesellschaft profitiert Linde für zukünftiges Wachstum von den folgenden Stärken im Wettbewerb:

- Führende Marktposition in attraktiven Märkten

  Linde verfügt über eine führende Marktposition in einer Vielzahl von attraktiven Märkten. In den beiden Unternehmensbereichen Gas und Engineering sowie Material Handling wird der weit überwiegende Teil der Umsätze in Märkten erwirtschaftet, in denen Linde nach eigener Einschätzung zu den nach Umsatz führenden Unternehmen zählt, wobei Linde in einer Reihe strategisch besonders relevanter Bereiche, Länder und Produkte Marktführer ist. Durch den geplanten Zusammenschluss mit der The BOC Group plc (im folgenden auch „BOC") soll zudem hinsichtlich der Marktanteile bei der Herstellung von Industriegasen eine führende Position in den Wachstumsregionen Afrika und Asien/Pazifik, eine Position im Bereich der zwei größten Unternehmen in Europa und Südamerika und in Nordamerika eine führende Position erreicht werden. Durch die Akquisition von BOC würde Linde hinsichtlich des Umsatzes eine führende Position unter den Herstellern von Industriegasen weltweit erlangen. Die Attraktivität des Industriegasemarktes in den jeweiligen Ländern, in denen Linde tätig ist, beruhte in der Vergangenheit auf Wachstumsraten des zwei- bis zweieinhalbfachen des jeweiligen Bruttoinlandsproduktes.

- Globale Präsenz in wachsenden Märkten

  Das On-site-Geschäft, das heißt die Versorgung mit Industriegasen aus Anlagen, die beim Kunden vor Ort installiert werden, zählt weltweit zu den wichtigsten Wachstumsfeldern für den Geschäftsbereich Linde Gas. Linde baut ihre Position in diesem wachsenden Markt sukzessive aus, unter anderem in Osteuropa und China, und würde durch die Akquisition von BOC hinsichtlich des Umsatzes weltweit die zweite Position einnehmen. Auch in den Sparten Flüssig- und Flaschengase konnten im Geschäftsjahr 2005 Umsatzsteigerungen erzielt werden, unter anderem durch die Errichtung der ersten Spezialgaseanlage Chinas für die Elektronikindustrie. Die Akquisition von BOC würde die Präsenz in diesen Segmenten von ca. 40 auf ca. 70 Länder ausweiten und in weltweiter Marktführerschaft bei Flüssiggasen und einer führenden Position bei Flaschengasen resultieren.

  Linde ist in Osteuropa, neben Asien und Südamerika einem der drei am stärksten wachsenden Regionalmärkte, bereits das führende Industriegaseunternehmen. Durch die Akquisition von BOC würde Linde auch in Asien und Südamerika zu einer führenden Position gelangen.

  Auch die wichtigsten Produktmärkte im Hinblick auf Wachstumsraten beim Umsatz (zum Beispiel Wasserstoff und Spezialgase) werden global und mit starkem Know-how von Linde abgedeckt.

- Breite Produktpalette

  Ein breites Produktangebot ermöglicht es Linde, den umfangreichen Bedürfnissen der Kunden gerecht zu werden. Linde verfügt über ein breites Sortiment an Produkten im Bereich der Industriegase, welches sich insbesondere auf Flaschen- und Flüssiggase, medizinische Gase, Edelgase (zum Beispiel Helium) und die Herstellung von flüssigem Wasserstoff erstreckt. Mit diesen Produkten wird eine Vielzahl von Applikationen in den unterschiedlichsten Marktsegmenten (verarbeitende Industrie, Nahrungsmittel, Stahlherstellung, Chemie und Petrochemie etc.) unterstützt.

  Überdies zählt Linde zu den wenigen Unternehmen, die ihren Kunden im Gasebereich auch den Anlagenbau von Luftzerlegern und Wasserstoffanlagen aus einer Hand anbieten. Linde Engineering ist aber auch in den Wachstumsbereichen Olefinanlagen zur Erzeugung der petrochemischen Grundprodukte Ethylen und Propylen sowie Erdgasverflüssigungsanlagen ein weltweit führender Anbieter.

  Mit dem Unternehmensbereich Material Handling verfügt Linde derzeit über ein Standbein im Bereich der Produktion von Flurförderzeugen. Über die drei Marken Linde, STILL und OM Pimespo können den Kunden spezifische Lösungen in allen Segmenten (Premium, Intralogistik und Wertsegment) angeboten werden. Die Einführung innovativer Produkte führte in diesem Unternehmensbereich zur Verbesserung einer weltweit führenden Marktposition mit Marktführerschaft in Europa.

Konzernstrategie

Zu den zentralen Elementen der Strategie des Linde-Konzerns gehören:

- Profitables Wachstum und Steigerung der Ertragskraft

  Es ist beabsichtigt, die Ertragskraft des Konzerns – trotz zunächst erhöhter Abschreibungen auf im Zuge der Kaufpreisallokation aufgedeckte stille Reserven sowie der Verschlechterung des Finanzergebnisses im Zuge der Akquisition von BOC – mittelfristig weiter zu steigern. Linde verfolgt dabei eine Strategie des nachhaltigen, ertragsorientierten Wachstums und zielt auf die stetige Steigerung des Unternehmenswertes. Auf der Kostenseite konzentriert sich Linde vor allem darauf, die Effizienz in ihren Produktionsstätten zu erhöhen, von Skaleneffekten zu profitieren, ihre Vertriebsstrukturen intensiver zu nutzen und grundsätzlich Kostendisziplin zu üben. In diesem Zusammenhang werden die in allen Geschäftsbereichen initiierten Performance-Programme weiterhin umgesetzt („GAP – Growth and Performance" bei Linde Gas und „GO – Growth and Operational Excellence" bei Material Handling). Nach der Übernahme der BOC soll das GAP-Programm auf das erweiterte Unternehmen ausgeweitet werden. Weitere wichtige Eckpfeiler des nachhaltigen profitablen Wachstums sind Maßnahmen zur Umsatzsteigerung sowie ein konsequentes Investitionsmanagement, das sich bei allen Investitionsentscheidungen an Portfolioaspekten sowie Kapitalkosten orientiert.

- Realisierung von Synergieeffekten durch den Zusammenschluss mit BOC

  Linde geht davon aus, dass durch den Zusammenschluss mit BOC ab dem Jahr 2009 voraussichtlich Kostensynergien in Höhe von bis zu € 250 Mio. jährlich realisiert werden können. Die Synergieeffekte sollen vorwiegend durch eine Optimierung des Beschaffungsmanagements sowie erhöhte Beschaffungsvolumina, eine Reduzierung von Verkaufs- und Verwaltungskosten, die Optimierung des Supply Chain Managements inklusive Produktion und Distribution sowie Einsparungen im Bereich Forschung und Entwicklung realisiert werden. Zusätzlich sollen Umsatzsynergien in verschiedenen geografischen Regionen, Cross Selling (zum Beispiel im Bereich Healthcare) und ein erweitertes globales Produkt- und Serviceangebot an Kunden erreicht werden. Kunden sollen weltweit über eine starke Präsenz mit Management, Produktion, Verkauf und Engineering in den jeweiligen lokalen Regionen bedient werden. Zwischen den einzelnen Standorten und Regionen wird der heute schon bei Linde etablierte Transfer des Know-hows intensiviert und auf das neue, vergrößerte Unternehmen ausgedehnt werden.

- Entschuldung und mögliche Konzentration auf das Gas- und Engineeringgeschäft

  Durch den Zusammenschluss mit BOC werden sich die Nettofinanzschulden (lang-und kurzfristige Finanzschulden abzüglich liquider Mittel) von Linde deutlich erhöhen. Linde beabsichtigt, nach der Übernahme von BOC ihre Finanzverbindlichkeiten wieder zu reduzieren. Dies soll auch über Desinvestitionen erfolgen; insbesondere steht der Unternehmensbereich Material Handling zur Disposition. Insofern werden derzeit als Optionen der Verkauf oder der Börsengang des Unternehmensbereichs Material Handling mit der Folge einer Konzentration auf das Gas- und Engineeringgeschäft („Pure Play") geprüft.

Zusammenfassung der Risikofaktoren

Risiken aus dem Übernahmeangebot an die Aktionäre von BOC

- Aufgrund der geplanten Übernahme von BOC werden sich die Nettofinanzschulden von Linde deutlich erhöhen, und die Eigenkapitalquote (Verhältnis von Eigenkapital zur Bilanzsumme) wird deutlich sinken. Dies wird zu einer Herabstufung des Ratings von Linde durch Ratingagenturen führen, was sich ungünstig auf den Zinsaufwand auswirken kann. Darüber hinaus kann nicht ausgeschlossen werden, dass sich die mögliche Herabstufung des Ratings auf „Non Investment Grade“ in einzelnen Fällen ungünstig auf die Geschäftstätigkeit, insbesondere bei langfristigen Verträgen im Bereich Gas und Engineering, auswirken kann.

- Der neue Kreditvertrag, den Linde im Zusammenhang mit der geplanten Übernahme von BOC abgeschlossen hat, enthält bestimmte Verpflichtungen, die die unternehmerische Flexibilität von Linde einschränken können; unter bestimmten Umständen kann der Vertrag gekündigt werden.
- Linde muss bis September 2008 einen wesentlichen Teil des Akquisitionskredits zurückführen. Ein wesentlicher Bestandteil der Finanzierung der geplanten Übernahme von BOC sind Desinvestitionen von Unternehmensteilen, die Linde nach gegenwärtiger Planung überwiegend innerhalb der nächsten 18 Monate vollziehen will. Es kann nicht mit Gewissheit vorhergesagt werden, ob, zu welchem Zeitpunkt und zu welchen Konditionen diese Desinvestitionen vorgenommen werden können.
- Die geplante Übernahme von BOC wird aufgrund des das Nettovermögen von BOC weit übersteigenden Kaufpreises zum Ansatz eines erheblichen Goodwills führen, der einem periodischen Impairment Test unterliegt.
- Unvorhergesehene Schwierigkeiten im Rahmen der geplanten Übernahme und Integration von BOC können erhebliche nachteilige Auswirkungen auf die Geschäftstätigkeit von Linde haben.
- Linde hat die Richtigkeit der in diesem Prospekt enthaltenen Informationen über BOC nicht überprüft und keine Gelegenheit zu einer umfassenden Prüfung der nicht öffentlichen Unterlagen von BOC gehabt. Linde kann infolge der Übernahme daher unbekannten Risiken ausgesetzt sein, die sich erheblich auf die Vermögens-, Finanz- und Ertragslage von Linde auswirken können.
- BOC ist in den USA Beklagte in diversen Class Actions. Linde kann infolge der Übernahme diesbezüglich unbekannten Risiken ausgesetzt sein, die sich erheblich auf die Vermögens-, Finanz- und Ertragslage von Linde auswirken können.
- Das Übernahmeangebot für BOC stellt einen wesentlichen Teil der Wachstumsstrategie von Linde in ihrem Geschäftsbereich Linde Gas dar. Schlägt es fehl, kann es bei weitergehender Marktkonzentration zu Verlusten von Marktanteilen kommen.
- Das Übernahmeangebot für BOC steht unter dem Vorbehalt der Genehmigung des Übernahmeangebots durch die US-Kartellbehörden bzw. des Verzichts auf das Genehmigungserfordernis. Die Erteilung der Genehmigung könnte von Auflagen abhängig gemacht werden. Bei Nichterteilung der Genehmigung würde das Übernahmeangebot fehlschlagen. Dies könnte zu reduzierten Synergieeffekten des Zusammenschlusses bzw. dem Verlust von Marktanteilen von Linde führen.
- Schlägt das Übernahmeangebot für BOC fehl, wäre der Kapitalerhöhung die wirtschaftliche Grundlage entzogen und es könnte zu finanziellen Nachteilen für Linde kommen.

Geschäftsbezogene Risiken

- Die allgemeine Wirtschaftslage und die Zyklizität in den wichtigen Abnehmerbranchen können zu einem Nachfragerückgang führen und sich somit wesentlich nachteilig auf die Geschäftstätigkeit von Linde auswirken.
- Aufgrund der Internationalität ihres Geschäfts ist Linde volkswirtschaftlichen, politischen und rechtlichen Risiken ausgesetzt.
- Linde könnte nicht in der Lage sein, weiterhin innovative Produkte zu entwickeln bzw. rechtzeitig auf den technischen Fortschritt zu reagieren.
- Linde ist verschiedenen Risiken im Hinblick auf ihre Investitionen in neue Produktionskapazitäten ausgesetzt.

- Linde benötigt umfangreiche Finanzmittel und ist deshalb anfällig für Zinsänderungen. Mit der geplanten Übernahme von BOC wird diese Anfälligkeit steigen.
- Veränderungen der Wechselkurse können das Ergebnis von Linde belasten.
- Der Anstieg der Preise für Energie, Rohstoffe und andere Leistungen von Dritten kann das Ergebnis von Linde beeinträchtigen.
- Der Ausfall von Lieferanten und Lieferunterbrechungen für Rohstoffe sowie Bauteile, Baugruppen und Komponenten könnten sich negativ auf die Geschäftstätigkeit von Linde auswirken.
- Die Produktionsanlagen und Produkte von Linde sind Betriebs- und Unfallrisiken ausgesetzt.
- Linde unterliegt vielfältigen umweltrechtlichen und anderen regulatorischen Anforderungen. Es kann nicht ausgeschlossen werden, dass der Konzern einer Haftung für deren Nichteinhaltung oder für Altlasten ausgesetzt ist.
- Linde wäre erheblichen Risiken ausgesetzt, wenn ihre Produkte fehlerhaft wären oder den Qualitätsanforderungen der Kunden aus anderen Gründen nicht genügten.
- Linde könnte im medizinischen Bereich Produkthaftungs- und anderen Ansprüchen ausgesetzt sein, die zu erheblichen Kosten und Verbindlichkeiten führen könnten. Diese könnten in Zukunft möglicherweise nicht mehr zu angemessenen Bedingungen zu versichern sein.
- Der Bau von technisch komplexen Industrieanlagen birgt für Linde eine Reihe von technischen und organisatorischen Risiken.
- Linde ist in ihren Märkten intensivem Wettbewerb sowie dem Risiko ausgesetzt, dass von ihr angebotene Produkte durch neue, verbesserte Produkte oder Materialien ersetzt werden.
- Linde ist Adressenausfall- und Abnahmerisiken im Zusammenhang mit lang laufenden Verträgen ausgesetzt.
- Linde ist auf den unterbrechungsfreien Betrieb sowie die weitere Integration ihrer Computer- und Datenverarbeitungssysteme angewiesen.
- Linde ist auf gute Beziehungen zu ihren Mitarbeitern und deren Gewerkschaften angewiesen.
- Es ist nicht sicher, dass es Linde zukünftig gelingt, qualifizierte Mitarbeiter zu gewinnen oder zu halten.
- Es besteht keine Gewähr, dass es Linde gelingt, ihr geistiges Eigentum und Know-how in ausreichendem Maße zu schützen.
- Es lässt sich nicht ausschließen, dass Linde ihrerseits geistiges Eigentum Dritter verletzt bzw. auf die kostenpflichtige Nutzung geistigen Eigentums Dritter angewiesen ist.
- Linde könnte steuerlichen Risiken ausgesetzt sein, die sich aus künftigen Betriebsprüfungen ergeben können.
- Linde könnte Finanzierungs- und Liquiditätsrisiken ausgesetzt sein, wenn sich negative Marktentwicklungen im Bezug auf extern ausgelagertes Pensionsvermögen ergeben.
- Durch ein Absinken der Gebrauchtwerte von Flurförderzeugen kann Linde Risiken im Zusammenhang mit langfristigen Miet- und Leasingverträgen ausgesetzt sein.

Risiken in Verbindung mit den Schuldverschreibungen

- Die Emittentin kann Zinszahlungen im Rahmen der Schuldverschreibungen aufschieben.
- Die Emittentin kann auch bei ausstehenden Zinsrückständen unter gewissen Umständen Zahlungen auf gewisse andere vor- und gleichrangige Forderungen aus Finanzinstrumenten leisten.

- Anleihegläubiger erhalten möglicherweise keine Zahlungen von Zinsrückständen, wenn (i) die Garantin nicht in der Lage ist, neue Aktien oder eigene Aktien auszugeben oder zu verkaufen, oder (ii) die Garantin aufgrund zwingender Vorschriften des deutschen Aktienrechts neue Aktien nicht verkaufen oder ausgeben darf.

- Die Schuldverschreibungen haben eine sehr lange Laufzeit und Anleihegläubiger können die Schuldverschreibungen nur unter ganz bestimmten Voraussetzungen kündigen.

- Die Emittentin kann die Schuldverschreibungen unter bestimmten Umständen zurückzahlen.

- Die Forderungen der Anleihegläubiger aus den Schuldverschreibungen sind gegenüber den Forderungen aller derzeitigen und künftigen Gläubiger der Emittentin bzw. der Garantin nachrangig.

- Die Emittentin und die Garantin unterliegen keiner Beschränkung hinsichtlich der Aufnahme weiterer, gegenüber den Schuldverschreibungen vorrangiger oder mit diesen gleichrangiger Verbindlichkeiten.

- Im Zusammenhang mit dem Erwerb von BOC wird der Konzern erhebliche Verbindlichkeiten eingehen und wird einen erheblichen Betrag an Barmitteln zur Bedienung dieser Schulden, einschließlich der Schuldverschreibungen, benötigen.

- Die Garantin hat sich gegenüber den Gläubigern bestimmter Wertpapiere verpflichtet, ihnen den Rückkauf dieser Wertpapiere anzubieten, wenn die Emittentin die Schuldverschreibungen im Falle eines Kontrollwechsels vorzeitig kündigt.

- Für die Schuldverschreibungen wird möglicherweise kein liquider Sekundärmarkt entstehen.

- Festverzinsliche Wertpapiere sind einem Marktrisiko ausgesetzt.

- Bei variabel verzinslichen Wertpapieren fällt möglicherweise der Zinssatz.

Zusammenfassung der allgemeinen Angaben über die Emittentin

Sitz und Geschäftsjahr der Emittentin	Die Emittentin ist im Handelsregister der Handelskammer von Amsterdam unter der Nummer 34115238 eingetragen. Ihr Sitz ist Amsterdam und ihre Hauptgeschäftsstelle befindet sich in der Strawinskylaan 3111, Atrium 7th floor, 1077 ZX Amsterdam, Niederlande, Tel.: +31 20 3013 800; Fax: +31 20 3013 809. Das Geschäftsjahr der Emittentin entspricht dem Kalenderjahr.

Übersicht über Geschäftsführung und Hauptaktionäre der Emittentin

Aufsichtsrat und Geschäftsführer	Aufsichtsratsmitglieder der Emittentin sind: Herr Björn Schneider; Herr Dr. rer. pol. Peter Diesch; Herr Erhard Heinrich Wehlen. Der Geschäftsführer der Emittentin ist derzeit: Herr Nicolaas Gijsbertus Maria Limmen.
Hauptaktionäre	Die Emittentin ist eine 100 %ige Tochtergesellschaft der Linde AG.

Zusammenfassung der allgemeinen Angaben über die Gesellschaft

Sitz und Geschäftsjahr der Gesellschaft	Die Gesellschaft hat ihren Sitz in Wiesbaden und ist unter HRB 10000 im Handelsregister des Amtsgerichts Wiesbaden eingetragen. Die Hauptgeschäftsstelle der Gesellschaft befindet sich in der Abraham-Lincoln-Straße 21, 65189 Wiesbaden (Tel.: +49 611 7700). Das Geschäftsjahr der Gesellschaft entspricht dem Kalenderjahr.

Übersicht über Geschäftsführung und Hauptaktionäre der Gesellschaft

Vorstand und Aufsichtsrat	Der Vorstand der Gesellschaft besteht zum Datum dieses Prospekts aus vier Mitgliedern zusammen: Prof. Dr.-Ing. Wolfgang Reitzle (Vorsitzender), Dr.-Ing. Aldo Belloni, Dr. rer. pol. Peter Diesch und Hubertus Krossa. Der Aufsichtsrat der Gesellschaft besteht aus 16 Mitgliedern. Vorsitzender des Aufsichtsrats ist Dr. rer. pol. Manfred Schneider.

Hauptaktionäre ....

Aktionär	Stimmrechtsanteil
Deutsche Bank AG Taunusanlage 12 60325 Frankfurt am Main	9,95 %
Commerzbank Aktiengesellschaft Kaiserstraße 16 60311 Frankfurt am Main	10,08 %
Allianz Aktiengesellschaft Königinstraße 28 80802 München	11,32 %

Zusammenfassung bezüglich der Schuldverschreibungen

Emittentin:	Linde Finance B.V.
Garantin:	Linde Aktiengesellschaft
Nennbetrag:	€-Schuldverschreibungen [bis zu € 1.300.000.000] £-Schuldverschreibungen [bis zu £ 893.620.000]
Joint Lead Managers:	Barclays Bank plc, Citigroup Global Markets Limited, Dresdner Bank AG London Branch und UBS Limited
Co-Managers:	Bayerische Hypo- und Vereinsbank AG, BNP Paribas, Commerzbank Aktiengesellschaft, HSBC Bank plc, Société Générale Corporate & Investment Banking und The Royal Bank of Scotland
Hauptzahlstelle:	Citibank, N.A
Irische Zahlstelle:	Citibank International plc
Berechnungsstelle	Citibank Global Markets Limited
Listing Agent	NCB Stockbrokers Limited

Ausgabepreis:	[98–101] Prozent.
Ausgabetag:	[14]. Juli 2006
Stückelung:	Die €-Schuldverschreibungen werden mit einer Stückelung von € 1.000 ausgegeben. Die £-Schuldverschreibungen werden mit einer Stückelung von £ 1.000 ausgegeben.
Form der Schuldverschreibungen:	Die Schuldverschreibungen sind Inhaberpapiere und werden gemäß U.S. Treasury Regulation Section 1.163–5(c)(2)(i)(D) (die ***TEFRA D Rules***) ausgegeben. Die €-Schuldverschreibungen und die £-Schuldverschreibungen sind jeweils anfänglich durch eine vorläufige Globalurkunde (jeweils die ***Vorläufige Globalurkunde***) ohne Zinsscheine verbrieft, die bei einer gemeinsamen Hinterlegungsstelle für Clearstream Banking, société anonyme, Luxemburg, und Euroclear Bank S.A./N.V. als Betreiber des Euroclear-Systems (zusammen das ***Clearing-System***) hinterlegt wird. Die Vorläufigen Globalurkunden werden nach Vorlage einer Bescheinigung, dass das wirtschaftliche Eigentum nicht bei US-Personen liegt, gemäß den Regeln und Betriebsvorschriften des Clearing-Systems gegen eine Dauerglobalurkunde (die ***Dauerglobalurkunde***, die Vorläufigen Globalurkunden und die Dauerglobalurkunde im Folgenden gemeinsam auch die ***Globalurkunden***) ohne Zinsscheine ausgetauscht, und zwar nicht weniger als 40 und nicht mehr als 180 Tage nach dem Ausgabetag der jeweiligen Vorläufigen Globalurkunde. Zahlungen auf die jeweilige Vorläufige Globalurkunde erfolgen nur gegen Vorlage dieser Bescheinigung. Die Globalurkunden tragen die eigenhändige Unterschrift zweier ordnungsgemäß bevollmächtigter Vertreter der Emittentin und sind von der Hauptzahlstelle oder in deren Namen mit einer Kontrollunterschrift zu versehen. Einzelurkunden und Zinsscheine werden nicht ausgegeben.
Fälligkeit:	Die €-Schuldverschreibungen werden am [14]. Juli 2066 zurückgezahlt. Die £-Schuldverschreibungen werden am [14]. Juli [2066] [2068] zurückgezahlt.
Vorzeitige Rückzahlung:	Die Schuldverschreibungen können (insgesamt, jedoch nicht teilweise) nach Wahl der Emittentin im Fall der €-Schuldverschreibungen am [14]. Juli 2016 und im Fall der £-Schuldverschreibungen am [14]. Juli [2016] [2018] oder zu jedem nachfolgenden Variablen Zinszahlungstag zum Nennwert zuzüglich bis zum Rückzahlungstag (ausschließlich) aufgelaufener Zinsen zurückgezahlt werden. Tritt im Fall der €-Schuldverschreibungen vor dem [14]. Juli 2016 und im Fall der £-Schuldverschreibungen vor dem [14]. Juli [2016] [2018] ein Gross-up-Ereignis, ein Kapitalereignis, ein Steuerereignis, ein Rechnungslegungsereignis, ein BOC-Ereignis oder im Fall der €-Schuldverschreibungen ein Wandlungsereignis (jeweils wie in den Anleihebedingungen (***Anleihebedingungen***) definiert) ein, kann die Emittentin die Schuldverschreibungen jederzeit (insgesamt, jedoch nicht teilweise) durch eine unwiderrufliche Mitteilung an die Inhaber der

Schuldverschreibungen (***Anleihegläubiger***) gemäß den Anleihebedingungen unter Einhaltung einer Frist von mindestens 30 und höchstens 60 Tagen kündigen und zum Vorzeitigen Rückzahlungsbetrag zurückzahlen. Die Wahrnehmung der Möglichkeit zur vorzeitigen Rückzahlung erfordert die vorherige Zahlung von Zinsrückständen gemäß den Anleihebedingungen. Die Emittentin kann die Schuldverschreibungen außerdem vorzeitig zum Vorzeitigen Rückzahlungsbetrag zurückzahlen, wenn nur noch ein geringer Teil des Gesamtnennbetrags der Schuldverschreibungen aussteht. Der ***Vorzeitige Rückzahlungsbetrag*** entspricht (i) im Falle eines Gross-up-Ereignisses oder bei einer vorzeitigen Rückzahlung wegen eines geringen ausstehenden Nennbetrages dem Nennbetrag der Schuldverschreibungen, (ii) im Falle eines Kapitalereignisses, eines Rechnungslegungsereignisses oder eines Steuerereignisses (x) dem Nennbetrag der Schuldverschreibungen oder (y) falls höher, dem Abgezinsten Marktpreis der Schuldverschreibungen (wie in den Anleihebedingungen definiert), (iii) im Falle eines BOC-Ereignisses [101%] des Nennbetrags der Schuldverschreibungen und (iv) im Falle eines Wandlungsereignisses dem Nennbetrag der Schuldverschreibungen, oder, falls höher, dem Besonderen Abgezinsten Marktpreis (wie in den Anleihebedingungen definiert) in jedem dieser Fälle zuzüglich bis zum Rückzahlungstag (ausschließlich) aufgelaufener Zinsen.

Zinsen:

Die €-Schuldverschreibungen werden mit jährlich [5,75–9,75] Prozent ab [14]. Juli 2006 (einschließlich) bis zum [14]. Juli 2016 (ausschließlich) verzinst; die Zinsen auf die €-Schuldverschreibungen sind nachträglich jährlich am [14]. Juli eines jeden Jahres fällig. erstmals am [14]. Juli 2007. Die £-Schuldverschreibungen werden mit jährlich [6,75–10,75] Prozent ab [14]. Juli 2006 (einschließlich) bis zum [14]. Juli [2016] [2018] verzinst; die Zinsen auf die £-Schuldverschreibungen und die Zinsen auf die £-Schuldverschreibungen werden nachträglich halbjährlich am [14]. Januar sowie am [14]. Juli eines jeden Jahres fällig, erstmals am [14]. Juli 2007. Anschließend werden die €-Schuldverschreibungen, vorbehaltlich einer vorzeitigen Rückzahlung, mit jährlich [1,50–5,75]% zuzüglich einem Prozent über dem Euroraum-Interbanken-Angebotssatz für Dreimonatseinlagen in Euro und die £-Schuldverschreibungen mit jährlich [1,50 – 5,75] zuzüglich einem Prozent über dem Londoner Pfund Sterling-Interbanken-Angebotssatz für Dreimonats-Einlagen in Pfund Sterling verzinst; dabei sind die Zinsen nachträglich vierteljährlich am [14]. Oktober, [14]. Januar, [14]. April und [14]. Juli eines jeden Jahres fällig. Im Falle eines Kontrollwechsels (siehe nachstehend „*Kontrollwechsel*“) erhöht sich der Zinssatz um 5 % per annum. Die Emittentin hat das Wahlrecht, Zinszahlungen jederzeit aufzuschieben (siehe nachstehend „*Aufschub von Zinszahlungen*“). Die Emittentin kann diese aufgeschobenen Zinsen jederzeit zahlen und muss diese aufgeschobenen Zinsen unter bestimmten Umständen zahlen.

Aufschub von Zinszahlungen:

Nach den Anleihebedingungen kann die Emittentin entscheiden, dass aufgelaufene Zinsen nicht am jeweils nächsten Festzins-Zahlungstag oder Variablen Zinszahlungstag (wie in den

	Anleihebedingungen definiert) fällig werden, sondern stattdessen Zinsrückstände (wie in den Anleihebedingungen definiert) darstellen, die erst zu einem späteren, in den Ausgabebedingungen genannten Zeitpunkt fällig werden, sofern die Emittentin nicht entscheidet, diese Zinsen zu zahlen. Zinsrückstände werden nicht verzinst. Vorbehaltlich der unter „*Tilgung von Zinsrückständen und Bedingungen für die Tilgung*" zusammengefassten Bedingungen muss die Emittentin Zinsrückstände am zuerst eintretenden der folgenden Tage zahlen: (i) dem Tag, an dem die Garantin eine Dividendenzahlung oder eine sonstige Ausschüttung in Bezug auf Aktien gleich welcher Gattung beschließt, zahlt oder vornimmt, (ii) dem Zinszahlungstag, bezüglich dessen die Emittentin von ihrem Wahlrecht, die Zinszahlung ganz oder teilweise aufzuschieben, keinen Gebrauch macht, (iii) dem Tag, an dem die Schuldverschreibungen zur Rückzahlung fällig sind, (iv) dem Tag, an dem die Emittentin, die Garantin oder eine Konzerngesellschaft (direkt, aufgrund einer Garantie oder anderweitig) eine Zinszahlung oder eine sonstige Ausschüttung auf ein Nachrangiges Wertpapier oder ein Gleichrangiges Wertpapier leistet (gemäß der Definition dieser Begriffe in den Anleihebedingungen; obligatorische Zahlungen der Emittentin (oder bei deren Nichtleistung der Garantin) an einem Wiederholten Fakultativen Zinszahlungstag wie in § 5(3) der Anleihebedingungen der von der Emittentin am 3. Juli 2003 ausgegebenen Nachranganleihe ohne Fälligkeitstag über € 400.000.000 (ISIN XS0171231060) (Nachranganleihe 2003) definiert, stellen keine Zinszahlung oder sonstige Ausschüttung dar), und (v) dem Tag, an dem die Emittentin, die Garantin oder eine Konzerngesellschaft für eine Gegenleistung die Schuldverschreibungen (ganz oder teilweise), Aktien, Gleichrangige Wertpapiere oder Nachrangige Wertpapiere zurückzahlt, zurückkauft oder anderweitig erwirbt, außer im Zusammenhang mit (i) derzeit bestehenden oder zukünftig geschaffenen Aktienoptionsplänen oder (ii) der Umwandlung von Aktien in Aktien einer anderen Gattung.
Tilgung von Zinsrückständen und Bedingungen für die Tilgung	Unter bestimmten, vorstehend zusammengefassten Umständen ist die Emittentin verpflichtet, Zinsrückstände zu tilgen. Während Anleger Anspruch darauf haben, diese Zahlungen in bar zu erhalten, steht jegliche Verpflichtung zur Tilgung von Zinsrückständen unter der Bedingung, dass die Garantin Barmittel aus der Ausgabe oder dem Verkauf von Aktien der Garantin in Höhe der zahlbaren Zinsrückstände erzielt hat. Die Erlöse dürfen nicht aus dem Verkauf eigener Aktien stammen, welche innerhalb der letzten sechs Monate vor der Zahlung gegen Barzahlung erworben wurden, und neue Aktien können nur ausgegeben werden, wenn die Anzahl der in einem Zeitraum von zwölf Monaten ausgegebenen Aktien 2 % der Anzahl aller Aktien der Garantin am ersten Tag dieses Zeitraums zu diesem Zweck nicht übersteigt. Die Tilgung von Zinsrückständen steht ferner unter der Bedingung, dass keine zwingenden rechtlichen Bestimmungen die Garantin daran hindern, Kapital in der vorgenannten Weise aufzunehmen.

Ersetzung bei Rückzahlung:	Die Emittentin beabsichtigt, außer im Falle einer Rückzahlung infolge eines Wandlungsereignisses oder eines BOC-Ereignisses, die Schuldverschreibungen mit Erlösen zurückzuzahlen, die der Emittentin in den sechs Monaten vor dem Tag der Rückzahlung der Schuldverschreibungen aufgrund der Ausgabe oder des Verkaufs von Aktien und/oder Neuer Wertpapiere (wie in den Anleihebedingungen definiert) durch die Garantin oder eine Finanzierungsgesellschaft des Konzerns der Garantin zugeflossen sind, die jeweils zusammengenommen mit demselben Eigenkapitalanteil behandelt werden, wie der zusammengenommene Eigenkapitalanteil (wie von den Rating-Agenturen, von denen die Garantin so genannte "sponsored ratings" erhält, definiert), der zu diesem Zeitpunkt den Schuldverschreibungen zugerechnet wird.
Besteuerung:	Sämtliche Zahlungen (einschließlich Zahlungen der Garantin im Rahmen der Nachrangigen Garantien (wie unten definiert)) in Bezug auf die Schuldverschreibungen werden ohne Einbehalt oder Abzug von Steuern, Abgaben, Festsetzungen oder behördlicher Gebühren jedweder Art geleistet, die von den Niederlanden oder der Bundesrepublik Deutschland oder einer deren Gebietskörperschaften oder Behörden mit der Befugnis zur Erhebung von Steuern auferlegt, erhoben, eingezogen, einbehalten oder festgesetzt werden, es sei denn, ein solcher Einbehalt oder Abzug ist gesetzlich vorgeschrieben. In einem solchen Falle wird die Emittentin bzw. die Garantin solche zusätzlichen Beträge zahlen, so dass die Anleihegläubiger die Beträge erhalten, die sie ohne Einbehalt oder Abzug erhalten hätten. Dies gilt jedoch nicht für die in den Anleihebedingungen genannten üblichen Ausnahmen.
Status der Schuldverschreibungen:	Die Schuldverschreibungen begründen nicht besicherte und nachrangige Verbindlichkeiten der Emittentin, die (i) dem Grundkapital der Emittentin vorrangig sind, (ii) untereinander und mit Verbindlichkeiten der Emittentin aus der Nachranganleihe 2003 gleichrangig sind und (iii) nachrangig sind zu allen anderen derzeitigen oder künftigen nicht nachrangigen und solchen nachrangigen Verbindlichkeiten der Emittentin, die als den Schuldverschreibungen vorrangig vereinbart sind, soweit zwingende gesetzliche Bestimmungen nichts anderes vorschreiben. Im Fall der Liquidation, der Auflösung oder der Insolvenz der Emittentin oder eines Vergleichs oder eines anderen der Abwendung der Insolvenz der Emittentin dienenden Verfahrens erfolgen Zahlungen auf die Schuldverschreibungen erst dann, wenn die Ansprüche aller nicht nachrangigen und nachrangigen Gläubiger der Emittentin, deren Ansprüche als gegenüber den Schuldverschreibungen vorrangig vereinbart wurden, vollständig befriedigt sind.
Garantien:	Die Garantin hat nachrangige, unbedingte und unwiderrufliche Garantien für die ordnungsgemäße und fristgerechte Zahlung von Kapital und Zinsen auf die Schuldverschreibungen sowie aller sonstigen von der Emittentin auf die Schuldverschreibungen zahlbaren Beträge gemäß den Anleihebedingungen übernommen (die ***Nachrangigen Garantien*** oder die ***Garantien***). Die Verpflichtungen der Garantin aus den Nachrangigen Garantien sind mit

	Ausnahme von Zinsrückständen im Fall der Liquidation oder Insolvenz der Garantin, die in einem solchen Fall mit den Aktien der Garantin gleichrangig sind, nicht besicherte, nachrangige Verbindlichkeiten der Garantin, die (i) dem Grundkapital der Garantin vorrangig sind, (ii) untereinander und mit den Verbindlichkeiten der Garantin aus der nachrangigen Garantie in Bezug auf die Nachranganleihe 2003 gleichrangig sind und (iii) gegenüber allen anderen gegenwärtigen und zukünftigen nicht nachrangigen und nachrangigen Verbindlichkeiten der Garantin, die als gegenüber den Verpflichtungen aus den Nachrangigen Garantien vorrangig vereinbart sind, nachrangig sind, soweit nicht zwingende gesetzliche Bestimmungen etwas anderes vorschreiben. Im Fall der Auflösung, der Liquidation, der Insolvenz oder eines der Abwendung der Insolvenz der Garantin dienenden Verfahrens erfolgen Zahlungen auf die Nachrangigen Garantien erst dann, wenn alle Ansprüche gegen die Garantin aus nicht nachrangigen Verbindlichkeiten sowie nachrangigen Verbindlichkeiten, die als gegenüber Verbindlichkeiten aus den Nachrangigen Garantien vorrangig vereinbart wurden, vollständig befriedigt sind. Anleihegläubiger sind nicht berechtigt, Forderungen aus den Nachrangigen Garantien gegen mögliche Forderungen der Garantin gegen sie aufzurechnen. Die Garantin ist nicht berechtigt, Forderungen gegenüber Anleihegläubigern gegen Verpflichtungen aus den Nachrangigen Garantien aufzurechnen. Für die Rechte der Anleihegläubiger aus den Nachrangigen Garantien ist diesen keine Sicherheit durch die Garantin oder durch Dritte gestellt; eine solche Sicherheit wird auch zu keinem Zeitpunkt gestellt werden.
Negativerklärung:	Die Anleihebedingungen werden keine Negativerklärungen enthalten.
Reziproker Verzug:	Die Anleihebedingungen enthalten keine Klausel zu reziprokem Verzug der Emittentin und der Garantin.
Kontrollwechsel:	Bei Eintritt eines Kontrollwechsels bei der Garantin kann die Emittentin die Schuldverschreibungen vollständig, aber nicht in Teilbeträgen nach unwiderruflicher Kündigungsmitteilung an die Anleihegläubiger unter Einhaltung einer Frist von nicht weniger als 30 und nicht mehr als 60 Tagen zum Nennbetrag der Schuldverschreibungen zuzüglich bis zum Rückzahlungstag (ausschließlich) aufgelaufener Zinsen mit Wirkung bis spätestens 60 Tage nach Eintritt eines Kontrollwechsels kündigen und zurückzahlen.
Notierung:	Die Zulassung der Schuldverschreibungen zur amtlichen Notierung und zum Handel im geregelten Markt der Irish Stock Exchange ist beantragt worden.
Geltendes Recht:	Für die Schuldverschreibungen und die Nachrangigen Garantien gilt deutsches Recht (mit Ausnahme der Nachrangbestimmung für die Schuldverschreibungen, für die niederländisches Recht gilt).
Beschränkungen für den Verkauf:	Für das Angebot und den Verkauf der Schuldverschreibungen sowie die Verteilung der Angebotsunterlagen im Europäischen Wirtschaftsraum, in den Vereinigten Staaten von Amerika, im

	Vereinigten Königreich von Großbritannien und Nordirland gelten bestimmte Beschränkungen.
Gerichtsstand:	Nicht ausschließlicher Gerichtsstand für alle Gerichtsverfahren in Verbindung mit den Schuldverschreibungen ist Frankfurt am Main.
Clearing und Abrechnung:	Die Schuldverschreibungen werden für das Clearing durch Clearstream Banking, société anonyme, Luxemburg, und Euroclear Bank S.A./N.V., als Betreiber des Euroclear-Systems akzeptiert.
Wertpapierkennnummern:	€-Bonds: ISIN : XS0259604329 £-Bonds: ISIN : XS0259607777
Verfügbarkeit von Dokumenten:	Dieser Prospekt und die durch Bezugnahme darin aufgenommenen Dokumente stehen auf der Website der Irish Stock Exchange zur Verfügung oder sind in Druckform bei der Garantin und der Irischen Zahlstelle erhältlich.
Veröffentlichung der Preisbestimmungen:	Die in diesem Prospekt enthaltenen Informationen, die von dem Pricing der Schuldverschreibungen abhängen und noch in eckigen Klammern dargestellt sind, insbesondere der Zinssatz, der Gesamtnennbetrag, der Ausgabepreis und die Fälligkeit der £-Schuldverschreibungen, werden auf der Website der Garantin veröffentlicht, sobald die entsprechenden Pricing Parameter festgelegt worden sind. Diese Informationen, einschließlich der Fälligkeit der £-Bonds, wird von der Emittentin und der Garantin auf Grundlage der Nachfrage von Investoren bei der Vermarktung der Schuldverschreibungen festgelegt.

Ausgewählte konsolidierte Finanz- und Unternehmensdaten

Die nachfolgenden Tabellen fassen ausgewählte Konzernfinanz- und Unternehmensdaten der Gesellschaft für die am 31. Dezember 2003, 2004 und 2005 endenden Geschäftsjahre und die ungeprüften zum 31. März 2005 und 31. März 2006 endenden 3-Monats-Zeiträume sowie die in diesem Prospekt enthaltenen ungeprüften, erläuternden Finanzinformationen (Linde inkl. BOC) („Erläuternden Finanzinformationen (Linde inkl. BOC)") zusammen. Die ausgewählten Konzernfinanz- und Unternehmensdaten wurden aus den nach den IFRS erstellten Konzernabschlüssen der Gesellschaft sowie weiteren, ungeprüften historischen Daten entnommen oder daraus abgeleitet. Wegen zwischenzeitlich erfolgter Änderungen einer Reihe von für die Rechnungslegung nach IFRS maßgeblichen Standards sowie der Veräußerung des Unternehmensbereichs Kältetechnik im Geschäftsjahr 2004 und des Wegfalls der planmäßigen Goodwill-Abschreibung wurde der Jahresabschluss 2004 im Rahmen der Erstellung des Jahresabschlusses 2005 angepasst und vergleichbar gemacht („restated und vergleichbar"). Darüber hinaus wurden auch die Vergleichszahlen des Konzernzwischenberichts zum 31. März 2006 aufgrund der erstmaligen verpflichtenden Anwendung von Rechnungslegungsstandards sowie bedingt durch die Änderungen zum 31. Dezember 2005 angepasst („restated"). Das EBITA von Linde errechnet sich aus dem Jahresüberschuss der Gesellschaft vor Abzug von Ertragsteuern, Saldo des Finanzergebnisses und Abschreibungen auf Geschäfts-oder Firmenwerte. Ab dem 31. März 2006 wird der Maßstab zur Vergleichbarkeit der Finanzabschlüsse das EBIT sein. Das EBIT errechnete sich in den Jahren 2003 bis 2004 aus dem EBITA nach Abzug von Abschreibungen auf Geschäfts-oder Firmenwerte. Da aufgrund einer Änderung der IFRS die Möglichkeit der planmäßigen Abschreibungen auf Geschäfts- oder Firmenwerte weggefallen ist, entspricht ab diesem Zeitpunkt – mit Ausnahme der außerplanmäßigen Abschreibung auf Geschäfts- oder Firmenwerte – das EBIT dem EBITA. KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft hat die nach den IFRS aufgestellten Konzernabschlüsse zum 31. Dezember 2003, 2004 und 2005 geprüft. Die nach den IFRS aufgestellten Konzernzwischenabschlüsse zum 31. März 2005 und 31. März 2006 sind ungeprüft.

Die in diesem Prospekt enthaltenen Erläuternden Finanzinformationen (Linde inkl. BOC) für die Linde AG für den zum 31. März 2006 endenden Drei-Monats-Zeitraum und für das Geschäftsjahr 2005 unter Einbeziehung von BOC wurden keiner prüferischen Durchsicht oder Prüfung unterzogen. In die Erläuternden Finanzinformationen (Linde inkl. BOC) wurden neben den zum Konsolidierungskreis des Linde-Konzerns zählenden Unternehmen auch BOC einbezogen. Für die Zwecke der Erstellung der Erläuternden Finanzinformationen (Linde inkl. BOC) zur Gewinn- und Verlustrechnung für den Zeitraum vom 1. Januar bis 31. Dezember 2005 wurde die Annahme getroffen, dass die Akquisition zum 1. Januar 2005 stattgefunden hat. Für die Zwecke der Erstellung der Erläuternden Finanzinformationen (Linde inkl. BOC) zur Konzern-Bilanz zum 31. März 2006 sowie zur Konzern-Gewinn- und Verlustrechnung für den Zeitraum vom 1. Januar bis 31. März 2006 wurde die Annahme getroffen, dass die Akquisition am 1. Januar 2006 stattgefunden hat. Bei den in diesem Prospekt enthaltenen Erläuternden Finanzinformationen (Linde inkl. BOC) handelt es sich nicht um Pro forma-Finanzinformationen im Sinne der Verordnung (EG) Nr. 809/2004 der Kommission vom 29. April 2004. Nach dem gegenwärtigen Stand des Übernahmeverfahrens, mit dem Linde sämtliche Aktien der BOC zu erwerben beabsichtigt, ist es der BOC als Zielgesellschaft nicht gestattet (unter anderem gemäß Rule 20 des City Code on Takeovers and Mergers), Linde bestimmte Finanz- und andere Informationen offen zulegen oder sonst zugänglich zu machen. BOC müsste unter anderem sämtliche so offengelegte Informationen veröffentlichen. Dementsprechend steht Linde auch kein Anspruch auf Offenlegung dieser Informationen zu. Hierbei handelt es sich vor allem um die Details der Bilanzierungsgrundsätze (Ausübung bestimmter Wahlrechte) von BOC sowie Informationen über eine Vielzahl von Vermögenswerten (einschließlich immateriellen Vermögenswerten) von BOC, die für eine Kaufpreisallokation erforderlich sind. Selbst wenn insofern noch vor Vollzug der Übernahme der Informationsaustausch möglich wäre, wären wegen des Zeitaufwandes der Umsetzung dieser Informationen in den Finanzzahlen verlässliche Ergebnisse nicht vor Vollzug der Übernahme verfügbar (IFRS 3 „Business Combinations" sieht bereits bei Vorliegen sämtlicher Informationen einen Zeitraum von bis zu 12 Monaten für die abschließende Durchführung einer Kaufpreisallokation vor). Aufgrund des mangelnden Zugangs zu den Finanzinformationen von BOC ist es der Linde AG nicht möglich, Pro forma-Finanzinformationen aufzustellen, die den Anforderungen des Anhangs II der Verordnung (EG) Nr. 809/2004 der Kommission vom 29. April 2004 sowie den Anforderungen des IDW Rechnungslegungshinweises an Pro forma-Finanzinformationen genügen. Insbesondere kann die Einheitlichkeit der Bilanzierungs- und Bewertungsmethoden sowie die Berücksichtigung einer vorläufigen Kaufpreisallokation nicht gewährleistet werden. Linde hat anstelle der Pro forma-Finanzinformation Erläuternde Finanzinformationen (Linde inkl. BOC) zusammengestellt, mit dem Ziel, Indikationen für die Vermögens- und Ertragslage (innerhalb bestimmter Bandbreiten) der Gesamtgruppe nach Vollzug der Übernahme zu geben.

Die Erstellung der Erläuternden Finanzinformationen (Linde inkl. BOC) erfolgte ausschließlich zu Anschauungszwecken. Da die Erläuternden Finanzinformationen (Linde inkl. BOC) Unsicherheiten und Annahmen enthalten, ist die Darstellung kein Indikator dafür, wie sich die Vermögens-, Finanz-und Ertragslage tatsächlich dargestellt hätte, wenn die für die Erläuternden Finanzinformationen (Linde inkl. BOC) unterstellte Struktur bereits seit dem 1. Januar 2005 bzw. zum 1. Januar 2006 bestanden hätte. Weiterhin ist nicht beabsichtigt, dass sie die Vermögens- oder Ertragslage zu einem zukünftigen Zeitpunkt prognostizieren. Es wird darauf hingewiesen, dass die Erläuternden Finanzinformationen (Linde inkl. BOC) nur in Verbindung mit den jeweiligen historischen Abschlüssen der einbezogenen Gesellschaften aussagekräftig sind.

Die nachstehend wiedergegebenen ausgewählten konsolidierten Finanz- und Geschäftsinformationen sind als Einführung zu verstehen. Anleger sollten ihre Anlageentscheidung auf die Prüfung des gesamten Prospekts stützen.

Ausgewählte Daten aus den Konzernabschlüssen und ausgewählte Daten aus den Erläuternden Finanzinformationen (Linde inkl. BOC)

Ausgewählte Daten aus der Konzern-Gewinn- und Verlustrechnung und ausgewählte Daten aus den Erläuternden Finanzinformationen (Linde inkl. BOC)

	Konzernabschlüsse						Erläuternde Finanzinformationen (Linde inkl. BOC)	
	1. Quartal		Geschäftsjahr zum 31. Dezember				1. Quartal	Geschäftsjahr zum 31. Dezember
	2006	2005[1]	2005	2004[2]	2004	2003	2006	2005
	(ungeprüft)		(in Mio. €)				(in Mio. €) (ungeprüft)	
Umsatz	2.415	2.118	9.501	8.856	9.421	8.992	3.851	14.780
Kosten der umgesetzten Leistungen	1.636	1.447	6.483	6.091	6.539	6.215	–	–
Forschungs- und Entwicklungskosten	47	44	174	166	177	172	–	–
Betriebliches Ergebnis (EBIT)	225	165	913	774[3]	785[3]	683[3][4]	378	1.559
Zinsergebnis	(18)	(24)	(124)	(127)	(129)	(142)	(166)	(740)
Ergebnisanteil anderer Gesellschafter	(1)	(1)	(9)	(5)	(5)	(1)	(13)	(106)
Jahresüberschuss (nach Ergebnisanteil anderer Gesellschafter)	134	89	501	380	274	108	142	644

(1) Restated.

(2) Restated und vergleichbar.

(3) In 2003 und 2004 EBITA.

(4) In 2003 vor Sondereinflüssen.

Ausgewählte Daten aus der Konzern-Bilanz und ausgewählte Daten aus den Erläuternden Finanzinformationen (Linde inkl. BOC)

	Konzernabschlüsse					Erläuternde Finanzinformationen (Linde inkl. BOC)
	31. März	31. Dezember				31. März
	2006	2005	2004[1]	2004	2003	2006
	(ungeprüft)	(in Mio. €)				(in Mio. €) (ungeprüft)
Flüssige Mittel und Wertpapiere	877	911	567	567	561	1.613
Kurzfristige Vermögenswerte (ohne Flüssige Mittel und Wertpapiere)	3.314	3.049	3.004	3.028	3.334	4.905
Langfristige Vermögenswerte	8.450	8.566	8.064	7.996	8.020	22.937
AKTIVA	12.641	12.526	11.635	11.591	11.915	29.455
Kurzfristige Schulden	3.986	3.983	3.482	3.482	3.771	6.159
Langfristige Schulden	4.048	4.130	4.207	4.028	4.258	16.603
Anteile anderer Gesellschafter	52	49	38	38	35	240
Eigenkapital (ohne Anteile anderer Gesellschafter)	4.555	4.364	3.908	4.043	3.851	6.453
PASSIVA	12.641	12.526	11.635	11.591	11.915	29.455

(1) Restated und vergleichbar.

Ausgewählte Daten aus der Konzern-Kapitalflussrechnung

	1. Quartal		Geschäftsjahr zum 31. Dezember			
	2006	2005[1]	2005	2004[2]	2004	2003
	(ungeprüft)		(in Mio. €)			
Cashflow aus betrieblicher Tätigkeit	214	137	1.435	1.255	1.249	1.281
Cashflow aus Investitionstätigkeit	(139)	(167)	(823)	(731)	(744)	(655)
Cashflow aus Finanzierungstätigkeit	(109)	(84)	(283)	(585)	(499)	(425)

(1) Restated.

(2) Restated und vergleichbar.

Ausgewählte Daten aus der Segmentberichterstattung

	Gas und Engineering					
	1. Quartal		Geschäftsjahr zum 31. Dezember			
	2006	2005[1]	2005	2004[2]	2004	2003
	(in Mio. € mit Ausnahme der Mitarbeiterzahlen) (ungeprüft)					
Umsatz	1.494	1.333	5.831	5.406	5.406	5.031
EBIT	211	169	783	682[3]	684[3]	634[3][4]
Ergebnis vor Ertragsteuern	200	154	691	575	474	413
Cashflow aus betrieblicher Tätigkeit	–	–	1.213	990	990	957
Investitionen (ohne Finanzanlagen)	–	–	635	511	511	406
Zahl der Mitarbeiter (jeweils zum Stichtag 31. Dezember bzw. 31. März)	22.482	22.057	22.191	21.787	21.787	21.292

(1) Restated.

(2) Restated und vergleichbar.

(3) In 2003 und 2004 EBITA.

(4) In 2003 vor Sondereinflüssen.

	Material Handling					
	1. Quartal		Geschäftsjahr zum 31. Dezember			
	2006	2005[1]	2005	2004[2]	2004	2003
	(in Mio. € mit Ausnahme der Mitarbeiterzahlen) (ungeprüft)					
Umsatz	922	771	3.628	3.372	3.372	3.063
EBIT	47	26	223	194[3]	191[3]	156[3][4]
Ergebnis vor Ertragsteuern	39	18	191	144	134	45
Cashflow aus betrieblicher Tätigkeit	–	–	248	268	268	321
Investitionen (ohne Finanzanlagen)[5]	–	–	191	176	176	162
Zahl der Mitarbeiter (jeweils zum Stichtag 31. Dezember bzw. 31. März)	19.421	18.848	19.323	18.878	18.878	17.932

(1) Restated.

(2) Restated und vergleichbar.

(3) In 2003 und 2004 EBITA.

(4) In 2003 vor Sondereinflüssen.

(5) Ohne Mietvermögen.

	Corporate					
	1. Quartal		Geschäftsjahr zum 31. Dezember			
	2006	2005[1]	2005	2004[2]	2004	2003
	(in Mio. € mit Ausnahme der Mitarbeiterzahlen)					
	(ungeprüft)					
Umsatz	(1)	14	42	78	65	32
EBIT	(33)	(30)	(93)	(102)[3]	(99)[3]	(121)[3][4]
Ergebnis vor Ertragsteuern	(31)	(32)	(93)	(97)	(94)	(174)
Cashflow aus betrieblicher Tätigkeit	–	–	(26)	(3)	(3)	(33)
Investitionen (ohne Finanzanlagen)	–	–	25	31	31	10
Zahl der Mitarbeiter (jeweils zum Stichtag 31. Dezember bzw. 31. März)	501	791	715	718	718	492

(1) Restated.

(2) Restated und vergleichbar.

(3) In 2003 und 2004 EBITA.

(4) In 2003 vor Sondereinflüssen.

RISK FACTORS

Before making any decision with respect to Bonds, you should carefully consider the risk factors described below, in addition to the other information in this Prospectus. Any of these risks could have a material adverse effect on our business, financial condition and results of operations. These risks are not the only ones to which we are exposed. Additional risks and uncertainties not presently known to us could also impair our business, financial condition and results of operations or our ability to fulfil our obligations under the Bonds.

The order of presentation of the risk factors below does not indicate the likelihood of these risks actually occurring or the scope of any potential impairment these risks might cause to our business. These risks could materialize individually or cumulatively.

Risks Related to Our Acquisition Offer to Shareholders of BOC

Our planned acquisition of The BOC Group plc will result in a significant increase in our net financial debt and a significant decline in our equity ratio, which is the ratio of shareholders' equity to total assets. This could lead to a downgrading of our credit rating by rating agencies, which may adversely affect the level of our interest expense. In addition, we cannot exclude the possibility that a potential downgrading of our credit rating to "non-investment grade" might in some cases adversely affect our operations, in particular with respect to the long-term contracts in our Gas and Engineering business segment.

We have issued a pre-conditional offer for the purchase of all shares of The BOC Group plc ("BOC") for approximately £7,968 million, which is equivalent to approximately €11,595 million at an exchange rate of 0.6872, the closing rate on December 31, 2005. As of March 31, 2006, our net financial debt amounted to €1,524 million, and our debt/equity ratio, which is the ratio of net financial debt to shareholders' equity, was 33%. Interest and similar expenses on our liabilities amounted to €199 million in the financial year ended December 31, 2005. As of March 31, 2006, approximately 20% of our credit facilities had variable interest rates. We expect our borrowing requirements in connection with our planned acquisition of BOC to increase our net financial debt (before planned divestments serving to repay debt) by approximately €11,635 million, and thus to a debt/equity ratio of about 200%, on the basis of the Illustrative Financial Information (Linde including BOC). This increase in our net financial debt will lead to a significant decrease in our financial result. If the acquisition of BOC had taken place effective January 1, 2005, our financial result for the financial year ended December 31, 2005, as presented in our Illustrative Financial Information (Linde including BOC) would have been a loss of €508 million instead of a loss of €124 million. This deterioration in the financial result could also affect the amount of future dividends.

As of March 31, 2006, our net equity ratio (the ratio of shareholders' equity to total assets) was approximately 36%. On the basis of the consolidated Illustrative Financial Information (Linde including BOC) the equity ratio would have been approximately 23% if BOC had been included as of that date.

This increase in our net financial debt will result in a downgrade of our credit rating by rating agencies. Our current credit ratings for our senior unsecured long-term debt are BBB+ according to Standard & Poor's Rating Services ("Standard & Poor's") and A3 according to Moody's Investors Service, Inc. ("Moody's"). Due to our planned acquisition of BOC, both rating agencies have issued a negative outlook for us and for BOC, with Standard & Poor's indicating a two-level downgrade in our credit rating and Moody's indicating a downgrade of our credit rating of up to two levels. This would result in us receiving the lowest investment-grade credit rating from Standard & Poor's and, at worst, the second lowest investment-grade credit rating from Moody's. BOC's rating will be aligned with our rating due to its merger with us. Future assessments of our creditworthiness by rating agencies will materially affect the interest expense that we will incur in future, since downgrades in credit ratings are generally associated with less favorable financing terms. In particular, the size of the margin that we will have to pay on our credit facility in connection with our acquisition of BOC, excluding the £5.5 billion tranche, will depend on our credit ratings. The increase in our financing costs that would result from a credit rating downgrade could adversely affect our business, financial condition and results of operations. Our objective is to maintain an investment-grade rating for the combined Group.

If we were to receive a non-investment-grade rating, it would especially affect our Linde Gas division. Our Linde Gas division's On-Site business, in particular, involves many long-term customer contracts with terms of up to 15 years. If our credit rating were to be downgraded below investment-grade, our customers could doubt our ability to meet our contractual obligations for the entire duration of these contracts, since the likelihood of an adverse credit event, and therefore a default under one of these contracts, would increase. Our customers may therefore decide not to enter into contracts with us and instead enter into contracts with competitors that have better credit ratings than us after the acquisition. In addition, a non-investment-grade rating could adversely affect our Linde Engineering division. In this business division, plant construction contracts generally involve phased prefinancing by our customers. A downgrade of our credit ratings to below investment-grade could reduce the willingness of these customers to enter into contracts with us, since these customers may assume that there is an elevated risk of default on prefinancing payments that they are required to make under these contracts. In such cases as well, our customers may decide to enter into future contracts with our competitors that have better credit ratings than us.

The new loan agreement that we entered into in connection with our planned acquisition of BOC contains certain covenants that could impair our business flexibility, and the loan agreement can be terminated under certain circumstances.

In connection with our planned acquisition of BOC, we entered into a loan agreement with a syndicate of banks for a total of £8.9 billion and €2.0 billion, the pounds sterling denominated portion of which will provide us with the cash we need for the acquisition. The terms of the loan agreement contain covenants restricting the capacity of our Group's companies to do business, including restrictions on our ability to exceed a certain ratio of consolidated net financial debt to consolidated EBITDA, or fall below a certain ratio of consolidated EBITDA to consolidated net interest expense, until our credit rating for senior unsecured obligations reaches BBB+ from Standard & Poor's Rating Services and A3 from Moody's Investors Services, Inc. In addition, certain covenants that apply for the entire term of the loan agreement will limit the ability of the Company and certain consolidated companies to use their assets as security, dispose of assets, assume additional financial liabilities, make loans to unconsolidated companies, and provide guarantees for the financial liabilities of unconsolidated companies. If the business environment in which we operate deteriorates, we cannot exclude the possibility that these restrictive covenants could adversely affect our operations, for example by ceasing or reducing our ability to make investments or expenditures for research and development. If this were to happen, our competitiveness would decrease. If we fail to comply with the restrictive covenants of our loan agreement and our compliance with these covenants is not waived by the creditors or our non-compliance is not cured, this would, under the terms of the loan agreement, provide grounds for termination by the creditors and the creditors can, among other things, declare all of our liabilities under the loan agreement immediately due and payable. In addition, if grounds for termination of this loan agreement arise, cross-defaults in our other credit agreements could be triggered, which would have direct material adverse effects on our liquidity.

We must repay a substantial portion of the new credit facility under the loan agreement by September 2008. An important component of the financing of our planned acquisition of BOC is the divestment of parts of our business, which we expect to complete within the next 18 months. We are not able to predict with certainty whether, at what time or under what conditions we will be able to make these divestments.

The first tranche of £5.5 billion of our new credit facility under the loan agreement totaling £8.9 billion is due for repayment in September 2008. In connection with our planned acquisition of BOC we intend, as part of our refinancing strategy, to partially finance the acquisition through the sale of certain parts of our business and the business of BOC. While approximately €3.0 billion in refinancing funds are expected to be generated through the capital increase described in this Prospectus and through an issuance of hybrid securities, the remainder of the purchase price is to be financed through the issuance of bonds and the sale of businesses. Expected sale prices have been determined for the businesses that we intend to divest according to our current planning. If we are unsuccessful in selling these businesses as currently planned, in particular at our estimated prices or within the time we envision, we may not be able to reduce our future net financial debt as planned, in whole or in part, or on schedule. In addition, our repayment of the amount due in

September 2008 under the new credit facility could be inhibited or rendered impossible, which could have a material adverse effect on our business, financial condition and results of operations.

Since the purchase price of BOC will be far in excess of the value of BOC's net assets, our planned acquisition of BOC will generate a significant amount of goodwill, which will be subject to periodic impairment tests.

Our offer to purchase all the shares of BOC is based on a price of 1,600 British pence per share of BOC common stock, which is equivalent to a total purchase price of approximately £7.968 billion (equivalent to approximately €11.595 billion at an exchange rate of 0.6872, the closing rate on December 31, 2005), for all of BOC's outstanding shares. According to BOC's balance sheet as of March 31, 2006, which is contained in the financial section of this Prospectus, the shareholders' equity of BOC at that particular balance sheet date amounted to £3.395 billion. As a result, upon completion of the acquisition we will record a significant portion of the difference between the purchase price and BOC's net assets as of that date as goodwill, which we expect will be between €4.6 billion and €6.2 billion. Since March 2004, the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and applied by the Company require, under IFRS 3 "Business Combinations," IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets," that we carry out impairment tests on goodwill instead of the annual amortization of goodwill as carried out in the past. As a result, we allocate our goodwill to our cash-generating units and test the goodwill for impairment on an annual basis. In addition, we must carry out an impairment test during a financial year any time there are particular circumstances that indicate an asset may have been impaired. In particular, if the integration of BOC into our Group meets with unexpected difficulties, if the businesses of BOC do not develop as expected, or if our businesses overall develop in a manner that we do not anticipate, we may be required to record impairments on the BOC goodwill in accordance with IFRS, which could have a material adverse effect on our business, financial condition and results of operations.

Unforeseen difficulties arising as part of our planned acquisition and integration of BOC may have material adverse effects on our business.

Our planned acquisition of BOC is intended to lead to the integration of two large industrial enterprises that have previously been managed and operated as two independent competitors. This complex integration presents the parties involved with a series of specific challenges, which in turn expose Linde to a series of risks that could emerge as a result of the following circumstances, among others:

- *Uncertainty concerning the achievement of synergies:* The integration of two large businesses that are located in different countries with a broad range of geographically diverse activities and different cultural backgrounds, corporate cultures, working languages and compensation structures presents a substantial challenge. It is therefore possible that at some point in the future, the synergies that we expect to realize under our current business plan will not be achievable, in whole or in part, or that our acquisition of BOC might be disadvantageous to us. In calculating these synergies, we have relied on publicly accessible information about BOC and have received no assurances from BOC that the information available to us is complete and accurate and therefore have no contractual or other claims against BOC if this information turns out to be inaccurate. There is no certainty that BOC will contribute to our financial results to the extent we anticipated and on which we based our purchase price calculation. We can also be adversely affected if BOC's actual results are worse than BOC's expected results.

- *Maintaining management capacity:* Our integration with BOC will claim a great deal of time and attention from the management of both companies. To the extent that matters associated with the integration distract management from their other tasks, our business may be adversely affected.

- *Necessity of effective communication with our business partners and customers:* We and BOC must ensure effective communication with our business partners and customers in order to inform and update them about our extended portfolio of products and services and of the relative strengths of our product and service lines. If we do not succeed, we could lose business opportunities and existing business and customers.

- *Potential loss of key employees:* Both companies will rely on their respective executive employees to achieve the successful integration of the two companies and implement a joint strategy. If we or BOC lose key employees, an efficient and successful integration with BOC and the implementation of the strengths of our respective companies could be jeopardized.
- *Potential termination of joint ventures:* BOC has established joint ventures with a number of different companies. The contracts underlying such joint ventures often contain change-of-control clauses, which may be triggered by our acquisition of BOC and could therefore result in termination or tender rights arising in connection with these joint ventures.

Additional risks could emerge and unexpected problems could arise which we are unable to estimate at this time. The occurrence of such events or any events such as those described above could make our integration with BOC more difficult, more time-consuming and more expensive than expected, which could have material adverse effects on our operations or BOC's operations, including our respective businesses, financial conditions and results of operations. We cannot guarantee that the integration process will be successful or that the businesses will be led and operated efficiently in the future.

We have not examined the accuracy of the information about BOC that is contained in this Prospectus, nor have we had an opportunity to conduct a comprehensive examination of BOC's non-public records. As a result, completing the acquisition can expose us to unknown risks, which could have a material adverse effect on our business, financial condition and results of operations.

We have derived the information about BOC that is contained in this Prospectus, including the financial information about BOC, from publicly available information. We have not been involved in the preparation of the relevant information or financial statements and therefore could not examine whether or not such information or financial statements are accurate and complete, or whether they present BOC in a comprehensive manner. In preparing the acquisition offer and its terms, we relied on publicly accessible information about BOC, including periodic and other reports published on the BOC website. We have not conducted independent due diligence of BOC using records that are not publicly available. As a result, we cannot exclude the possibility that we will fail or have failed to recognize material risks, such as material liabilities, in estimating the risks involved with the acquisition offer.

BOC is a defendant in various class actions in the United States. As a result, we could be exposed to unknown risks resulting from the acquisition that may have a material adverse effect on our business, financial condition and results of operations.

BOC is a defendant in various class action lawsuits (multi-district litigation) in the United States. These lawsuits concern alleged occupational diseases resulting from contact with allegedly harmful welding fumes and gases. As of September 30, 2005, there were approximately 8,574 plaintiffs in the litigation concerning alleged injury from manganese, and approximately 15,699 plaintiffs in the litigation concerning alleged injury from asbestos. As a rule, the suits have demanded compensatory and punitive damages, generally in unspecified amounts. BOC has prevailed in most of the actions filed against it to date, but it has also lost one of these cases. We cannot exclude that these claims are not fully covered by insurance taken out by BOC.

BOC believes that it has strong defenses to the claims asserted in all of the various manganese and asbestos related cases and intends to defend vigorously such claims. In the manganese related claims, BOC believes that recent relevant scientific literature, based on epidemiological studies, strongly supports its defense of such claims. Based on its experience to date, together with its current assessment of the merits of the claims being asserted and applicable insurance, BOC believes that continued defense and resolution of the welding fumes litigation will not have a material adverse effect on its financial condition or profitability and no provision has been made. Nonetheless, it is not possible to predict either the number of future claims or the number of claimants that any future claims may present. In addition, the outcome of welding fume cases, either involving BOC or other defendants, is inherently uncertain and always difficult to predict, and BOC cannot provide any assurances that any future resolutions of these types of claims will necessarily be consistent with its experience to date. In the event of an adverse outcome to any of the proceedings, a liability would be recognized if it was considered likely that it would give rise to an outflow of future economic benefits. Where there is applicable insurance, this would be recognized when its recoverability was virtually certain.

As a result, we could be exposed to unknown risks resulting from the acquisition, including risks that we could have possibly discovered prior to the acquisition had we been able to conduct full due diligence on BOC, which could have a material adverse effect on our business, financial condition and results of operations.

Our acquisition offer for BOC is an important part of our strategy to grow our Linde Gas division. If our acquisition of BOC is unsuccessful, continued market consolidation could lead to a loss of market share.

We have made an acquisition offer to acquire all shares of BOC. If we fail to bring the acquisition offer to a successful completion because, for example, BOC's shareholders refuse to give their approval, the acquisition is prohibited by an English court despite shareholder approval, another interested party makes a better offer for BOC and BOC accepts that offer or certain material changes at BOC result in the acquisition not taking place, our Linde Gas division may lose market share to its competitors due to continued market consolidation.

Our acquisition offer for BOC remains subject to approval by U.S. anti-trust authorities, or the waiver of such approval requirement. Such approval could be contingent on compliance with certain requirements. Should we be denied such approval, our acquisition offer would fail. Such failure could lead to reduced synergies of the business combination and/or our loss of market share.

Implementation of our acquisition offer for BOC is subject to approval of the acquisition offer by the U.S. anti-trust authorities, or their waiver of such approval requirement. We cannot exclude that the U.S. anti-trust authorities may make their approval of the acquisition offer contingent on compliance with certain requirements, such as our or BOC's sale of parts of our or their respective businesses. Our compliance with such requirements could have an adverse effect on the combined group's ability to achieve certain anticipated synergies in the relevant markets. In addition, our acquisition offer could fail as the result of a denial of approval. In light of extensive market consolidation, failure of our acquisition offer could lead to a loss of our Linde Gas division's market share to its competitors.

If our acquisition offer for BOC is unsuccessful, the economic rationale for our capital increase would cease to exist, and we might suffer adverse financial consequences.

Concurrently with the offering of the Bonds, we are conducting a rights offering with the aim to raise approximately €1.8 billion of equity via a capital increase. If our acquisition of BOC fails, the economic rationale for our capital increase would largely cease to exist. Analysts may then evaluate our excessive equity ratio unfavourably, and we may then be forced to consider a buyback of our own shares. The purchase price per share in such a buyback could be higher than the subscription price per share we originally received for those shares, which could have an adverse effect on our earnings per share. In addition, we will have then wasted a substantial amount in transaction costs. Additionally, there is a risk that we may have to pay BOC £75 million, if (i) certain conditions precedent are not met by October 31, 2006, (ii) our offer to acquire BOC fails in response to any event or circumstance attributable to any act or omission of us, our supervisory board or executive board, our shareholders, our advisers (acting in their capacity as such) or our financing banks, or other debt holders, or (iii) acts or omissions by the parties indicated under (ii) which would materially delay or prevent completion of the acquisition, and the offer has not become unconditional by February 28, 2007.

Risks Related to Our Business

General economic conditions and the cyclical nature of our major customer industries could lead to a reduction in demand and therefore have a material adverse effect on our business.

The products and associated services that we produce, provide and sell worldwide are used in many manufacturing industries. As a result, we are dependent on the market cycles and volatility of the sub-markets in which our business divisions are active, in addition to the changing market cycles and volatility of the markets that our customers serve. Typically, a generally weak economy produces general declines in sales and reduced margins, particularly for capital goods and associated services. These developments affect in particular our Linde Engineering division and its industrial plants, while our Material Handling business segment, with its industrial trucks, is also greatly affected. Since our principal markets are located in Europe, Asia and the Americas, economic developments in those regions have the greatest impact on demand for the products and services we offer. In addition, if our customers experience a period of demand weakness in their major markets, our sales can also decline. Because of the differences between the industries in which our customers are active, the resulting adverse effects on our businesses can vary substantially or occur across the industries at the same time. In addition, the effects of such developments can be amplified by the fact that we and our competitors cannot easily reduce available production capacity and associated costs, or otherwise adapt to reductions in demand.

In the past, the overall demand for olefin in particular and other industrial plants has been subject to repeated slumps that were due in part to structural and economic developments in individual markets or customer industries and in part to a generally weak economy. We, through our Linde Engineering division, have also been affected by these collapses. Similar developments have also been observed in the area of industrial trucks, which we produce in our Material Handling business segment. Future weakness in the global economy, an economic downturn or the absence of a recovery in one or more of our major markets and industries could lead to a reduction in sales volumes, revenues or attainable margins. Our failure to compensate for negative developments in one sub-market by reducing costs or through potential positive developments in another sub-market could have a material adverse effect on our business, financial condition and results of operations. The greater the number of our sub-markets that are affected, the greater the risk we are exposed to.

In addition, as a result of the developments mentioned above, the utilization of capacities at our production facilities may deteriorate. This could have an adverse effect on our cost structure and thus on our results of operations. The effect of these risks may even be greater if we happen to make incorrect estimates with regard to the development of our major markets and customer industries or if our expectations with regard to the duration and nature of individual market cycles on which our corporate policies and decisions about our investments and expansion of capacities are based should prove to be erroneous.

Because of the international nature of our business, we are exposed to economic, political and legal risks.

We manufacture our products in a number of countries, and we offer our products and services worldwide. In addition, we plan to further expand our international activities, particularly in Asia. Some of the countries in which we manufacture or offer services or to which we export our products are subject to markedly different general conditions and reduced economic, political and legal stability in comparison to Western Europe and North America. This applies in particular to a number of countries, particularly in Asia, South America and the Middle East, that we have identified as growth markets for our products and services and in which we are planning to set up new production facilities. These regions have repeatedly fallen victim to political and economic crises and conflicts in the past. For this reason, we are exposed to a series of risk factors which we can hardly influence and which could adversely affect our business activities in these countries. These factors include, among others:

- outbreaks of crises, armed conflicts or terrorist attacks;
- political, social, economic, financial or market-related instability or volatility (including the risk of abduction of employees);

- foreign currency control provisions and other regulations or restrictions with respect to exchange rates and foreign currencies (for example, the departure from pegged exchange rates or prohibition of transfers of capital);
- inadequate infrastructure;
- trade restrictions or expropriations;
- deterioration of insurance conditions; and
- insufficiently developed and differentiated legal and administrative systems (which could lead to inadequate protection of intellectual property or impair the enforcement of payment and other claims).

Each of these factors, over which we have no influence, could adversely affect our business activities and growth opportunities in these countries, and therefore have a material adverse effect on our business, financial condition and results of operations. We assume that these risks will increase even further upon completion of our planned acquisition of BOC, since BOC is more heavily active in those countries, particularly in Asia, than we have been up until now.

We may not be in a position to continue to develop innovative products or to react in a timely manner to advances in technology.

Our future success depends on our ability to continue to adapt our current product offering to advances in technology and to customer requirements and to set technological standards in at least some of the sub-segments in which we operate. This applies to the industrial trucks produced by our Material Handling business segment and new or improved applications for the gases produced by our Linde Gas division and to innovative technologies in our Linde Engineering division. New developments and adjustments can entail technical problems and result in delays and additional costs. In addition, our competitive position could be substantially weakened if we are not able to continue to develop innovative products in the sub-markets our divisions and business divisions serve as part of our research and development activities, which depend on the effective performance of important suppliers in their respective fields. If we fail to develop innovative products or if technical problems or delays occur during the development of such products or new products fail completely or simply do not gain market acceptance, this could have a material adverse effect on our business, financial condition and results of operations.

We are exposed to a variety of risks related to our investments in new production capacities.

We operate a very capital-intensive business. Production facilities in our industry regularly require large initial capital investments and ongoing investments for expansion and modernization. This is especially true for our Linde Gas division, for which the construction of new production facilities in some cases requires substantial initial investments. In addition, newly-constructed plants generally become profitable only after a certain start-up phase and remain profitable over time only if a sufficiently high utilization of capacity is achieved. As a result, it is also important that we utilize the maximum possible capacity in the production facilities of our Material Handling business segment. Therefore, our success depends on making investments in new production facilities and on upgrading and modernizing existing facilities at the right time. Otherwise, there is a risk that when capacities become available, there is not enough demand for the respective products or that the demand is satisfied by the production capacities of our competitors. This requires accurate projection of the demand for certain products and of the buildup of capacities by our competitors.

If we are unable to invest sufficiently in the expansion and modernization of our existing production capacities and in the creation of new production capacities due to, for example, the unavailability of funding generally or on acceptable terms, our ability to deliver our products in the quantity and quality demanded by the market could be adversely affected, which in turn could materially weaken our Group’s competitive position. In addition, there is a risk that, due to lack of investment, we may not have sufficient production capacities and, as a result, may not be able to fully participate in a phase of market growth, which could adversely affect our competitive position as well. In addition, we may not be able to make investments as planned or at all due to the general economic and legal environment due to, for example, not having the required regulatory approvals, which could in certain cases lead to a loss of all or part of the funds already invested. Each of these factors could have a material adverse effect on our business, financial condition and results of operations.

If we build up capacity that then cannot be utilized properly due to an error in our projection of market developments or the buildup of production capacities by our competitors, or if other factors render the utilization of our production capacities insufficient despite measures we put in place to improve flexibility because, for example, our products are not competitive, our costs would rise as compared to revenues, which could have a material adverse effect on our business, financial condition and results of operations.

We require substantial financing and are therefore susceptible to changes in interest rates. Our planned acquisition of BOC will further increase this susceptibility.

Similar to industries that are comparable to ours, we require a wide range of financing in order to finance our operations. Our liquidity is encumbered by the high level of funding that we have to commit to inventories, particularly in our Material Handling business segment, and by recurring and non-recurring expenditures for the construction and maintenance of our production facilities, in particular in our Linde Gas division and our Material Handling business segment. Our high level of funding commitment to inventories is partly due to our need to have important components and spare parts, as well as new and used industrial trucks, in stock. An overall reduction in the duration of supplier credits, a significant increase in interest rates or substantial delays in payments, production and deliveries can also increase the demands on our liquidity and net working capital.

Our interest expense from borrowing is influenced by market-based fluctuations in interest rates. Increases in interest rates can cause our interest expense to increase. This is particularly the case because the new credit facility connected with the planned acquisition of BOC carries a variable interest rate. If we are unsuccessful in minimizing the effect of fluctuations in interest rates through suitable hedging transactions or by compensating for temporarily or permanently elevated interest expense by generating sufficient cash from our operating activities, we may need to obtain some of the funding we require on the capital markets or utilize additional lines of credit. Suitable or sufficient credit facilities may not be available to us, or may only be available subject to increased pledges of collateral or risk premiums set by the banks. In addition, funding through the capital markets may not be available to us at all or in sufficient amounts.

In addition to the general movements in interest rates, the future assessment of our creditworthiness by rating agencies in particular will have a decisive impact on the amount of interest expense we pay and, as a result, on our business, financial condition and results of operations, since a downgrade in our credit ratings will generally result in us receiving less favorable financing terms. See ''– Risks Related to Our Acquisition Offer to Shareholders of BOC – Our planned acquisition of BOC will result in a significant increase in our net financial debt and a significant decline in our equity ratio, which is the ratio of shareholders' equity to total assets. This could lead to a downgrading of our credit ratings by rating agencies, which may adversely affect our interest expense. In addition, we cannot exclude the possibility that a downgrading of our credit ratings to ''non-investment grade'' might in some cases adversely affect our operations, in particular with respect to the long-term contracts in our Gas and Engineering business segment.''

We attempt to limit some of the risks that arise from changes in interest rates by means of hedging transactions. However, there is a risk that these interest-rate hedging transactions will not fully protect us from fluctuations in interest rates or, conversely, will be unnecessary expenses as a result of favorable movements in interest rates. The assumptions and decisions we make with regard to the future movement of interest rates and the degree to which we undertake risk avoidance or tolerate risk therefore have a significant effect on the success of our hedging strategy, which if unsuccessful, would have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in exchange rates can adversely affect our results of operations.

As a group that operates worldwide, we generate a significant portion of our revenues and income and incur a significant portion of our expenses in currencies other than the euro, which primarily include the U.S. dollar, the British pound sterling and the Swedish krona. Upon completion of our planned acquisition of BOC, the proportion of our Group's revenues, income and expenses in pounds sterling and U.S. dollars will increase substantially. Fluctuations in the exchange rates of the respective currencies can have two effects: transactions effects and translation effects. Rarely do our expenses and income in the respective currencies match for any given period. As a result, an unfavorable movement in these foreign currencies in relation to each other and to the euro can, due to the cross-border supply of goods and services, lead to differences between the costs of the goods and services we supply in one currency and the sales we generate from them in another, which is called a transaction effect. The negative effect of such an unfavorable movement could directly affect our business, financial condition and results of operations. Of even greater importance for us is the impact of currency translation effects, which result when the financial statements of our consolidated subsidiaries that are recorded in their respective local currency are converted into euro, our Group's reporting currency. While this translation effect resulted in an increase in our revenues of approximately €85 million in the financial year ended December 31, 2005, it resulted in a decrease of approximately €125 million and €420 million in 2004 and 2003, respectively. In addition, this translation effect resulted in an increase of our EBITA of approximately €13 million in 2005, while it resulted in a decrease in our EBITA of approximately €10 million and €37 million in 2004 and 2003, respectively. Fluctuations in the currencies that are most important for us, in particular the U.S. dollar, the British pound sterling, the Swedish krona and certain Eastern European currencies, may result in negative transaction and translation effects again in future, and our planned acquisition of BOC will increase our susceptibility to these currency effects. We are adversely impacted by transaction and translation effects in particular when the U.S. dollar is weak in comparison to the euro. In addition, an unfavorable movement in exchange rates can mean a considerable competitive disadvantage with respect to our competitors from other currency regions and can lead to declines in orders, particularly in our Linde Engineering division. All of these factors can have significantly material adverse effects on our business, financial condition and results of operations.

We attempt to limit some of our transaction currency risks through hedging transactions, which primarily include forward currency contracts, which we sometimes combine with certain currency options. However, there is a risk that these currency hedging transactions will not fully protect us against currency fluctuations or, conversely, will result in unnecessary expenses in the event of favorable currency movements. The assumptions and decisions we make with regard to the future movement of exchange rates and the degree to which we undertake risk avoidance or tolerate risk therefore have a significant effect on the success of our hedging strategy, which if unsuccessful, would have a material adverse effect on our business, financial condition and results of operations.

Rising prices for energy, raw materials and other goods or services supplied by third parties could have an adverse effect on our results of operations.

Our production activities are dependent on a large number of raw materials, supplies, parts, subassemblies, components and technical modules from third-party suppliers. We use large quantities of energy from various sources, in particular when we manufacture industrial gases. Energy and raw material prices have risen considerably in recent years and are sometimes subject to substantial cyclical fluctuations. In particular, the price of crude oil, which also influences the prices of many raw materials and energy prices, has significantly increased in the last two years. In addition, we are dependent on movements in the price of steel, lead and copper. We have master agreements with our major suppliers under which prices are usually renegotiated on an annual basis. Continued rises in our costs for energy, raw materials and other materials due to, for example, price increases imposed on us by our suppliers that cannot be passed on to the customer or offset with cost savings elsewhere could have a material adverse effect on our business, financial condition and results of operations. The same applies if we are unsuccessful, particularly in our Linde Gas division, in minimizing the effects of fluctuations in energy prices through hedging transactions with which certain risks are associated.

A loss of suppliers or interruptions in the delivery of raw materials, parts, subassemblies or components could have an adverse effect on our business activities.

We use a large number of suppliers to procure the raw materials, supplies, parts, subassemblies, components and technical modules that we need for production. Since our procurement logistics are organized on a just-in-time basis, late deliveries of essential materials may cause delays in the completion of certain plants, plant components or products. This may mean that the quantities of gas ordered from us can only be produced and delivered with delays or that we may have to purchase the gas from third parties at higher costs and with higher logistical expenses. All this may lead to order cancellations by the respective customers or even claims for damages.

Due to the closely interdependent nature of the production group in our Material Handling business segment, operational interruptions or prolonged loss of production at individual sites can significantly affect the delivery capacity of the entire business division.

In certain instances, our various business divisions only rely on one supplier for individual parts, subassemblies and components. If such a supplier were unable to make deliveries to us temporarily or permanently, it is possible that we may not always be able to remedy such a situation in a timely fashion. This also applies in cases where our production plants are linked with third-party production plants in integrated production structures, which we use in particular when we need to procure raw materials and supplies that cannot be transported over long distances. If an external or internal supplier of important raw materials, parts, subassemblies or components becomes permanently unable to deliver or unable or unwilling to supply us for other reasons, we could, in individual cases, be forced to change our product specifications in order to be able to use raw materials, parts, subassemblies or components from other suppliers. In extreme cases, this could mean that, at least temporarily, individual plants and equipment cannot be built, delivered or serviced, which could have a material adverse effect on our business, financial condition and results of operations.

Our production plants and products are exposed to operational and accident risks.

In production plants such as ours, the risk of operating breakdowns cannot be excluded even if high technical and safety standards for the construction, operation and maintenance of such plants are met. The same applies for our shipping containers and vehicles, some of which are filled at high pressure or with explosive, in part highly toxic or highly inflammable substances. Operation breakdowns and shipping accidents can result from external factors outside of our control, such as natural disasters, terrorism or other third-party interference, but may also be caused by accidents or other mistakes occurring during the operating process, including faulty construction and operator mistakes, and can, in particular, lead to fire, explosions or the release of toxic or harmful substances. In all these cases, there is a risk of injury or damage to persons, the property of others or the environment, which in turn can lead to considerable financial costs and may also have criminal consequences. Even if such risks are in part covered by property, liability and operational interruption insurance, our insurance coverage may prove insufficient in individual cases. Any breakdown or stoppage of production may result in losses in revenues, which could have a material adverse effect on our business, financial condition and results of operations.

The occurrence of such operational interruptions or accidents can also adversely affect our public image, leading to a reduction in orders and therefore lower revenues, which could have additional adverse effects on our business, financial condition and results of operations.

We are subject to many different environmental and other regulatory requirements. The possibility that our Group may be exposed to liability for failure to comply with these requirements or for preexisting contamination cannot be excluded.

As a group that operates worldwide, we are subject not only to German law but also to the laws and regulations of other countries and of the European Union. We must therefore observe a large number of regulations across the world that change frequently and are continuously evolving and becoming more stringent. For example, this is the case with environmental and health regulations and regulations relating to the use of chemicals and hazardous materials. Regulations are constantly adjusted at international and national levels to reflect technical advances and increased demands for safety, as well as the quality and environmental awareness of governments and the general public. This applies in particular to air, water and soil pollution regulations and to waste legislation, all of which have recently been toughened through new laws, in particular in the European Union, Germany and the United States. In the past, adjusting to these new requirements has required significant investments by us and we assume that further significant investments in this regard will be required in the future.

This will especially be true if the regulations we have to comply with become even stricter. In addition, changing customer attitudes can also affect our production and product portfolio. Any increases in expenses that we incur in this context could have a material adverse effect on our business, financial condition and results of operations. We could also be exposed to new or increased liability risks that could also have material adverse effects on our business, financial condition and results of operations.

We primarily operate sites that have been used industrially by our Group or by legal predecessors for a long period of time, often decades. In the past, soil and ground water pollution have been detected at these sites and we, as the proprietor or owner, are responsible for the clean-up of this pollution. However, we can also be held liable for pollution on sites other than those on which we operate to which pollution may have spread. Parties affected by this pollution or the relevant authorities could seek to hold us liable for cleaning up this pollution and to enforce such liability in the courts. In addition, in the course of our divestments, we assumed in some cases contractual liability for waste and other environmental damage. Under some of these agreements, we will continue to be liable for waste and other environmental damage at those sites for a certain period into the future.

The clean-up costs for which we are liable could have a material adverse effect on our Group's business, financial condition and results of operations, in particular because the costs associated with such obligations cannot generally be estimated reliably. In addition, these risks may also include the risk of adverse effects to our public image and our customer relationships.

We may be exposed to considerable risks if our products are faulty or fail to satisfy our customers' quality requirements for other reasons.

The products we manufacture must satisfy high quality requirements and product specifications that are set by the market, by ourselves or in agreements with our customers and often allow for only very small deviations. In the past, occasional defects in quality have occurred or been asserted by customers. This may also continue in the future. If the products we manufacture do not meet the requirements agreed with our customers, production of the relevant products could be discontinued until the cause of the product defect has been identified and remedied. In such cases, the affected customer will often temporarily not accept delivery of the relevant products from us. Due to defects in quality, customers may also revoke the qualification of our production plants for the supply of certain products and they may stop accepting products from the affected production plant until the cause of the defect has been remedied and a new qualification has been issued. In addition, quality defects may also affect the market acceptance of our other products as well and lead to a decrease in our revenues from other divisions and business segments. Quality defects may also result in us being held liable for actual and consequential damages, which may result in substantial costs.

Since 2002, the gas industry has been confronted with claims for damages alleging damage to health resulting from the use of asbestos or certain welding materials. Most of these claims have been filed in the form of class actions in the United States. Some of the claims have also been filed against Group companies in the United States. Risks resulting from class action suits are difficult to estimate in terms of the potential damages, but they may be substantial. We have not yet made any provision to cover these risks. All this could have a material adverse effect on our business, financial condition and results of operations.

In the medical area, we may be subject to product-liability and other claims that could lead to considerable costs and obligations and we may not be able to obtain insurance coverage to cover these claims at all or on appropriate terms.

Companies like ours that offer medical products and services are regularly subjected to lawsuits alleging violations of due care, product liability, violation of warranty obligations, treatment errors and other claims. These could result in large claims for damages and substantial legal costs, regardless of whether damages are ultimately awarded. In particular, the products manufactured by our Healthcare sub-segment could become the subject of recall campaigns, and we could become subject to liability arising from a violation of due care in therapy treatments. Some of the countries where we operate have also imposed special legal requirements for pharmaceutical products, which may increase our exposure to product liability suits. Claims arising from product liability or other due-care violations and breaches of contract, recall campaigns or fines imposed by governments in this context could result in high costs for us. Inadequate insurance coverage to cover these expenses could have a material adverse effect on our business, financial condition and results of operations. In addition, alleged or actual cases of liability could damage our reputation and could thus also have a material adverse effect on our business, financial condition and results of operations.

The construction of technically complex industrial plants exposes us to a number of technical and organizational risks.

In construction contracts for industrial plants, we regularly give representations and warranties in connection with the performance and delivery time of the plants manufactured by our Linde Engineering division; these plants are often technically very complex, sometimes cost several hundred million euro, are generally erected over several years of planning and construction time, and the costs of which are therefore difficult to calculate overall. Representations and warranties are generally based on proven processes and process stages. Unexpected technical problems, unforeseen developments at project sites, problems with partner companies, subcontractors, suppliers or supplies from our own plants and other logistic difficulties can delay the progress of a project and lead to additional costs. It is also possible that in individual cases we or our sub-contractors may be unsuccessful in performing in a manner that we have warranted. If we do not deliver the warranted performance, or if the agreed deadlines are not met, we usually have to pay graduated contractual penalties and/or perform rectifications at our expense. In rare cases, our customer may also be entitled to unwind the contract. Each of these circumstances, except where we are able to take action against the suppliers or subcontractors we used, could have a material adverse effect on our business, financial condition and results of operations.

In the markets we serve, we are exposed to intense competition and to the risk that new and improved products or materials may replace the products we offer.

The markets for industrial gases, plants and industrial trucks and related services are characterized by strong competition generally consisting of a few large internationally active providers and a large number of smaller, mostly local providers. Since industrial gases are difficult or very expensive to transport at long distances, market share in regions where a provider is already present with production plants can frequently only be expanded or maintained by measures to displace competitors, resulting in intensive price competition. Large providers, in particular, seek to gain or maintain market shares by offering low prices and attractive payment terms. This means that sometimes only small margins can be attained with the products and services they offer. There is also intense competition in the plant and industrial truck markets, which are characterized primarily by the small number of large and financially strong competitors, for the development of competitive products that involve high expenditures in research and development. Due to the oligopolistic nature of the competition prevailing in many markets, we cannot exclude the possibility that we or our individual subsidiaries, or even our associated companies, may in the future become the subject of investigations by anti-trust and competition authorities and be ordered to pay related fines. All the markets in which we are active are also characterized by a trend towards consolidation that has already been ongoing for several years, and we expect this trend to continue. This could give rise to larger enterprise units with bundled purchasing power and cost-effective structures, which in turn would increase competition even further. Given the existing competition, we might be unsuccessful in achieving adequate margins, which could have a material adverse effect on our business, financial condition and results of operations.

We believe that our strong technological position and innovative ability is a significant competitive advantage. We are continuously working on developing our products and production processes further and adjusting them to the latest technological developments. Nevertheless, existing or new competitors that may appear despite high entry barriers may develop their current products and technologies further or develop alternative ones that are more attractively priced, offer higher quality or are more attractive for other reasons than ours. If new or better developed products can be offered at prices that are more attractive than our prices, or if such products are more attractive than ours for other reasons because, for example, they have a higher degree of functionality or are simpler to use or transport, demand for our products would fall, which would have a material adverse effect on our business, financial condition and results of operations.

We are exposed to risks that customers may default or fail to take delivery in connection with long-term contracts.

If a customer of one of our on-site plants, which are plants constructed and operated at the customer's site, becomes insolvent or otherwise defaults on payments, our high expenditure for the construction and start-up of the plant may not be recovered during the relevant period of operation and through planned long-term supply to the customer. Our failure to make these expenditures otherwise economically viable could have a material adverse effect on our business, financial condition and results of operations.

In addition, we have entered into certain long-term contracts with a number of raw material suppliers and service partners. Under these contracts, we have agreed to purchase certain quantities on terms agreed in advance. These contracts often provide that we must pay compensation if there is a premature termination or if we buy less than the quantities originally specified. We would also have to pay compensation if, in violation of an agreed contractual obligation to a customer, we were unable to manufacture and deliver the agreed products because, for example, we are unable to achieve the required production capacities in time.

Even if the contracts allow for an adjustment in their respective terms, such as with regard to price and quantity, in order to adapt to a change in circumstances, we cannot be certain that this flexibility will be sufficient to make all the changes necessary to adapt the terms of the contracts to the relevant change in circumstances in a manner that is appropriate for our Group. For these reasons, we cannot exclude the possibility that we will be obligated to buy raw materials and/or services that are not needed or to buy or sell these at prices that are not advantageous to us at that time, which could have a material adverse effect on our business, financial condition and results of operations.

We depend on the uninterrupted operation and continued integration of our computer and data-processing systems.

Our ability to keep our production plants in each of our divisions running depends on the efficient and uninterrupted operation of their computer and data-processing systems. In the past, a number of components in our computer and data-processing systems have repeatedly had to be upgraded, extended and sometimes replaced with new ones. Since the individual components originate from different manufacturers, were implemented at different times, or are based on different versions of a software package, the interaction of the components can in individual cases be more susceptible to breakdowns than they would be if all systems had been bought from one supplier and been implemented at the same time. The integration and the improvement of these systems require substantial further efforts, especially with regard to efficient controlling. In addition, computer and data-processing systems are susceptible to breakdowns, damage, power failure, viruses, fire and other events. A breakdown or interruption in these systems when, for example, the system is expanded, can therefore not be excluded. Breakdowns or interruptions in the computer and data processing systems we use can adversely affect our ability to maintain our production processes in an efficient manner and to safeguard sufficient supervision, which could, in particular due to our complex production processes, adversely affect our business, financial condition and results of operations.

We depend on good relations with our employees and their unions.

Personnel expense is a significant cost factor of our Group, amounting to €2.133 billion in the financial year ended December 31, 2005. Our workforce, especially at our German, French and U.K. locations, is traditionally heavily unionized and covered by collective bargaining agreements. Although we believe that we have sufficiently good relations with our employees, employee representatives and the unions, we cannot be certain that new agreements will be reached at conditions satisfactory to us when the existing collective bargaining agreements expire. We also cannot ensure that we will be able to reach such new agreements without strikes or similar labor-related disputes. Labor disputes that impede our production significantly for a prolonged period could have a material adverse effect on our business, financial condition and results of operations.

We cannot be certain that we will in the future be able to recruit or retain qualified employees.

We depend to a large degree on highly qualified engineers and other employees in the areas of research and development, technology and marketing, and on executives. In previous years, there was intensive competition in all of our areas of activity for employees with scientific, technological or industry-specific expertise. In the future, our success will continue to depend on our ability to find and retain highly qualified employees for these areas. In addition, the risk of losing employees to headhunting has increased because we, as a globally active enterprise, encourage the transfer of employees between production sites in Germany and abroad, which further increases our employees' qualification and mobility. If we experience a high fluctuation in employees, or if specialist teams are recruited by our competitors, we may not be able to recruit new employees in the labor market quickly and this will cause us to incur additional costs. The loss of qualified employees or continuing difficulties in recruiting suitable employees could result in our being unable to implement important decisions and measures, which could have a material adverse effect on our business, financial condition and results of operations.

We may not succeed in adequately protecting our intellectual property and know-how.

We own a large number of patents and other intellectual property that are of considerable significance in our business. While there is a presumption that patents are valid, the granting of a patent does not necessarily imply that they are effective or that possible patent claims can be enforced to the degree necessary or desired. In addition, we cannot guarantee that all the patents we have applied for or planned in connection with our new technological developments will be granted in each of the countries where our Group considers this necessary or desirable, and we cannot exclude the possibility that third parties may infringe our patents and/or other intellectual property rights and that we, for legal or factual reasons, will be unable to halt such infringement. In Europe, for example, the European Patent Office refused patent protection for the inhaleable nitrogen oxide ("INO") that we produce in our Healthcare sub-segment for application in particular in cases of impaired lung function, while in the United States INO is protected by a patent.

In addition, non-confidential know-how and industrial secrets that are not patented or cannot be patented are of paramount importance in our business, in particular in areas with technologically demanding products and production processes. For example, there is a risk, which has occasionally materialized in the past, that competitors are granted patents for products and production processes that at the time we had already produced or implemented without a patent. In the respective country, this could conceivably lead to restrictions regarding the sale of the affected products or the application of the respective production processes or to an obligation to pay license fees. We cannot be certain that we will be able to protect our industrial secrets or that third parties will not develop the same or a similar know-how independently or gain access to it.

If we are not able to protect our intellectual property, we may not be able to profit from the advances in technology we have achieved, which could lead to a reduction in our future results of operations if other manufacturers are able to produce or market products similar to those that we develop. This could affect our competitive position and any reduction in revenues resulting from it would have a material adverse effect on our business, financial condition and results of operations.

We cannot exclude the possibility that we will infringe the intellectual property rights of third parties or become dependent on licensing intellectual property from third parties.

We cannot exclude the possibility that we infringe or will infringe the patents and other intellectual property rights of third parties, since our competitors also submit a large number of inventions for patent protection. If that were to happen, we would be prevented from using the affected technologies in the countries where intellectual property rights were granted. This is the case regardless of whether we have previously utilized the protected technologies legitimately in other countries and chosen not to apply for a patent due to, for example, concerns over secrecy.

In each of these cases, we may be prohibited from manufacturing or marketing certain products and may be forced to obtain licenses or make changes to manufacturing processes. In addition, we could be exposed to demands for compensation for infringements. Our competitors could also prohibit the production or sale of such products in countries where prior patent protection in their favor already exists. We could also be forced to purchase licenses to make use of technology from third parties, which would entail corresponding costs. However, we may not receive the licenses we need for our business to the extent required and at reasonable terms. In addition, existing licenses may not continue to be in effect to the extent we require.

Any restrictions on delivery and production due to patent infringement or production interruptions resulting from patent infringement, whether due to a change in a manufacturing process or for other reasons, or the subsequent acquisition of corresponding licenses could have a material adverse effect on our business, financial condition and results of operations.

We may face tax risks that result from future tax audits.

Our Group's companies that are based in Germany are subject to regular external tax audits. Our subsidiaries in other countries are subject to tax audits by the relevant local tax authorities. The most recent external tax audit of our Group's companies that are based in Germany covered the financial years ended December 31, 1995 to 1999 and was completed in 2006. We cannot exclude the possibility that future tax audits of our German and foreign subsidiaries will lead to additional tax claims that could have a material adverse effect on our business, financial condition and results of operations.

We may be exposed to financing and liquidity risks in the event of negative market developments relating to pension plan assets that are invested externally.

We have committed ourselves to provide pensions to our employees in a large number of countries. As of December 31, 2005, this obligation amounted to approximately €2.208 billion. Our planned acquisition of BOC will increase the amount of this obligation by approximately €3.758 billion (corresponds to the obligation, as of September 30, 2005, in the amount of £2.583 billion at a currency exchange rate of £0.6872 per €1.00). These existing obligations are financed in part by us internally through pension provisions and are covered in part through externally invested pension plan assets. BOC covered the obligations almost exclusively through externally invested pension plan assets. As of September 30, 2005, BOC's net pension obligations (pension obligations less pension plan assets) amounted to approximately €527 million (corresponds to BOC's net pension obligations, as of September 30, 2005, in the amount of approximately £362 million at a currency exchange rate of £0.6872 per €1.00). Our externally invested pension plan assets are funded through insurance and externally managed funds. While we generally prescribe the investment strategy of these funds, we do not determine their individual investment alternatives. The assets are invested in different amounts of stocks and other equity assets, fixed-income securities, real estate and other investment vehicles.

The externally invested assets for financing pension obligations are subject to fluctuations in the capital markets that are beyond our influence. Unfavorable developments in the capital markets could result in a substantially increased coverage shortfall for these pension obligations and the resulting increased obligation for us could have an adverse effect on our business. In addition, negative developments in the capital markets relating to externally invested pension plan assets could result in a considerable risk to our financial condition due to an increased additional outflow of funds to finance the pension obligations.

A decrease in the value of used industrial trucks could expose us to risks in connection with long-term rental and leasing contracts.

In our Material Handling business segment, we rent and lease an increasing number of industrial trucks to customers on the basis of both short and long-term contracts. Under certain of these long-term leasing contracts, we agree to take back the equipment at a price already fixed at contract signing. Depending on the provisions of the contracts, we take on the reselling risk at the end of the lease term. In order to avoid financial losses in these situations, we must estimate as accurately as possible the residual value of the industrial trucks at the end of the lease term. A decrease in market prices for used industrial trucks that results in the market prices lying below the fixed price we are required to pay at the end of the lease term could make the reselling of the equipment more difficult or the reselling may only be possible at a loss. If a customer prematurely terminates their long-term contract with us, we may also suffer losses due to differences between the actual value and book value of the equipment. Each of these factors could have material adverse effects on our business, financial condition and results of operations.

Risks Relating to the Bonds

The Issuer may defer payments of interest under the Bonds.

The Issuer does not have any obligation to pay interest except under certain circumstances as set out and defined in § 5(4) of the Terms and Conditions, and any such failure to pay interest shall not constitute a default of the Issuer. Interest not paid on an Interest Payment Date constitutes Arrears of Interest and may only be satisfied if the conditions set out in § 5(4) of the Terms and Conditions are met. See "– *Bondholders may not receive any payment of Arrears of Interest, if (i) the Guarantor is unable to sell new shares or treasury shares or (ii) compulsory provisions of German stock corporation law prevent the Guarantor from selling or issuing new shares*". Accordingly, investors face the risks that their claims on payment of interest may only be settled upon liquidation of the Guarantor.

The Issuer may make payments on certain senior instruments and pari passu ranking instruments in certain circumstances even if Arrears of Interest are outstanding.

While Arrears of Interest are outstanding, the Issuer is not prohibited from making payments on any instrument ranking senior to the Bonds and, under certain circumstances, on the €400,000,00 undated subordinated bonds issued by the Issuer on 3 July 2003, and in such event the Bondholders are not entitled to claim immediate payment of any Arrears of Interest.

Bondholders may not receive any payment of Arrears of Interest if (i) the Guarantor is unable to sell new shares or treasury shares or (ii) compulsory provisions of German stock corporation law prevent the Guarantor from selling or issuing new shares.

Any obligation to pay Arrears of Interest is subject to the condition that for such payment the Guarantor has raised cash proceeds from the issuance or sale of shares of the Guarantor. Proceeds from the sale of shares cannot come from treasury shares acquired against cash within the last six months before the payment and new shares can be issued only to the extent that the number of such new shares in any twelve month period for this purpose does not exceed 2.0% of the number of all issued and outstanding shares of the Guarantor on the first day of such period. Any obligation to pay Arrears of Interest is further subject to the condition that no compulsory provisions of German corporate law prevent Linde AG from raising capital in the manner just described. In the event of a liquidation of the Guarantor, Bondholders' claims in relation to Arrears of Interest under the Subordinated Guarantees are deeply subordinated, ranking *pari passu* with the Guarantor's share capital.

Bondholders should be aware that compulsory provisions of German stock corporation law may prevent the Guarantor from selling treasury shares or issuing new shares. Such provisions include, among others, that shares can only be issued in a direct capital increase or from authorized capital. A direct capital increase requires a shareholder resolution passed by 50% of the votes represented at the general meeting voting on such measure, and the creation of authorized capital requires a shareholder resolution passed by 75% of the votes represented at the general meeting voting on such measure. In addition, authorized capital must not exceed 50% of the nominal capital of Linde AG at the time of such authorization, and if not utilized, expires after 5 years from its creation. If Linde AG is unable to issue or sell shares within the 2% limit referred to above, the Issuer will not pay any Arrears of Interest even if it is, save for the above condition, obliged to make such payment.

The Bonds are long term securities and Bondholders may only declare the Bonds due and payable in very limited circumstances.

The Bonds will be redeemed on July [14], 2066 in case of the €-Bonds and on July [14], [2016][2018] in case of the £-Bonds and the Issuer is under no obligation to redeem the Bonds at any time prior to such date. The Bondholders have no right to call for the redemption of Bonds. Bondholders can only declare the Bonds due and payable in the event the Issuer or the Guarantor (i) fails to pay interest or principal on the Bonds when due (interest will not be due if deferred at the option of the Issuer as described above under ‘‘The Issuer may defer payments of interest under the Bonds’’), or (ii) enters into liquidation, winding up or dissolution. Therefore, Bondholders should be aware that they may be required to bear the financial risks of an investment in the Bonds until 2066 [and 2018, respectively].

The Issuer may redeem the Bonds under certain circumstances.

Bondholders should be aware that the Bonds may be redeemed at the option of the Issuer (in whole but not in part) at their principal amount (i) on July [14], 2016 in case of the €-Bonds and on July [14], [2016][2018] in case of the £-Bonds or on any Floating Interest Payment Date thereafter and (ii) at any time in case of a Change of Control. The Bonds are also subject to redemption (in whole, but not in part only) at the Issuer's option before such dates (i) at their principal amount in case of a Gross-up Event and in case the outstanding principal amount of the Bonds falls below [15 – 25]% of the original outstanding principal amount, and (ii) at the greater of their principal amount and the Make-Whole Amount (as defined in the Terms and Conditions) in case of a Tax Event, a Capital Event or an Accounting Event and (iii) at [100.50 – 102.50]% of the principal amount of the Bonds in case of a BOC Event, and (iv) at the greater of the principal amount of the Bonds and the Special Make-Whole Amount (as defined in the Terms and Conditions) in case of a Conversion Event with respect to the €-Bonds. The relevant redemption amount may be less than the then current market value of the Bonds.

Bondholders' right to receive payments on the Bonds is subordinated to the rights of all existing and future creditors.

The obligations of the Issuer under the Bonds constitute unsecured and subordinated obligations of the Issuer ranking (i) senior to the Issuer's share capital, (ii) *pari passu* among themselves and with any obligations of the Issuer under the Subordinated Bonds 2003 and (iii) junior to all other present and future unsubordinated obligations of the Issuer and subordinated obligations of the Issuer that are expressed to rank senior to the Bonds, except in each case as otherwise required by mandatory provisions of law. Except for obligations arising from unpaid Arrears of Interest in a winding-up or liquidation of the Guarantor, which shall rank *pari passu* with the Guarantor's share capital, the obligations of the Guarantor under the Subordinated Guarantees constitute unsecured and subordinated obligations of the Guarantor ranking (i) senior to the Guarantor's share capital, (ii) *pari passu* among themselves and with any obligations of the Guarantor under the subordinated guarantee in relation to the Subordinated Bonds 2003, and junior to all other present and future unsubordinated and subordinated obligations of the Guarantor expressed to rank senior to the claims under the Subordinated Guarantees except as otherwise required by mandatory law. Unsubordinated liabilities of the Issuer and the Guarantor may also arise from events that are not reflected on the balance sheet of the Issuer or the Guarantor, as the case may be, including, without limitation, the issuance of guarantees or the incurrence of other contingent liabilities on an unsubordinated or subordinated basis. Claims made under such guarantees or such other contingent liabilities will become unsubordinated or subordinated liabilities of the Issuer or the Guarantor, as the case may be, that in a winding-up or insolvency proceeding of the Issuer or the Guarantor, will need to be paid in full before the obligations under the Bonds or the Guarantees, respectively may be satisfied.

Linde is not limited to incur additional indebtedness ranking senior or pari passu with the Bonds.

There is no restriction on the amount of debt which the Issuer or the Guarantor may issue which ranks senior to the obligations under or in connection with the Bonds or the Guarantees, respectively, or on the amount of debt which the Issuer or Guarantor may issue which rank equal to the obligations under or in connection with the Bonds or the Guarantees, respectively. Such issuance of further debt may reduce the amount recoverable by the Bondholders upon winding-up or insolvency of the Issuer or the Guarantor, as the case may be, or may increase the likelihood that the Issuer or the Guarantor may elect to defer payments of interest under the Bonds.

Upon the acquisition of BOC, Linde will have incurred significant indebtedness and will require a significant amount of cash to serve such indebtedness, including the Bonds.

Following the acquisition of BOC, the financial leverage ratio (ratio of net borrowings to equity) of the Linde Group is expected to increase significantly; the equity ratio (ratio of equity to total assets) will decrease. See ''*– Risks Relating to our Acquisition Offer to Shareholders of BOC – Our planned acquisition of The BOC Group plc will result in a significant increase in our net financial debt and a significant decline in our equity ratio, which is the ratio of shareholders' equity to total assets. This could lead to a downgrading of our credit rating by rating agencies, which may adversely affect our level of interest expense. In addition, we cannot exclude the possibility that a potential downgrading of our credit rating to ''non investment grade'' might in some cases adversely affect our operations, in particular with respect to the long-term contracts in our Gas and Engineering business segment.*''.

Accordingly, our total net borrowings will increase substantially following completion of the acquisition. Total net borrowings of Linde require adequate net cash flow from its operating activities to be able to service interest and capital payments when they become due. Changes in interest rates and a reduction in net cash flow due to adverse market conditions or other factors could have an adverse effect on the Linde Group's earnings and financial position.

Our ability to generate sufficient cash flow from operations to make scheduled payments of principal of, or to pay the interest on, or to refinance, our indebtedness (including the Bonds), or to fund planned capital expenditures and working capital, will depend on our future performance, which to a certain extent, is subject to:

- the success of our business strategy, including the successful integration of BOC;
- the success to dispose of certain of our assets at adequate prices to refinance a portion of the indebtedness incurred in connection with the BOC acquisition;
- the general economic conditions;
- the levels of interest rates; and
- financial, legislative, regulatory, competitive and other factors that are beyond our control.

Our business may in the future not generate sufficient cash flow from our operations to enable us to service our indebtedness, including the Bonds, or to fund our other liquidity needs. If we are unable to generate sufficient cash, we might adopt one or more alternatives, such as refinancing all or a portion of our debt, selling assets or obtaining additional equity capital. These strategies might not be implemented on satisfactory terms or without substantial additional expense to us, if at all. A failure to raise additional funds necessary to service our debt could result in a default under our debt, including our credit facilities, or a deferral of payment under the Bonds. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources'' and ''Description of Other Indebtedness.''

The Guarantor has undertaken to effect a tender offer for the benefit of the holders of Qualifying Securities prior to any early redemption based upon a Change of Control.

The Guarantor has undertaken to holders of certain of its securities (the ''Qualifying Securities'') that it will make a tender offer to all holders of Qualifying Securities to repurchase the Qualifying Securities at 100% of their respective nominal amounts plus any interest accrued until the day of repurchase if (i) a Change of Control (as defined in § 6(6) of the Terms and Conditions of the Bonds) has occurred and (ii) the Issuer has exercised its call right with respect to either one of the Bonds pursuant to § 6(6) of the Terms and Conditions of the Bonds. Furthermore, the Guarantor has undertaken to assure that the repurchase of Qualifying Securities so tendered will be effected prior to any repayment of the Bonds as a result of the exercise of the call right pursuant to § 6(6) of the Terms and Conditions of the Bonds. As a consequence, Bondholders should be aware that the Issuer may not call the Bonds in the event of a Change of Control as this would give rise to an obligation of the Guarantor to effect a prior tender offer to all holders of Qualifying Securities. See ''*Undertaking to Effect Tender Offer*''.

An active trading market may not develop for the Bonds.

There is currently no secondary market for the Bonds. Application has been made to list the Bonds on the regulated market of the Irish Stock Exchange. However, there can be no assurance that a liquid secondary market for the Bonds will develop or, if it develops, that it will continue. In an illiquid market, a Bondholder might not be able to sell his Bonds at any time at fair market prices. The possibility to sell the Bonds might additionally be restricted by country specific reasons.

Fixed rate securities have a market risk.

The €-Bonds will carry fixed interest until July [14], 2016 and the £-Bonds until July [14], [2016][2018]. A holder of a security with a fixed interest rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital market (the ''Market Interest Rate''). While the nominal interest rate of a security with a fixed interest rate is fixed during the life of such security or during a certain period of time, the Market Interest Rate typically changes on a daily basis. A change of the Market Interest Rate causes the price of such security to change in the opposite direction. If the Market Interest Rate increases, the price of such security typically falls, until the yield of such security is approximately equal to the Market Interest Rate. If the Market Interest Rate falls, the price of a security with a fixed interest rate typically increases, until the yield of such security is approximately equal to the Market Interest Rate. Investors should be aware that movements of the Market Interest Rate can adversely affect the price of the Bonds and can lead to losses for the Bondholders if they sell the Bonds.

Floating rate securities may suffer a decline in interest rate.

If not redeemed by then, in case of the €-Bonds from July [14], 2016 and in case of the £-Bonds from July [14], [2016][2018] until their redemption, the Bonds will carry variable interest. A holder of a security with a floating interest rate is exposed to the risk of fluctuating interest rate levels and uncertain interest income. Fluctuating interest rate levels make it impossible to determine the yield of such securities in advance.

TERMS AND CONDITIONS OF THE €-BONDS

ANLEIHEBEDINGUNGEN
der

bis zu € 1.300.000.000
fest bzw. variabel verzinslichen
nachrangigen Schuldverschreibungen 2006
der

Linde Finance B.V.,
Amsterdam, Niederlande

mit einer nachrangigen Garantie der

Linde Aktiengesellschaft,
Wiesbaden, Deutschland

DER DEUTSCHE TEXT DIESER ANLEIHEBEDINGUNGEN IST ALLEIN RECHTSVERBINDLICH. DIE ENGLISCHE ÜBERSETZUNG DIENT NUR ZU INFORMATIONSZWECKEN.

§ 1
DEFINITIONEN UND AUSLEGUNG

Soweit aus dem Zusammenhang nicht etwas anderes hervorgeht, haben die nachfolgenden Begriffe in diesen Anleihebedingungen die folgende Bedeutung:

Abgezinste Werte hat die in § 6(4) festgelegte Bedeutung.

Abgezinster Marktpreis hat die in § 6(4) festgelegte Bedeutung.

Vergleichbare Benchmark Rendite hat die in § 6(4) festgelegte Bedeutung.

Anleihebedingungen bezeichnet diese Bedingungen der Schuldverschreibungen.

Anleihegläubiger bezeichnet jeden Inhaber eines Miteigentumsanteils oder -rechts an der Globalurkunde.

Ausgabetag bezeichnet den [14]. Juli 2006.

Austauschtag hat die in § 2(2)(b) festgelegte Bedeutung.

Berechnungsstelle hat die in § 11(3) festgelegte Bedeutung.

Besonderer Abgezinster Marktpreis hat die in § 6(4) festgelegte Bedeutung.

Besonderer Abgezinster Wert hat die in § 6(4) festgelegte Bedeutung.

Vergleichbarer Swapsatz hat die in § 6(4) festgelegte Bedeutung.

TERMS AND CONDITIONS
of the

up to € 1,300,000,000
Fixed to Floating Rate
Subordinated Bonds 2006
issued by

Linde Finance B.V.,
Amsterdam, The Netherlands

guaranteed, on a subordinated basis, by

Linde Aktiengesellschaft,
Wiesbaden, Germany

THE GERMAN TEXT OF THESE TERMS AND CONDITIONS IS THE LEGALLY BINDING ONE. THE ENGLISH TRANSLATION IS FOR CONVENIENCE ONLY.

§ 1
DEFINITIONS AND INTERPRETATION

Unless the context otherwise requires, the following terms will have the following meanings in these Terms and Conditions:

Present Values has the meaning specified in § 6(4).

Make-Whole Amount has the meaning specified in § 6(4).

Comparable Benchmark Yield has the meaning specified in § 6(4).

Terms and Conditions means these terms and conditions of the Bonds.

Bondholder means any holder of a proportional co-ownership participation or right in the Global Bond.

Issue Date means July [14], 2006.

Exchange Date has the meaning specified in § 2(2)(b).

Calculation Agent has the meaning specified in § 11(3).

Special Make-Whole Amount has the meaning specified in § 6(4).

Special Present Value has the meaning specified in § 6(4).

Comparable Swap Rate has the meaning specified in § 6(4).

Bildschirmseite bezeichnet Reuters Seite EURIBOR01 (oder eine andere Bildschirmseite von Reuters oder einem anderen Informationsanbieter als Nachfolger, welche Reuters Seite EURIBOR01 zur Anzeige solcher Sätze ersetzt).

Screen Page means Reuters Page EURIBOR01 (or such other screen page of Reuters or such other information service, which is the successor to Reuters Page EURIBOR01 for the purpose of displaying such rates).

BOC-Ereignis hat die in § 6(3)(e) festgelegte Bedeutung.

BOC Event has the meaning specified in § 6(3)(e).

Clearingsystem bezeichnet jeweils Clearstream Luxemburg und Euroclear.

Clearing System means each of Clearstream Luxembourg and Euroclear.

Clearstream Luxemburg bezeichnet Clearstream Banking S.A., Luxemburg.

Clearstream Luxembourg means Clearstream Banking S.A., Luxembourg.

Dauerglobalurkunde hat die in § 2(2)(a) festgelegte Bedeutung.

Permanent Global Bond has the meaning specified in § 2(2)(a).

Emissionsvolumen hat die in § 5(4)(c) festgelegte Bedeutung.

Issue Volume has the meaning specified in § 5(4)(c).

Emittentin hat die in § 2(1) festgelegte Bedeutung.

Issuer has the meaning specified in § 2(1).

Euroclear bezeichnet Euroclear Bank S.A./N.V. als Betreiberin des Euroclear-Systems.

Euroclear means Euroclear Bank S.A./N.V. as operator of the Euroclear System.

Fälligkeitstag hat die in § 6(1) festgelegte Bedeutung.

Maturity Date has the meaning specified in § 6(1).

Festzins-Zahlungstag hat die in § 5(1)(a) festgelegte Bedeutung.

Fixed Interest Payment Date has the meaning specified in § 5(1)(a).

Garantin hat die in § 3 festgelegte Bedeutung.

Guarantor has the meaning specified in § 3.

Geschäftstag bezeichnet jeden Tag (außer einen Samstag oder einen Sonntag), an dem TARGET (das Trans-European Automated Real Time Gross Settlement Express Transfer System) Buchungen oder Zahlungsanweisungen im Hinblick auf Zahlungen in Euro abwickelt.

Business Day means a day (other than a Saturday or a Sunday) on which TARGET (the Trans-European Automated Real Time Gross Settlement Express Transfer System) is effecting credit or transfer instructions in respects of payments in euro.

Gleichrangiges Wertpapier bezeichnet (i) jede Verpflichtung der Emittentin, die auf der Basis ihrer Bedingungen oder aufgrund gesetzlicher Bestimmungen gleichrangig im Verhältnis zu den Schuldverschreibungen ist (dies schließt zur Klarstellung die Nachranganleihe 2003 ein), und (ii) jede Verpflichtung der Garantin, die gleichrangig im Verhältnis zu den Verpflichtungen der Garantin aus der Nachrangigen Garantie ist (dies schließt zur Klarstellung die Verpflichtungen der Garantin aus der Garantie in Bezug auf die Nachranganleihe 2003 ein).

Parity Security means (i) any obligation of the Issuer, which by its terms or by operation of law ranks *pari passu* with the Bonds (including, for the avoidance of doubt, the obligations of the Issuer under the Subordinated Bond 2003), and (ii) any obligation of the Guarantor which ranks *pari passu* with the Guarantor's obligations under the Subordinated Guarantee (including, for the avoidance of doubt, the obligations of the Guarantor under the guarantee issued in relation to the Subordinated Bond 2003).

Globalurkunden bezeichnet die Vorläufige Globalurkunde und die Dauerglobalurkunde.

Global Bonds means the Temporary Global Bond and the Permanent Global Bond.

Gross-up-Ereignis hat die in § 6(3)(a) festgelegte Bedeutung.

Gross-up Event has the meaning specified in § 6(3)(a).

Hauptzahlstelle hat die in § 11(1) festgelegte Bedeutung.

Principal Paying Agent has the meaning specified in § 11(1).

Jahreshauptversammlung ist die ordentliche Hauptversammlung der Garantin, welche über die Zahlung einer Dividende für das jeweils vorangegangene Geschäftsjahr der Garantin entscheidet.

Kapitalereignis hat die in § 6(3)(b) festgelegte Bedeutung.

Kontrollwechsel hat die in § 6(6) festgelegte Bedeutung.

Konzerngesellschaft bezeichnet jedwede verbundenen Unternehmen der Garantin i.S.d. § 15 Aktiengesetz.

Marge bezeichnet [1,50 – 5,75]% plus 1,00% p.a. Die Marge erhöht sich ab dem Tag, der 60 Tage nach dem Eintritt eines Kontrollwechsels liegt (einschließlich) um 5,00% p.a.

Nachranganleihe 2003 bezeichnet die € 400.000.000 nachrangigen Schuldverschreibungen der Linde Finance B.V. ohne Fälligkeitstag, die am 3. Juli 2003 emittiert wurden (ISIN XS0171231060), deren Anleihebedingungen als **Anlage I** beigefügt sind.

Nachrangige Garantie hat die in § 3 festgelegte Bedeutung.

Nachrangiges Wertpapier bezeichnet (i) jede Verpflichtung der Emittentin, die den Schuldverschreibungen gegenüber nachrangig ist, und (ii) jede Verpflichtung der Garantin, die gegenüber den Verpflichtungen der Garantin aus der Nachrangigen Garantie nachrangig ist.

Neue Anleiheschuldnerin hat die in § 14(1) festgelegte Bedeutung.

Neue Wertpapiere hat die in § 6(7) festgelegte Bedeutung.

Rechnungslegungsereignis hat die in § 6(3)(d) festgelegte Bedeutung.

Referenzbanken hat die in § 5(2)(c) festgelegte Bedeutung.

Relevante Bildschirmseite hat die in § 6(4) festgelegte Bedeutung.

Rückzahlungs-Berechnungstag hat die in § 6(4) festgelegte Bedeutung.

Schuldverschreibungen hat die in § 2(1) festgelegte Bedeutung.

Steuerereignis hat die in § 6(3)(c) festgelegte Bedeutung.

Annual General Meeting is the general shareholder meeting of the Guarantor which resolves on the payment of a dividend for the respective preceding business year of the Guarantor.

Capital Event has the meaning specified in § 6(3)(b).

Change of Control has the meaning specified in § 6(6).

Group Entity means any of the Guarantor's affiliated enterprises within the meaning of Section 15 of the German Stock Corporation Act.

Margin means [1.50 – 5.75] per cent. plus 1.00 per cent. *per annum*. The Margin will be increased by 5.00% p.a. from the day (inclusive) falling 60 days after the day on which a Change of Control has occurred.

Subordinated Bonds 2003 means the € 400,000,000 undated subordinated bonds issued by Linde Finance B.V. on July 3, 2003 (ISIN XS0171231060) and the terms and conditions of which are attached as **Annex I**.*

Subordinated Guarantee has the meaning specified in § 3.

Junior Security means (i) any obligation of the Issuer which ranks junior to the Bonds and (ii) any obligation of the Guarantor which ranks junior to the obligations of the Guarantor under the Subordinated Guarantee.

New Issuer has the meaning specified in § 14(1).

New Securities has the meaning specified in § 6(7).

Accounting Event has the meaning specified in § 6(3)(d).

Reference Banks has the meaning specified in § 5(2)(c).

Relevant Screen Page has the meaning specified in § 6(4).

Redemption Calculation Date has the meaning specified in § 6(4).

Bonds has the meaning specified in § 2(1).

Tax Event has the meaning specified in § 6(3)(c).

* The terms and conditions of the Subordinated Bonds 2003 will be annexed to the Global Bonds but have not been reproduced in this document. They are obtainable at request from the Guarantor at its principal business address.

Streitigkeiten hat die in § 15(3) festgelegte Bedeutung.

Swap Referenzbanken hat die in § 6(4) festgelegte Bedeutung.

Variabler Zinszahlungstag ist, vorbehaltlich § 5(2)(b), der [14]. Januar, [14]. April, [14]. Juli und [14]. Oktober eines jeden Jahres beginnend mit dem [14]. Oktober 2016 (einschließlich).

Variabler Zinszeitraum bezeichnet jeweils den Zeitraum vom [14]. Juli 2016 (einschließlich) bis zum ersten Variablen Zinszahlungstag (ausschließlich) und danach von jedem Variablen Zinszahlungstag (einschließlich) bis zum jeweils darauffolgenden Variablen Zahlungstag (ausschließlich).

Vereinigte Staaten bezeichnet die Vereinigten Staaten von Amerika (einschließlich deren Bundesstaaten und des Districts of Columbia) sowie deren Territorien (einschließlich Puerto Ricos, der U.S. Virgin Islands, Guam, American Samoa, Wake Island und der Northern Mariana Islands).

Verfahren hat die in § 15(3) festgelegte Bedeutung.

Vorgesehene Laufzeit hat die in § 6(4) festgelegte Bedeutung.

Vorläufige Globalurkunde hat die in § 2(2)(a) festgelegte Bedeutung.

Vorzeitiger Rückzahlungsbetrag die in § 6(4) festgelegte Bedeutung.

Wandelanleihe hat die in § 6(3)(f) festgelegte Bedeutung.

Wandlungsereignis hat die in § 6(3)(f) festgelegte Bedeutung.

Wandlungsunterschiedsbetrag hat die in § 6(3)(f) festgelegte Bedeutung.

Zahlstelle und ***Zahlstellen*** hat die in § 11(2) festgelegte Bedeutung.

Zinsberechnungszeitraum hat die in § 5(2)(d) festgelegte Bedeutung.

Zinsbetrag hat die in § 5(2)(d) festgelegte Bedeutung.

Zinsfestlegungstag ist der zweite Geschäftstag vor Beginn des jeweiligen Variablen Zinszeitraums.

Zinsrückstände hat die in § 5(3) festgelegte Bedeutung.

Zinsrückstände-Zahlungstag hat die in § 5(4)(b) festgelegte Bedeutung.

Zinssatz hat die in § 5(2)(c) festgelegte Bedeutung.

Disputes has the meaning specified in § 15(3).

Swap Reference Banks has the meaning specified in § 6(4).

Floating Interest Payment Date means, subject to § 5(2)(b), January [14], April [14], July [14] and October [14] of each year, commencing and including October [14], 2016.

Floating Interest Period means each period from and including July [14], 2016 to but excluding the first Floating Interest Payment Date and, thereafter, from and including each Floating Interest Payment Date to but excluding the immediately following Floating Interest Payment Date.

United States means the United States of America (including the States thereof and the District of Columbia) and its possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island und Northern Mariana Islands).

Proceedings has the meaning specified in § 15(3).

Designated Maturity has the meaning specified in § 6(4).

Temporary Global Bond has the meaning specified in § 2(2)(a).

Early Redemption Amount has the meaning specified in § 6(4).

Convertible Notes has the meaning specified in § 6(3)(f).

Conversion Event has the meaning specified in § 6(3)(f).

Conversion Shortfall has the meaning specified in § 6(3)(f).

Paying Agent and ***Paying Agents*** has the meaning specified in § 11(2).

Calculation Period has the meaning specified in § 5(2)(d).

Interest Amount has the meaning specified in § 5(2)(d).

Interest Determination Date means the second Business Day prior to the commencement of the relevant Floating Interest Period.

Arrears of Interest has the meaning specified in § 5(3).

Arrears of Interest Payment Date has the meaning specified in § 5(4)(b).

Rate of Interest has the meaning specified in § 5(2)(c).

Zinstagequotient hat die in § 5(2)(d) festgelegte Bedeutung.

Zinszahlungstag bezeichnet jeden Festzins-Zahlungstag und jeden Variablen Zinszahlungstag.

§ 2
NENNBETRAG UND STÜCKELUNG; VERBRIEFUNG; ÜBERTRAGBARKEIT

(1) Nennbetrag und Stückelung. Die Emission der nachrangigen fest bzw. variabel verzinslichen Schuldverschreibungen der Linde Finance B.V., Amsterdam, Niederlande (die ***Emittentin***) im Gesamtnennbetrag von [bis zu € 1.300.000.000] (in Worten: Euro [eine Milliarde und dreihundert Millionen]) ist eingeteilt in [bis zu 1.300.000] an den Inhaber zahlbare und untereinander gleichrangige Schuldverschreibungen mit einem Nennbetrag von jeweils € 1.000 (die ***Schuldverschreibungen;*** dieser Begriff umfasst sämtliche weiteren Schuldverschreibungen, die gemäß § 12 begeben werden und eine einheitliche Serie mit den Schuldverschreibungen bilden).

(2) Vorläufige Globalurkunde – Austausch.

(a) Die Schuldverschreibungen sind anfänglich durch eine vorläufige Globalurkunde (die ***Vorläufige Globalurkunde***) ohne Zinsscheine verbrieft. Die vorläufige Globalurkunde wird gegen eine Dauerglobalurkunde (die ***Dauerglobalurkunde***) ohne Zinsscheine ausgetauscht. Die Vorläufige Globalurkunde und die Dauerglobalurkunde tragen jeweils die eigenhändigen Unterschriften zweier ordnungsgemäß bevollmächtigter Vertreter der Emittentin und sind jeweils von der Hauptzahlstelle oder in deren Namen mit einer Kontrollunterschrift versehen. Einzelurkunden und Zinsscheine werden nicht ausgegeben.

(b) Die Vorläufige Globalurkunde wird an einem Tag (der ***Austauschtag***) gegen die Dauerglobalurkunde ausgetauscht, der nicht mehr als 180 Tage nach dem Ausgabetag liegt. Der Austauschtag darf nicht weniger als 40 Tage nach dem Ausgabetag liegen. Ein solcher Austausch darf nur nach Vorlage von Bescheinigungen erfolgen, wonach der oder die wirtschaftlichen Eigentümer der Schuldverschreibungen keine U.S.-Personen sind (ausgenommen bestimmte Finanzinstitute oder bestimmte Personen, die Schuldverschreibungen über solche Finanzinstitute halten). Solange die

Day Count Fraction has the meaning specified in § 5(2)(d).

Interest Payment Date means any Fixed Interest Payment Date and any Floating Interest Payment Date.

§ 2
PRINCIPAL AMOUNT AND DENOMINATION; FORM; TRANSFERABILITY

(1) Principal Amount and Denomination. The issue of the subordinated fixed to floating rate bonds by Linde Finance B.V., Amsterdam, The Netherlands (the ***Issuer***) in the aggregate principal amount of [up to € 1,300,000,000] (in words: Euro [one billion and three hundred million]) is divided into [up to 1,300,000] bonds payable to bearer and ranking *pari passu* among themselves, with a principal amount of € 1,000 each (the ***Bonds***; this term includes any further Bonds issued pursuant to § 12 that form a single series with the Bonds).

(2) Temporary Global Bond – Exchange.

(a) The Bonds are initially represented by a temporary global bond (the ***Temporary Global Bond***) without coupons. The Temporary Global Bond will be exchangeable for a permanent global bond (the ***Permanent Global Bond***) without coupons. The Temporary Global Bond and the Permanent Global Bond shall each be signed manually by two authorised signatories of the Issuer and shall each be authenticated by or on behalf of the Principal Paying Agent. Definitive Bonds and interest coupons shall not be issued.

(b) The Temporary Global Bond shall be exchanged for the Permanent Global Bond on a date (the ***Exchange Date***) not later than 180 days after the Issue Date. The Exchange Date will not be earlier than 40 days after the Issue Date. Such exchange shall only be made upon delivery of certifications to the effect that the beneficial owner or owners of the Bonds is not a U.S. person (other than certain financial institutions or certain persons holding Bonds through such financial institutions). Payment of interest on Bonds represented by a Temporary Global Bond shall be made only after delivery

Schuldverschreibungen durch die Vorläufige Globalurkunde verbrieft sind, werden Zinszahlungen erst nach Vorlage solcher Bescheinigungen vorgenommen. Eine gesonderte Bescheinigung ist für jede solche Zinszahlung erforderlich. Jede Bescheinigung, die am oder nach dem 40. Tag nach dem Ausgabetag eingeht, wird als ein Ersuchen behandelt werden, die Vorläufige Globalurkunde gemäß diesem § 2(2)(b) auszutauschen. Schuldverschreibungen, die im Austausch für die Vorläufige Globalurkunde geliefert werden, dürfen nur außerhalb der Vereinigten Staaten geliefert werden.

(3) Clearingsystem. Die Dauerglobalurkunden werden solange von einem oder im Namen des Clearingsystems verwahrt, bis sämtliche Verbindlichkeiten der Emittentin aus den Schuldverschreibungen erfüllt sind.

(4) Übertragbarkeit. Den Anleihegläubigern stehen Miteigentumsanteile oder -rechte an den Globalurkunden zu, die nach Maßgabe des anwendbaren Rechts und der jeweils geltenden Regelwerke des Clearingsystems übertragen werden können.

§ 3
NACHRANGIGE GARANTIE

Die Linde Aktiengesellschaft, Wiesbaden, Deutschland (die ***Garantin***) hat gegenüber der Hauptzahlstelle die unbedingte und unwiderrufliche nachrangige Garantie (die ***Nachrangige Garantie***) zugunsten der Anleihegläubiger für die ordnungsgemäße und pünktliche Zahlung, jeweils bei Fälligkeit nach Maßgabe dieser Anleihebedingungen, von Kapital und Zinsen und allen anderen zu zahlenden Beträgen unter den Schuldverschreibungen übernommen. Die Nachrangige Garantie stellt einen Vertrag zugunsten der Anleihegläubiger als begünstigte Dritte im Sinne des § 328 Abs. 1 BGB dar, der jedem Anleihegläubiger das Recht gibt, Erfüllung der in der Nachrangigen Garantie übernommenen Verpflichtungen unmittelbar von der Garantin zu verlangen und diese Verpflichtungen unmittelbar gegen die Garantin durchzusetzen.

§ 4
STATUS DER SCHULDVERSCHREIBUNGEN UND DER NACHRANGIGEN GARANTIE

(1) Status der Schuldverschreibungen. Die Schuldverschreibungen begründen nicht besicherte und nachrangige Verbindlichkeiten der Emittentin, die (i) dem Grundkapital der Emittentin vorrangig sind,

of such certifications. A separate certification shall be required in respect of each such payment of interest. Any such certification received on or after the 40th day after the Issue Date shall be treated as a request to exchange the Temporary Global Bond pursuant to this § 2(2)(b). Any Bonds delivered in exchange for the Temporary Global Bond shall be delivered only outside of the United States.

(3) Clearing System. The Global Bonds will be kept in custody by or on behalf of the Clearing System until all obligations of the Issuer under the Bonds have been satisfied.

(4) Transferability. The Bondholders will receive proportional co-ownership participations or rights in the Global Bonds that are transferable in accordance with applicable law and applicable rules of the Clearing System.

§ 3
SUBORDINATED GUARANTEE

Linde Aktiengesellschaft, Wiesbaden, Germany (the ***Guarantor***) has issued an unconditional and irrevocable subordinated guarantee (the ***Subordinated Guarantee***) to the Principal Paying Agent for the benefit of the Bondholders, for the due and punctual payment of principal of, and interest on, and any other amounts payable under the Bonds, in each case when falling due in accordance with these Terms and Conditions. The Subordinated Guarantee constitutes a contract for the benefit of the Bondholders from time to time as third party beneficiaries in accordance with § 328(1) of the German Civil Code, giving rise to the right of each Bondholder to require performance of the obligations under the Subordinated Guarantee directly from the Guarantor and to enforce the obligations under the Subordinated Guarantee directly against the Guarantor.

§ 4
STATUS OF THE BONDS AND THE SUBORDINATED GUARANTEE

(1) Status of the Bonds. The obligations of the Issuer under the Bonds constitute unsecured and subordinated obligations of the Issuer ranking (i) senior to the Issuer's share capital, (ii) *pari passu*

(ii) untereinander und mit Verbindlichkeiten der Emittentin aus der Nachranganleihe 2003 gleichrangig sind und (iii) nachrangig sind zu allen anderen derzeitigen oder künftigen nicht nachrangigen und solchen nachrangigen Verbindlichkeiten, die als den Schuldverschreibungen vorrangig vereinbart sind, soweit zwingende gesetzliche Bestimmungen nichts anderes vorschreiben. Im Fall der Liquidation, der Auflösung oder der Insolvenz der Emittentin oder eines Vergleichs oder eines anderen der Abwendung der Insolvenz der Emittentin dienenden Verfahrens erfolgen Zahlungen auf die Schuldverschreibungen erst dann, wenn die Ansprüche aller nicht nachrangigen und nachrangigen Gläubiger der Emittentin, deren Ansprüche als gegenüber den Schuldverschreibungen vorrangig vereinbart wurden, vollständig befriedigt sind. Anleihegläubiger sind nicht berechtigt, Forderungen aus den Schuldverschreibungen gegen mögliche Forderungen der Emittentin aufzurechnen. Die Emittentin ist nicht berechtigt, Forderungen gegenüber Anleihegläubigern gegen Verpflichtungen aus den Schuldverschreibungen aufzurechnen. Für die Rechte der Anleihegläubiger aus den Schuldverschreibungen ist diesen mit Ausnahme der Nachrangigen Garantie keine Sicherheit durch die Emittentin oder durch Dritte gestellt; eine solche Sicherheit (mit Ausnahme der Nachrangigen Garantie) wird auch zu keinem Zeitpunkt gestellt werden.

among themselves and with any obligations of the Issuer under the Subordinated Bonds 2003 and (iii) junior to all other present or future unsubordinated obligations of the Issuer and subordinated obligations of the Issuer that are expressed to rank senior to the Bonds, except in each case as otherwise required by mandatory provisions of law. In the event of the liquidation, dissolution, insolvency, composition or other proceedings for the avoidance of insolvency of the Issuer no amounts shall be payable in respect of the Bonds until the claims of all unsubordinated and subordinated creditors of the Issuer the claims of which are expressed to rank senior to the Bonds shall have first been satisfied in full. No Bondholder may set-off any claims arising under the Bonds against any claims that the Issuer may have against it. The Issuer may not set-off any claims it may have against the Bondholders against any of its obligations under the Bonds. Except for the Subordinated Guarantee, no security is, or shall at any time be, provided by the Issuer or any other person securing rights of the Bondholders under the Bonds.

(2) Status der Nachrangigen Garantie. Die Verpflichtungen der Garantin aus der Nachrangigen Garantie sind nicht besicherte, nachrangige Verbindlichkeiten der Garantin, die vorbehaltlich § 5(5)(i) dem Grundkapital der Garantin vorrangig sind, (ii) untereinander und mit den Verbindlichkeiten der Garantin aus der Nachrangigen Garantie in Bezug auf die Nachranganleihe 2003 gleichrangig sind und (iii) nachrangig sind zu allen anderen derzeitigen und zukünftigen nicht nachrangigen und nachrangigen Verbindlichkeiten der Garantin, die als gegenüber den Verpflichtungen der Garantin aus der Garantie vorrangig vereinbart sind, soweit nicht zwingende gesetzliche Bestimmungen etwas anderes vorschreiben. Im Fall der Auflösung, der Liquidation, der Insolvenz oder eines der Abwendung der Insolvenz der Garantin dienenden Verfahrens erfolgen Zahlungen auf die Nachrangige Garantie erst dann, wenn alle Ansprüche gegen die Garantin aus nicht nachrangigen Verbindlichkeiten sowie nachrangigen Verbindlichkeiten, die als gegenüber Verbindlichkeiten aus der Nachrangigen Garantie vorrangig vereinbart wurden vollständig befriedigt sind. Anleihegläubiger sind nicht berechtigt, Forderungen aus

(2) Status of the Subordinated Guarantee. Subject to § 5(5), the obligations of the Guarantor under the Subordinated Guarantee constitute unsecured and subordinated obligations of the Guarantor ranking (i) senior to the Guarantor's share capital, (ii) *pari passu* among themselves and with any obligations of the Guarantor under the subordinated guarantee in relation to the Subordinated Bonds 2003, and (iii) junior to all other present orfuture unsubordinated and subordinated obligations of the Guarantor expressed to rank senior to the claims under the Subordinated Guarantee, except as otherwise required by mandatory law. In the event of the dissolution, liquidation, insolvency or any proceeding for the avoidance of the insolvency of the Guarantor, no amounts shall be payable under the Subordinated Guarantee until the claims of all unsubordinated and subordinated creditors of the Guarantor the claims of which are expressed to rank senior to the Subordinated Guarantee shall first have been satisfied in full. No Bondholder may set-off any claims arising under the Subordinated Guarantee against any claims that the Guarantor may have against it. The Guarantor may not set-off any claims der Nachrangigen Garantie gegen mögliche Forderungen der Garantin gegen sie aufzurechnen. Die Garantin ist nicht berechtigt, Forderungen gegenüber Anleihegläubigern gegen Verpflichtungen aus der Nachrangigen Garantie aufzurechnen. Für die Rechte der Anleihegläubiger aus der Nachrangigen Garantie ist diesen keine Sicherheit durch die Garantin oder durch Dritte gestellt; eine solche Sicherheit wird auch zu keinem Zeitpunkt gestellt werden.

Die Anleihegläubiger erkennen ausdrücklich an, dass unter den oben genannten Umständen Zahlungen der Garantin unter der Nachrangigen Garantie auf die Schuldverschreibungen nur unter Wahrung obenstehender Nachrangigkeit erfolgen werden.

§ 5
ZINSEN

(1) Fester Zinszeitraum. Zinsen auf die Schuldverschreibungen werden vom Ausgabetag (einschließlich) bis zum [14]. Juli 2016 (ausschließlich) wie folgt gezahlt:

(a) Die Schuldverschreibungen werden mit jährlich [5,75 – 9,75] % auf ihren Nennbetrag verzinst und die Zinsen sind, vorbehaltlich § 5(3), nachträglich jährlich am [14]. Juli eines jeden Jahres, erstmals am [14]. Juli 2007 fällig (jeweils ein ***Festzins-Zahlungstag***). Der vorgenannte Zinssatz erhöht sich ab dem Tag, der 60 Tage nach dem Eintritt eines Kontrollwechsels liegt (einschließlich) um 5,00 % p.a.

(b) Zinsen, die auf einen festen Zinszeitraum von weniger als einem Jahr zu berechnen sind, werden auf Basis der tatsächlich verstrichenen Tage, geteilt durch 365 bzw. 366 (tatsächliche Anzahl der Tage im betreffenden Zinsjahr), berechnet.

(2) Variabler Zinszeitraum. Zinsen auf die Schuldverschreibungen werden vorbehaltlich § 5(3) vom [14]. Juli 2016 (einschließlich) bis zum Tag der Rückzahlung der Schuldverschreibungen (ausschließlich) wie folgt gezahlt:

(a) Vorbehaltlich einer vorzeitigen Rückzahlung gemäß diesen Anleihebedingungen werden die Schuldverschreibungen in Höhe des von der Berechnungsstelle gemäß § 5(2)(d) festgesetzten Zinssatzes verzinst, wobei die Zinsen, vorbehaltlich § 5(3), vierteljährlich nachträglich an jedem Variablen Zinszahlungstag gezahlt werden.

it may have against the Bondholders against any of its obligations under the Subordinated Guarantee. No security is, or shall at any time be, provided by the Guarantor or any other person securing rights of the Bondholders under the Subordinated Guarantee.

Bondholders explicitly accept that, in the circumstances described above, payments in respect of the Bonds will be made by the Guarantor pursuant to the Subordinated Guarantee only in accordance with the subordination described above.

§ 5
INTEREST

(1) Fixed Interest Period. Interest on the Bonds from and including the Issue Date to but excluding July [14], 2016 will be paid as follows:

(a) The Bonds bear interest at the rate of [5.75 – 9.75]% per annum on their principal amount and, subject to § 5(3), interest shall be payable annually in arrears on July [14] of each year commencing on July [14], 2007 (each a ***Fixed Interest Payment Date***). The interest rate pursuant to the preceding sentence will be increased by 5.00% p.a. from the day falling 60 days after the day on which a Change of Control has occurred (inclusive).

(b) If interest is to be calculated for a fixed period of less than one year, it shall be calculated on the basis of the actual number of days elapsed, divided by the actual number of days (365 or 366) in the relevant annual interest period.

(2) Floating Interest Period. Subject to § 5(3), interest on the Bonds from and including July [14], 2016 to but excluding the day of redemption of the Bonds will be paid as follows:

(a) Unless previously redeemed in accordance with the Terms and Conditions, the Bonds shall bear interest at a rate determined by the Calculation Agent pursuant to § 5(2)(d) below, payable, subject to § 5(3), quarterly in arrears on each Floating Interest Payment Date.

(b) Falls ein Variabler Zinszahlungstag auf einen Tag fallen würde, der kein Geschäftstag ist, wird die Zinszahlung auf den nächstfolgenden Geschäftstag verschoben, es sei denn, jener würde dadurch in den nächsten Kalendermonat fallen; in diesem Fall fällt der Variable Zinszahlungstag auf den unmittelbar vorausgehenden Geschäftstag.

(c) Der Zinssatz für jeden Variablen Zinszeitraum (der ***Zinssatz***) ist, sofern nachstehend nichts Abweichendes bestimmt wird, entweder:

(i) der angezeigte Angebotssatz (für den Fall, dass auf der Bildschirmseite üblicherweise nur ein Angebotssatz angezeigt wird); oder

(ii) das arithmetische Mittel der angezeigten Angebotssätze (falls erforderlich, auf das nächste eintausendstel Prozent auf- oder abgerundet, wobei 0,0005 aufgerundet wird),

(ausgedrückt als Prozentsatz per annum) für Dreimonats-Einlagen in Euro für den jeweiligen Variablen Zinszeitraum, der bzw. die auf der Bildschirmseite am Zinsfestlegungstag um 11:00 Uhr (Brüsseler Ortszeit) angezeigt wird bzw. werden, zuzüglich der Marge, wobei alle Festlegungen durch die Berechnungsstelle erfolgen.

Wenn im vorstehenden Fall (ii) auf der Bildschirmseite fünf oder mehr Angebotssätze angezeigt werden, werden der höchste (oder, falls mehr als ein solcher Höchstsatz angezeigt wird, nur einer dieser Sätze) und der niedrigste Angebotssatz (oder, falls mehr als ein solcher Niedrigstsatz angezeigt wird, nur einer dieser Sätze) von der Berechnungsstelle für die Bestimmung des arithmetischen Mittels der Angebotssätze (das wie vorstehend beschrieben auf- oder abgerundet wird) außer Acht gelassen; diese Bestimmung gilt entsprechend für diesen gesamten § 5(2)(c).

Sollte die Bildschirmseite nicht zur Verfügung stehen, oder wird im vorstehenden Fall (i) kein Angebotssatz angezeigt, oder werden im vorstehenden Fall (ii) weniger als drei Angebotssätze angezeigt, wird die Berechnungsstelle von fünf von ihr ausgewählten Referenzbanken deren jeweilige Angebotssätze (jeweils als Prozentsatz per annum ausgedrückt) für Dreimonats-Einlagen in Euro für den betref-

(b) If any Floating Interest Payment Date would otherwise fall on a day which is not a Business Day, payment of interest shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which case the Floating Interest Payment Date shall be the immediately preceding Business Day.

(c) The rate of interest for each Floating Interest Period (the ***Rate of Interest***) will, except as provided below, be either:

(i) the offered quotation displayed (if the Screen Page ordinarily provides only one quotation); or

(ii) the arithmetic mean (rounded, if necessary, to the nearest one thousandth of a percentage point, with 0.0005 being rounded upwards) of the offered quotations displayed,

(expressed as a percentage rate per annum) for three-month deposits in euro for that Floating Interest Period which appears or appear, as the case may be, on the Screen Page as of 11:00 a.m. (Brussels time) on the Interest Determination Date, plus the Margin, all as determined by the Calculation Agent.

If, in the case of (ii) above, five or more such offered quotations are available on the Screen Page, the highest rate (or, if there is more than one such highest rate, only one of such rates) and the lowest rate (or, if there is more than one such lowest rate, only one of such rates) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations and this rule shall apply throughout this § 5(2)(c) accordingly.

If the Screen Page is not available or if, in the case of (i) above, no such quotation appears or, in the case of (ii) above, fewer than three such offered quotations appear the Calculation Agent shall request five Reference Banks selected by it to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for three-month deposits in euro for the relevant Floating fenden Variablen Zinszeitraum gegenüber führenden Banken im Interbanken-Markt in den Teilnehmerstaaten der dritten Stufe der Wirtschafts- und Währungsunion im Sinne des Vertrages über die Europäische Union anfordern. Maßgeblich sind die Sätze um ca. 11:00 Uhr (Brüsseler Ortszeit) am Zinsfestlegungstag. Sofern zwei oder mehr der ausgewählten Referenzbanken der Berechnungsstelle solche Angebotssätze nennen, ist der Zinssatz für den betreffenden Variablen Zinszeitraum das arithmetische Mittel dieser Angebotssätze (falls erforderlich, auf- oder abgerundet auf das nächste ein tausendstel Prozent, wobei 0,0005 aufgerundet wird), zuzüglich der Marge.

Für den Fall, dass der Zinssatz nicht gemäß den vorstehenden Bestimmungen ermittelt werden kann, ist der Zinssatz der Angebotssatz oder das arithmetische Mittel der Angebotssätze auf der Bildschirmseite, wie vorstehend beschrieben, an dem letzten Tag vor dem Zinsfestlegungstag, an dem ein solcher Angebotssatz bzw. solche Angebotssätze angezeigt wurde(n) zuzüglich der Marge.

Referenzbanken sind diejenigen Banken, deren Angebotssätze zur Ermittlung des angezeigten Angebotssatzes zu dem Zeitpunkt benutzt wurden, als solch ein Angebot letztmals auf der Bildschirmseite angezeigt wurde.

(d) Die Berechnungsstelle wird zu oder baldmöglichst nach jedem Zinsfestlegungstag den Zinssatz bestimmen und den auf den Gesamtnennbetrag der Schuldverschreibungen zahlbaren Zinsbetrag (der ***Zinsbetrag***) für den entsprechenden Variablen Zinszeitraum berechnen. Der jeweilige Zinsbetrag ergibt sich aus der Multiplikation des Zinssatzes mit dem Zinstagequotienten und dem Gesamtnennbetrag der Schuldverschreibungen, wobei der daraus resultierende Betrag auf den nächsten Eurocent auf- oder abgerundet wird, und 0,5 oder mehr eines Eurocents aufgerundet werden.

Zinstagequotient bezeichnet im Hinblick auf die Berechnung des Zinsbetrages auf jede Schuldverschreibung für einen Variablen Zinszeitraum oder einen Teil davon (der ***Zinsberechnungszeitraum***) die tatsächliche Anzahl von Tagen im Zinsberechnungszeitraum dividiert durch 360.

Interest Period to leading banks in the interbank market of the participating Member States in the third stage of the Economic and Monetary Union, as contemplated by the Treaty on European Union. The relevant offered quotations shall be those offered at approximately 11:00 a.m. (Brussels time) on the Interest Determination Date. As long as two or more of the selected Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Floating Interest Period shall be the arithmetic mean of such offered quotations (rounded if necessary to the nearest one thousandth of a percentage point, with 0.0005 being rounded upwards), plus the Margin.

If the Rate of Interest cannot be determined in accordance with the foregoing provisions, the Rate of Interest shall be the offered quotation or the arithmetic mean of the offered quotations on the Screen Page, as described above, on the last day preceding the Interest Determination Date on which such quotation or, as the case may be, quotations were offered, plus the Margin.

Reference Banks means those banks whose offered rates were used to determine such quotation when such quotation last appeared on the Screen Page.

(d) The Calculation Agent shall, on or as soon as practicable after each Interest Determination Date, determine the Rate of Interest and calculate the amount of interest (the ***Interest Amount***) payable on the aggregate principal amount of the Bonds for the relevant Floating Interest Period. Each Interest Amount shall be calculated by multiplying the Rate of Interest with the Day Count Fraction and the aggregate principal amount of the Bonds and rounding the resulting figure to the nearest Eurocent, with 0.5 or more of a Eurocent being rounded upwards.

Day Count Fraction means, in respect of the calculation of an amount of interest on each Bond for any Floating Interest Period or part thereof (the ***Calculation Period***), the actual number of days in the Calculation Period divided by 360.

(e) Die Berechnungsstelle wird veranlassen, dass der Zinssatz, der Zinsbetrag für den jeweiligen Variablen Zinszeitraum, jeder Variable Zinszeitraum und der betreffende Variable Zinszahlungstag der Emittentin und jeder Börse, an der die Schuldverschreibungen zu diesem Zeitpunkt notiert sind und deren Regeln eine Mitteilung an die Börse verlangen, sowie den Anleihegläubigern gemäß § 13 unverzüglich, aber keinesfalls später als am vierten auf die Festlegung folgenden Geschäftstag mitgeteilt werden.

(e) The Calculation Agent will cause the Rate of Interest, each Interest Amount for each Floating Interest Period, each Floating Interest Period and the relevant Floating Interest Payment Date to be notified to the Issuer and, if required by the rules of any stock exchange on which the Bonds are listed from time to time, to such stock exchange, and to the Bondholders in accordance with § 13 without undue delay, but, in any case, not later than on the fourth Business Day after their determination.

(f) Sämtliche Bescheinigungen, Mitteilungen, Gutachten, Festsetzungen, Berechnungen, Quotierungen und Entscheidungen, die von der Berechnungsstelle für die Zwecke dieser Anleihebedingungen gemacht, abgegeben, getroffen oder eingeholt werden, sind (sofern nicht vorsätzliches Fehlverhalten oder ein offensichtlicher Irrtum vorliegt) für die Emittentin und die Anleihegläubiger bindend.

(f) All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of these Terms and Conditions by the Calculation Agent shall (in the absence of wilful default or manifest error) be binding upon the Issuer and the Bondholders.

(3) **Zinsaufschub.** Die Emittentin ist nicht verpflichtet, an einem Zinszahlungstag Zinsen zu zahlen, wenn und soweit sie sich gegen eine solche Zahlung entschieden hat; eine Nichtzahlung aus diesem Grunde begründet keinen Verzug der Emittentin. Soweit sich die Emittentin entscheidet, an einem Zinszahlungstag nicht den gesamten Zinsbetrag zu zahlen, hat sie dies den Anleihegläubigern gemäß § 13 unter Einhaltung einer Frist von mindestens 10 und höchstens 15 Geschäftstagen vor diesem Zinszahlungstag bekannt zu machen. Jedwede aufgrund einer derartigen Entscheidung der Emittentin nicht gezahlte Zinsen stellen ***Zinsrückstände*** dar. Die Emittentin kann vorbehaltlich der Bedingungen gemäß § 5(4) ausstehende Zinsrückstände jederzeit ganz oder teilweise nach Mitteilung an die Anleihegläubiger gemäß § 13 unter Einhaltung einer Frist von nicht weniger als 10 und nicht mehr als 15 Geschäftstagen zahlen (wobei eine solche Mitteilung unwiderruflich ist und die Emittentin verpflichtet ist, die jeweiligen Zinsrückstände an dem in dieser Mitteilung genannten Zahlungstag zu zahlen).

(3) **Interest Deferral.** The Issuer shall not have any obligation to pay interest on any Interest Payment Date if and to the extent it elects not to do so, and any such failure to pay interest shall not constitute a default of the Issuer. If the Issuer decides not to pay the full amount of interest on an Interest Payment Date, the Issuer shall notify the Bondholders in accordance with § 13 not less than 10 and not more than 15 Business Days prior to such Interest Payment Date. Any interest not paid due to such an election by the Issuer shall constitute ***Arrears of Interest***. Subject to the conditions in § 5(4), the Issuer may pay outstanding Arrears of Interest (in whole or in part) at any time on the giving of not less than 10 and not more than 15 Business Days' notice to the Bondholders in accordance with § 13 (such notice will be irrevocable and will oblige the Issuer to pay the relevant Arrears of Interest on the payment date specified in such notice).

(4) **Tilgung von Zinsrückständen.**

(a) Jede Zahlung von Zinsrückständen nach Maßgabe der nachfolgenden Bestimmungen erfolgt vorbehaltlich der Bedingungen gemäß § 5(4)(c).

(4) **Payment of Arrears of Interest.**

(a) Any payment of Arrears of Interest in accordance with the following provisions shall be subject to the conditions set forth in § 5(4)(c) below.

(b) Die Emittentin ist verpflichtet, ausstehende Zinsrückstände (vollständig, jedoch nicht teilweise) an dem zuerst eintretenden der folgenden Tage zu zahlen (jeder solche Tag ein ***Zinsrückstände-Zahlungstag***):

(i) an dem Tag, an dem die Garantin eine Dividendenzahlung oder eine sonstige Ausschüttung in Bezug auf Aktien gleich welcher Gattung beschließt, zahlt oder vornimmt;

(ii) an dem Zinszahlungstag, bezüglich dessen die Emittentin von ihrem Wahlrecht, die Zinszahlung ganz oder teilweise aufzuschieben, keinen Gebrauch macht;

(iii) an dem Tag, an dem die Schuldverschreibungen gemäß § 6(1) zur Rückzahlung fällig sind;

(iv) an dem Tag, an dem die Emittentin, die Garantin oder eine Konzerngesellschaft (direkt, aufgrund einer Garantie oder anderweitig) eine Zinszahlung oder eine sonstige Ausschüttung auf ein Nachrangiges Wertpapier oder ein Gleichrangiges Wertpapier leistet, ausgenommen obligatorische Zinszahlungen der Emittentin (oder bei deren Nichtleistung der Garantin) an einem Wiederholten Fakultativen Zinszahlungstag wie in § 5(3) der Anleihebedingungen der Nachranganleihe 2003 definiert; und

(v) an dem Tag, an dem die Emittentin, die Garantin oder eine Konzerngesellschaft für eine Gegenleistung die Schuldverschreibungen (ganz oder teilweise), Aktien, Gleichrangige Wertpapiere oder Nachrangige Wertpapiere zurückzahlt, zurückkauft oder anderweitig erwirbt, außer im Zusammenhang mit (i) derzeit bestehenden oder zukünftig geschaffenen Aktienoptionsplänen oder (ii) der Umwandlung von Aktien in Aktien einer anderen Gattung.

Zinsrückstände werden nicht verzinst.

(c) Die Verpflichtung der Emittentin zur Nachzahlung von Zinsrückständen steht, ausgenommen im Fall von § 5(5) (Insolvenz), unter der aufschiebenden Bedingung, dass die Garantin Mittel in Höhe der zahlbaren Zinsrückstände durch die Ausgabe oder den Verkauf von

(b) The Issuer will be obliged to pay outstanding Arrears of Interest (in whole but not in part) on the earlier of (each such date an ***Arrears of Interest Payment Date***):

(i) the date on which the Guarantor has declared, paid or made a dividend or other distribution on, or in respect of, any class of shares;

(ii) the Interest Payment Date in relation to which the Issuer does not elect to defer interest payments (in whole or in part);

(iii) the due date for redemption of the Bonds pursuant to § 6(1);

(iv) the date on which the Issuer, the Guarantor or any Group Entity (directly, pursuant to any guarantee or otherwise) makes any payment of interest or distribution of any sort on a Junior Security or a Parity Security, except for any mandatory payment of the Issuer (or failing whom the Guarantor) on a Recurred Optional Interest Payment Date as defined in § 5(3) of the Terms and Conditions of the Subordinated Bonds 2003; and

(v) the date on which the Issuer, the Guarantor or any Group Entity redeems, repurchases or otherwise acquires any of the Bonds (in whole or in part), any shares, any Parity Security or any Junior Security against consideration therefore, except in connection with (i) any present or future stock option plan or (ii) a reclassification of shares for shares of another class.

Arrears of Interest shall not themselves bear interest.

(c) The obligation of the Issuer to pay Arrears of Interest is, except for § 5(5) (insolvency), subject to the condition precedent that the Guarantor raised proceeds in an amount equal to the amount of Arrears of Interest payable through the issuance or sale of shares of the

Aktien der Garantin im Rahmen des Emissionsvolumens (mit Ausnahme von eigenen Aktien, welche innerhalb eines Zeitraums von sechs Monaten vor dem betreffenden Zinsrückstände-Zahlungstag gegen Barzahlung erworben wurden) beschafft hat (wobei der Anspruch der Anleihegläubiger auf Zahlung ausstehender Zinsrückstände ein Barzahlungsanspruch bleibt).

Emissionsvolumen: Für die Zwecke der Prüfung der Einhaltung der Bedingungen für die Zahlung von Zinsrückständen werden Erlöse aus der Ausgabe oder dem Verkauf von neuen Aktien der Garantin nur berücksichtigt, soweit die Zahl der Aktien der Garantin, die während eines Zeitraums von zwölf Monaten zu diesem Zweck (wie von der Garantin festgelegt) gemäß diesem § 5(4)(c) ausgegeben oder verkauft werden, 2 % der am ersten Tag dieses Zwölfmonatszeitraums ausgegebenen und ausstehenden Aktien nicht übersteigt.

Die Garantin wird sich bemühen, die für die Zahlung von Zinsrückständen erforderlichen Mittel innerhalb eines Zeitraums von sechs Monaten vor dem für die Zahlung der Zinsrückstände in § 5(4)(b) vorgesehenen Tag beschaffen. Wenn die die Garantin aufgrund der vorstehenden Beschränkungen des Emissionsvolumens oder aus rechtlichen Gründen, insbesondere solchen deutschen Gesellschaftsrechts, nicht in der Lage gewesen ist, innerhalb der im vorgenannten Satz genannten Frist Aktien nach Maßgabe dieses § 5(4) zu begeben oder zu verkaufen, erlischt die Verpflichtung der Emittentin zur Nachzahlung der Zinsrückstände nicht. Die Garantin wird sich im Rahmen des rechtlich Möglichen weiterhin bemühen, die vorstehenden Bedingungen sobald wie möglich zu erfüllen und Aktien nach Maßgabe dieses § 5(4) zu begeben oder zu verkaufen (bzw. die Begebung bzw. den Verkauf zu veranlassen), so dass alle ausstehenden Zinsrückstände unverzüglich danach gezahlt werden.

Die Garantin wird für einen Zeitraum von 12 Monaten nach einer Zahlung von Zinsrückständen gemäß diesem § 5(4) Aktien nur insoweit gegen Zahlung einer Gegenleistung einziehen, zurückkaufen oder erwerben, als die Anzahl der seit der Ausgabe oder dem Verkauf von Aktien zur Zahlung von Zinsrückständen

Guarantor (except for treasury shares which have been acquired for cash within a period of six month before the relevant Arrears of Interest Payment Date) within the Issue Volume (it being understood that the claim of Bondholders in respect of outstanding Arrears of Interest continues to be a claim for a fixed monetary amount in cash).

Issue Volume: For the purposes of determining whether the conditions for the payment of Arrears of Interest have been met, proceeds raised through the sale or issuance of new shares of the Guarantor will only be considered to the extent that the number of shares of the Guarantor sold or issued within any twelve months period for such purpose (as determined by the Guarantor) pursuant to this § 5(4)(c) does not exceed 2% of all issued and outstanding shares on the first day of such period.

The Guarantor will endeavour to raise proceeds in an amount equal to the Arrears of Interest within the six months prior to the date for payment of Arrears of Interest specified in § 5(4)(b). If, due to the limitations relating to the Issue Volume or due to legal restrictions, in particular provisions of German corporate law, the Guarantor has not been able to issue or sell shares in accordance with this § 5(4) within the period stipulated by in the preceding sentence, the obligation of the Issuer to make up for any Arrears of Interest shall not lapse. To the extent legally possible, the Guarantor will continue to endeavour to meet the preceding conditions as soon as possible and to issue or sell (or cause the issuance or sale of) shares of the Guarantor in accordance with this § 5(4) such that all outstanding Arrears of Interest will be paid for immediately thereafter.

For a period of at least 12 months following settlement of Arrears of Interest in accordance with § 5(4), the Guarantor shall not redeem, repurchase or acquire any of its shares for any consideration if and to the extent that such redemption, repurchase or acquisition would result in the balance of (x) the number of (einschließlich) insgesamt ausgegebenen Aktien abzüglich die Anzahl der seit diesem Zeitpunkt eingezogenen, zurückgekauften oder erworbenen Aktien die Anzahl der zur Zahlung von Zinsrückständen ausgegebenen Aktien übersteigt, außer im Zusammenhang mit (i) derzeit bestehenden oder zukünftigen Aktienoptionsplänen oder (ii) der Umwandlung von Aktien in Aktien einer anderen Gattung.

shares issued since and including the issuance or selling of shares for payment of Arrears of Interest and (y) the number of shares redeemed, repurchased or acquired since and including the issuance or selling of shares for payment of Arrears of Interest exceeding the number of shares issued for the settlement of any Arrears of Interest, other than in connection with (i) any present or future stock option plan or (ii) a reclassification of shares for shares of another class.

Anleihegläubiger werden darauf hingewiesen, dass die Garantin durch zwingende Bestimmungen des deutschen Aktienrechts an der Ausgabe oder dem Verkauf von Aktien gehindert sein kann.

Bondholders are notified that compulsory provisions of German stock corporation law may prevent the Guarantor from selling treasury shares or issuing new shares.

(d) Soweit die Emittentin Zinsrückstände gemäß diesem § 5(4) nachzahlt, hat sie dies den Anleihegläubigern gemäß § 13 unter Einhaltung einer Frist von mindestens 10 und höchstens 15 Geschäftstagen vor dem Tag der Nachzahlung unter Angabe des Tags der Nachzahlung und des auf jede Schuldverschreibung nachzuzahlenden Betrages mitzuteilen. Eine solche Mitteilung ist unwiderruflich und verpflichtet die Emittentin, die jeweiligen Zahlungen an dem in der Mitteilung genannten Tag zu bewirken.

(d) If the Issuer pays Arrears of Interest pursuant to this § 5(4), it shall notify the Bondholders in accordance with § 13 not less than 10 and not more than 15 Business Days prior to the date on which such payment will be made; such notice shall state the date of payment and the payment per Bond. Such notice shall be irrevocable and shall oblige the Issuer to make the relevant payment on the date specified in such notice.

(e) Die Emittentin kann, unter Einhaltung der in diesem § 5(4) genannten Bedingungen, ausstehende Zinsrückstände jederzeit ganz oder teilweise nach Mitteilung an die Anleihegläubiger gemäß § 13, in der das Rückzahlungsdatum und der Betrag der zurückzuzahlenden Zinsrückstände anzugeben ist, unter Einbehaltung einer Frist von nicht weniger als 10 und nicht mehr als 15 Geschäftstagen zahlen. Eine solche Mitteilung ist unwiderruflich und verpflichtet die Emittentin, die jeweiligen Zahlungen an dem in der Mitteilung genannten Tag zu bewirken.

(e) The Issuer may at any time, subject to the conditions set forth in this § 5(4), make payment in full or in part of any outstanding Arrears of Interest upon giving notice to the Bondholders in accordance with § 13 not less than 10 and not more than 15 Business Days prior to the date on which such payment will be made. Such notice shall state the date and the amount of the voluntary make-up payment. Such notice shall be irrevocable and shall oblige the Issuer to make the relevant payment on the date specified in such notice.

(5) Nachzahlungsverpflichtung bei Insolvenz. Sofern eine Verfügung oder ein Beschluss zur Auflösung, Abwicklung oder Liquidation der Garantin ergeht (sofern dies nicht für die Zwecke oder als Folge eines Zusammenschlusses, einer Umstrukturierung oder Sanierung geschieht, bei dem bzw. bei der die Garantin noch zahlungsfähig ist und bei dem bzw. der die fortführende Gesellschaft im Wesentlichen alle Vermögenswerte und Verpflichtungen der Emittentin übernimmt), findet § 5(4) keine Anwendung

(5) Make-up Payment Obligation in case of Insolvency. If an order or a resolution is made for the winding-up, or dissolution or liquidation of the Guarantor (other than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring while solvent, where the continuing entity assumes substantially all of the assets and obligations of the Guarantor), § 5(4) shall be inapplicable and the claims of the Bondholders for payment of Arrears of Interest under the und stehen die Ansprüche der Anleihegläubiger aus der Nachrangigen Garantie auf Zahlung von Zinsrückständen abweichend von § 4(2) den Ansprüchen aus Aktien der Garantin im Rang gleich.

(6) Ende des Zinslaufs. Der Zinslauf der Schuldverschreibungen endet mit Beginn des Tages, an dem sie zur Rückzahlung fällig werden. Sollte die Emittentin die Schuldverschreibungen bei Fälligkeit nicht zurückzahlen, endet die Verpflichtung zur Zahlung von Zinsen auf den ausstehenden Nennbetrag zu dem dann maßgeblichen Zinssatz nicht am Fälligkeitstag, sondern erst mit dem Tag der tatsächlichen Rückzahlung der Schuldverschreibungen (ausschließlich).

§ 6
RÜCKZAHLUNG UND RÜCKKAUF

(1) ***Endfälligkeit.*** Die Schuldverschreibungen werden am [14]. Juli 2066 (der ***Fälligkeitstag***) zum Nennbetrag zuzüglich aufgelaufener Zinsen zurückgezahlt. Sofern am Fälligkeitstag Zinsrückstände ausstehen, wird die Garantin alle vernünftigerweise zu erwartenden Maßnahmen treffen, um gemäß § 5(4) die notwendigen Mittel in Höhe der Zinsrückstände zu erlösen, um diese Zinsrückstände sobald als vernünftigerweise möglich nach der Rückzahlung von Kapital und aufgelaufenen Zinsen zu zahlen.

(2) Kündigung und vorzeitige Rückzahlung nach Wahl der Emittentin. Die Emittentin kann die Schuldverschreibungen zum [14]. Juli 2016 oder zu jedem danach folgenden Variablen Zinszahlungstag durch unwiderrufliche Mitteilung an die Anleihegläubiger gemäß § 13 unter Einhaltung einer Frist von mindestens 30 und höchstens 60 Tagen kündigen und zum Nennbetrag zuzüglich sämtlicher bis zum Rückzahlungstag (ausschließlich) aufgelaufener Zinsen (insgesamt, jedoch nicht teilweise) zurückzahlen. Der Emittentin steht ein Kündigungsrecht gemäß diesem § 6(2) nicht zu, soweit Zinsrückstände ausstehen.

Eine solche Kündigungsmitteilung verpflichtet die Emittentin, die Schuldverschreibungen am [14]. Juli 2016 oder an dem in der Kündigung angegebenen Variablen Zinszahlungstag zu ihrem Nennbetrag zuzüglich aufgelaufener Zinsen zurückzuzahlen.

(3) Kündigungsrecht der Emittentin aus besonderen Gründen. Bei Eintritt eines Gross-up-Ereignisses, eines Kapitalereignisses, eines Steuerereignisses, eines Rechnungslegungsereignisses, eines BOC-Ereignisses oder eines Wandlungsereignisses vor dem

Subordinated Guarantee shall notwithstanding § 4(2) rank *pari passu* with the Guarantor's share capital.

(6) Cessation of Interest Payments. The Bonds shall cease to bear interest from the beginning of the day on which they are due for redemption. If the Issuer shall fail to redeem the Bonds when due, the obligation to pay interest shall continue to accrue at the then applicable rate on the outstanding principal amount of the Bonds beyond the due date until (and excluding) actual redemption of the Bonds.

§ 6
REDEMPTION AND PURCHASE

(1) Maturity. The Bonds will be redeemed on July [14], 2066 (the ***Maturity Date***) at their principal amount plus any accrued interest. If any Arrears of Interest remain outstanding on the Maturity Date, the Guarantor shall use all reasonable measures at its disposal in accordance with § 5(4) to raise funds equal to the Arrears of Interest outstanding to settle such Arrears of Interest as soon as reasonably practicable after the redemption of principal of the Bonds and accrued interest.

(2) Issuer Call Right and Early Redemption at the Option of the Issuer. The Issuer may call and redeem the Bonds (in whole but not in part) on July [14], 2016 or on any Floating Interest Payment Date thereafter at their principal amount, plus any interest accrued until the redemption date (exclusive) on the giving of not less than 30 and not more than 60 days' irrevocable notice of redemption to the Bondholders in accordance with § 13. The Issuer shall not be entitled to call and redeem the Bonds in accordance with this § 6(2) if any Arrears of Interest are outstanding.

Such notice of redemption shall oblige the Issuer to redeem the Bonds on July [14], 2016 or the Floating Interest Payment Date specified in that notice at their principal amount plus accrued interest.

(3) Issuer Call Right for Special Events. If prior to July [14], 2016 either a Gross-up Event, a Capital Event, a Tax Event, an Accounting Event, a BOC Event or a Conversion Event occurs, the Issuer may subject to paragraph (7) call and redeem the Bonds

[14]. Juli 2016 ist die Emittentin vorbehaltlich Absatz (7) berechtigt, die Schuldverschreibungen jederzeit (insgesamt, jedoch nicht teilweise) durch eine unwiderrufliche Mitteilung an die Anleihegläubiger gemäß § 13 unter Einhaltung einer Frist von mindestens 30 und höchstens 60 Tagen zu kündigen und zum Vorzeitigen Rückzahlungsbetrag (wie in Absatz (4) definiert) zurückzuzahlen. Der Emittentin steht ein Kündigungsrecht gemäß diesem § 6(3) nicht zu, soweit Zinsrückstände ausstehen.

(in whole but not in part) at their Early Redemption Amount (as defined in paragraph (4)) at any time on the giving of not less than 30 and not more than 60 days' irrevocable notice to the Bondholders in accordance with § 13. The Issuer shall not be entitled to call and redeem the Bonds in accordance with this § 6(3) if any Arrears of Interest are outstanding.

(a) Ein ***Gross-up-Ereignis*** liegt vor, wenn die (i) Emittentin aufgrund einer Gesetzesänderung oder einer Änderung der Vorschriften der Niederlande oder einer ihrer Gebietskörperschaften oder Steuerbehörden oder als Folge einer Änderung der offiziellen Auslegung oder Anwendung dieser Gesetze oder Vorschriften durch eine gesetzgebende Körperschaft, ein Gericht, eine Steuerbehörde, eine Aufsichtsbehörde oder eine sonstige Behörde (einschließlich des Erlasses von Gesetzen sowie der Bekanntmachung gerichtlicher oder aufsichtsrechtlicher Entscheidungen) verpflichtet ist oder verpflichtet sein wird, zusätzliche Beträge gemäß § 8 zu zahlen und die Emittentin diese Verpflichtung nicht abwenden kann, indem sie zumutbare Maßnahmen ergreift, die sie nach Treu und Glauben für angemessen hält; oder (ii) die Garantin aufgrund einer Gesetzesänderung oder einer Änderung der Vorschriften der Bundesrepublik Deutschland oder einer ihrer Gebietskörperschaften oder Steuerbehörden oder als Folge einer Änderung der offiziellen Auslegung oder Anwendung dieser Gesetze oder Vorschriften durch eine gesetzgebende Körperschaft, ein Gericht, eine Steuerbehörde, eine Aufsichtsbehörde oder eine sonstige Behörde (einschließlich des Erlasses von Gesetzen sowie der Bekanntmachung gerichtlicher oder aufsichtsrechtlicher Entscheidungen) verpflichtet ist oder verpflichtet sein wird, zusätzliche Beträge gemäß § 8 zu zahlen und die Garantin diese Verpflichtung nicht abwenden kann, indem sie zumutbare Maßnahmen ergreift, die sie nach Treu und Glauben für angemessen hält.

Eine Kündigung im Falle eines Gross-Up-Ereignisses darf nicht früher als 90 Tage vor dem frühesten Termin vorgenommen werden, an dem die Emittentin oder die Garantin

(a) A ***Gross-up Event*** shall occur if (i) the Issuer has or will become obliged to pay additional amounts pursuant to § 8 as a result of any change in, or amendment to, the laws or regulations of The Netherlands or any political subdivision or taxing authority thereof, or therein, or as a result of any amendment to, or any change in, any official interpretation or application of any such laws or regulations by any legislative body, court, or taxing authority, governmental agency or regulatory authority (including the enactment of any legislation and the publication of any judicial decision or regulatory determination), and that obligation cannot be avoided by the Issuer taking such reasonable measures it (acting in good faith) deems appropriate; or (ii) the Guarantor has or will become obliged to pay additional amounts pursuant to § 8 as a result of any change in, or amendment to, the laws or regulations of the Federal Republic of Germany or any political subdivision or taxing authority thereof, or therein, or as a result of any amendment to, or any change in, any official interpretation or application of any such laws or regulations by any legislative body, court, or taxing authority, governmental agency or regulatory authority (including the enactment of any legislation and the publication of any judicial decision or regulatory determination), and that obligation cannot be avoided by the Guarantor taking such reasonable measures it (acting in good faith) deems appropriate.

In the case of a Gross-up Event no such notice of redemption may be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be for the first erstmals verpflichtet wäre, die jeweiligen zusätzlichen Beträge auf fällige Beträge auf die Schuldverschreibungen zu zahlen.

time obliged to pay the additional amounts in question on payments due in respect of the Bonds.

(b) Ein ***Kapitalereignis*** liegt vor, wenn die Emittentin von allen Rating-Agenturen, von denen die Garantin so genannte „sponsored ratings" erhält, die Nachricht erhalten hat, dass die Schuldverschreibungen nicht mehr derselben oder einer höheren Eigenkapitalanrechnungskategorie (wie von den Rating-Agenturen, von denen die Garantin so genannte „sponsored ratings" erhält, definiert) zuzuordnen sind, der sie bei ihrer Begebung ausweislich entsprechender Veröffentlichungen zugeordnet waren.

(b) A ***Capital Event*** shall occur if the Issuer has received confirmation from all rating agencies from whom the Guarantor is assigned sponsored ratings that the Bonds will no longer be eligible for the same or higher category of equity credit, as defined by the rating agencies from whom the Guarantor is assigned sponsored ratings, attributed to the Bonds as published at the date of issuance.

(c) Ein ***Steuerereignis*** liegt vor, wenn aufgrund einer Gesetzesänderung oder einer Änderung der Vorschriften der Niederlande bzw. der Bundesrepublik Deutschland oder einer ihrer Gebietskörperschaften oder Steuerbehörden oder als Folge einer Änderung der offiziellen Auslegung oder Anwendung solcher Gesetze oder Vorschriften durch eine gesetzgebende Körperschaft, ein Gericht, eine Steuerbehörde, eine Aufsichtsbehörde oder eine sonstige Behörde (einschließlich des Erlasses von Gesetzen sowie der Bekanntmachung gerichtlicher oder aufsichtsrechtlicher Entscheidungen), Zinsen, die von der Emittentin auf die Schuldverschreibungen oder Beträge, die von der Garantin aus der Garantie zu zahlen sind, von der Emittentin und/oder der Garantin nicht mehr für Zwecke der niederländischen und/oder deutschen Einkommensteuer voll abzugsfähig sind und die Emittentin bzw. die Garantin dieses Risiko nicht abwenden kann, indem sie zumutbare Maßnahmen ergreift, die sie nach Treu und Glauben für angemessen hält.

(c) A ***Tax Event*** shall occur if as a result of any change in, or amendment to, the laws or regulations of The Netherlands or the Federal Republic of Germany, respectively, or any political subdivision or taxing authority thereof, or therein, or as a result of any amendment to, or change in, any official interpretation or application of any such laws or regulations by any legislative body, court, taxing authority, governmental agency or regulatory authority (including the enactment of any legislation and the publication of any judicial decision or regulatory determination), interest payable by the Issuer in respect of the Bonds or any amount payable by the Guarantor under the Guarantee is no longer fully deductible by the Issuer and/or the Guarantor for Dutch and/or German income tax purposes, and that risk cannot be avoided by the Issuer and/or the Guarantor taking such reasonable measures as it (acting in good faith) deems appropriate.

(d) Ein ***Rechnungslegungsereignis*** liegt vor, wenn die Verpflichtungen der Emittentin aus den Schuldverschreibungen im Konzernabschluss der Garantin, der nach den International Financial Reporting Standards bzw. anderen anerkannten Rechnungslegungsstandards, die die Garantin für die Erstellung ihrer konsolidierten Finanzabschlüsse zukünftig anwenden mag, erstellt wird, nicht mehr als „Finanzverbindlichkeit" ausgewiesen werden dürfen oder ausgewiesen werden können.

(d) An ***Accounting Event*** shall occur if the obligations of the Issuer under the Bonds must not or may not longer be recorded as "financial liability" in the consolidated financial statements of the Guarantor prepared in accordance with International Financial Reporting Standards or other recognised accounting standards that the Guarantor may adopt in the future for the preparation of its statutory consolidated financial statements.

(e) Ein ***BOC-Ereignis*** liegt vor, wenn die Garantin am oder vor dem 31. März 2007 bestätigt hat, dass sie die Akquisition der The BOC

(e) A ***BOC Event*** shall occur if the Guarantor has confirmed, on or before March 31, 2007 that it no longer intends and is no longer legally

Group plc nicht länger verfolgt und sie hierzu auch rechtlich nicht verpflichtet ist, sofern die Garantin dieses Kündigungsrecht innerhalb von sechs Monaten nach einer solchen Bestätigung ausübt.

(f) Ein ***Wandlungsereignis*** liegt vor, wenn (i) Wandelschuldverschreibungen mit einem Gesamtnennbetrag von wenigstens 80 % des Gesamtnennbetrags der Wandelanleihe in Aktien der Gesellschaft gewandelt worden sind und (ii) die Emittentin, die Garantin und/oder eine andere Konzerngesellschaft während der sechs auf die Wandlung folgenden Monate Aktien der Garantin ausgegeben oder verkauft haben (mit Ausnahme eigener Aktien der Garantin, die die Emittentin, die Garantin und/oder andere Konzerngesellschaften in den sechs Monaten vor dieser Wandlung erworben haben) und die Gegenleistung für diese Aktien zumindest dem Wandlungsunterschiedsbetrag entspricht, sofern die Emittentin ihr Recht, die Schuldverschreibungen zu kündigen, innerhalb von neun Monaten ausübt, nachdem Wandelschuldverschreibungen mit einem Gesamtnennbetrag von wenigstens 80 % des Gesamtnennbetrags der Wandelanleihe gemäß den Anleihebedingungen der Wandelanleihe wirksam gewandelt worden sind.

Wandelanleihe bezeichnet die € 550.000.000 1,25% Wandelanleihe der Linde Finance B.V. von 2004/2009 (ISIN DE000AOBBP11).

Wandlungsunterschiedsbetrag ist die Differenz zwischen € 550.000.000 und dem Gesamtnennbetrag der gewandelten Wandelschuldverschreibungen aus der Wandelanleihe.

(g) Die Emittentin hat der Hauptzahlstelle vor Kündigung (wie oben beschrieben) folgende Dokumente zu übermitteln oder deren Übermittlung sicherzustellen:

(i) eine von zwei ordnungsgemäß bevollmächtigten Vertretern der Emittentin unterzeichnete Bescheinigung, die bestätigt, dass die Emittentin berechtigt ist, die entsprechende Kündigung vorzunehmen, und aus der die Tatsachen hervorgehen, auf deren Grundlage die Voraussetzungen für das Kündigungsrecht der Emittentin erfüllt sind; und

committed to pursue the acquisition of The BOC Group plc, to the extent the Issuer exercises its right to redeem the Bonds within six months following such confirmation.

(f) A ***Conversion Event*** shall occur if (i) at least 80% in principal amount of the Convertible Notes have been converted into ordinary shares of the Guarantor, and (ii) within six months following such conversion, the Issuer, the Guarantor and/or any other Group Entity have issued or sold shares of the Guarantor (excluding treasury shares acquired by the Issuer, the Guarantor and/or any other Group Entity during the six months preceding such conversion) against consideration equal to at least the Conversion Shortfall, to the extent the Issuer exercises its right to redeem the Bonds within nine months following the date on which the conversion of at least 80% in principal amount of the Convertible Notes has become effective pursuant to the terms of the Convertible Notes.

Convertible Notes means the € 550,000,000 1.25% Convertible Notes of Linde Finance B.V. of 2004 due 2009 (ISIN DE000AOBBP11).

The Conversion Shortfall is the difference between € 550,000,000 and the principal amount of the Convertible Notes converted.

(g) Prior to the giving of any such notice of redemption as described above, the Issuer will deliver or procure that there is delivered to the Principal Paying Agent:

(i) a certificate signed by any two duly authorized representatives of the Issuer stating that the Issuer is entitled to effect such redemption and setting out a statement of facts showing that the conditions precedent to the exercise of the right of the Issuer to redeem have been satisfied; and

(ii) im Fall der vorstehenden Absätze (a), (c) bzw. (e) ein Gutachten eines angesehenen unabhängigen Rechtsberaters, aus dem hervorgeht, dass die Emittentin und/oder die Garantin verpflichtet ist oder verpflichtet sein wird, die betreffenden zusätzlichen Beträge als Folge eines Gross-up-Ereignisses zu zahlen oder die Emittentin und/oder die Garantin die Abzugsfähigkeit von der niederländischen bzw. deutschen Einkommensteuer als Folge eines Steuerereignisses verliert bzw. dass die Garantin zum Erwerb der The BOC Group plc nicht länger verpflichtet ist; bzw

(iii) im Fall des vorstehenden Absatzes (b) eine Bestätigung der betreffenden Rating-Agenturen über die in (b) genannte Änderung bei der Eigenkapitalbehandlung; bzw

(iv) im Fall des vorstehenden Absatzes (d) ein Gutachten einer anerkannten unabhängigen Wirtschaftsprüfungsgesellschaft, aus dem hervorgeht, dass die Verpflichtung der Emittentin aus den Schuldverschreibungen im Konzernabschluss der Garantin, der nach den International Financial Reporting Standards bzw. anderen anerkannten Rechnungslegungsstandards, die die Garantin für die Erstellung ihrer konsolidierten Finanzabschlüsse zukünftig anwenden mag, erstellt wird, nicht mehr als „Finanzverbindlichkeit" ausgewiesen werden müssen oder ausgewiesen werden können.

(4) Vorzeitige Rückzahlungsbetrag. Der ***Vorzeitige Rückzahlungsbetrag*** entspricht (i) im Falle eines Gross-up-Ereignisses dem Nennbetrag der Schuldverschreibungen, (ii) im Falle eines Kapitalereignisses, eines Rechnungslegungsereignisses oder eines Steuerereignisses dem (x) Nennbetrag der Schuldverschreibungen oder (y) falls höher, dem Abgezinsten Marktpreis der Schuldverschreibungen, (iii) im Falle eines BOC-Ereignisses [101]% des Nennbetrags der Schuldverschreibungen, und (iv) im Fall eines Wandlungsereignisses dem (x) Nennbetrag der Schuldverschreibungen oder (y) falls höher, dem Besonderen Abgezinsten Marktpreis, in jedem dieser Fälle (i) bis (iv) zuzüglich bis zum Rückzahlungstag (ausschließlich) aufgelaufener Zinsen.

(ii) in case of (a), (c) or (e) above, respectively, an opinion of an independent legal adviser of recognised standing to the effect that the Issuer and/or the Guarantor has or will become obliged to pay the additional amounts in question as a result of a Gross-up Event or the Issuer and/or the Guarantor has suffered the loss of deductibility for Dutch or German income tax purposes as a result of a Tax Event or that the Guarantor is no longer legally committed to pursue the acquisition of The BOC Group plc; respectively

(iii) in case of (b) above a confirmation from the relevant rating agencies confirming the change in capital treatment of the Bonds pursuant to (b) above; respectively

(iv) in case of (d) above an opinion of an independent accountancy firm of recognized standing to the effect that the obligations of the Issuer under the Bonds must not or may not longer be recorded as "financial liability" in the consolidated financial statements of the Guarantor prepared in accordance with International Financial Reporting Standards or other recognised accounting standards that the Guarantor may adopt in the future for the preparation of its statutory consolidated financial statements.

(4) Early Redemption Amount. The ***Early Redemption Amount*** will (i) upon the occurrence of a Gross-up Event, equal the principal amount of the Bonds, (ii) upon the occurrence of a Capital Event, an Accounting Event or a Tax Event, be calculated as the greater of (x) the principal amount of the Bonds and (y) the Make-Whole Amount of the Bonds, (iii) in case of a BOC Event equal to [101]% of the principal amount of the Bonds, and (iv) in case of a Conversion Event as the greater of (x) the principal amount of the Bonds and (y) the Special make-Whole Amount, in each case of (i) to (iv) plus accrued interest until the date of redemption (exclusive).

Der ***Abgezinste Marktpreis*** wird von der Berechnungsstelle errechnet und entspricht der Summe der auf den Rückzahlungstag Abgezinsten Werte (i) des Nennbetrages der Schuldverschreibungen und (ii) der bis zum [14]. Juli 2016 (ausschließlich) verbleibenden vorgesehenen Zinszahlungen auf die Schuldverschreibungen. Bei dieser Berechnung ist anzunehmen, dass die Zahlung des Nennbetrags der Schuldverschreibungen am [14]. Juli 2016 fällig ist und alle relevanten Zinsen in vollem Umfang gezahlt werden.

The ***Make-Whole Amount*** will be calculated by the Calculation Agent, and will equal the sum of the Present Values on the date of redemption of (i) the principal amount of the Bonds and (ii) the remaining scheduled payments of interest on the Bonds to but excluding July [14], 2016. In performing such calculation it shall be assumed that the principal amount of the Bonds is a cash flow due on July [14], 2016 and that all applicable interest payments are to be made in full.

Ein ***Abgezinster Wert*** wird von der Berechnungsstelle errechnet, indem der Nennbetrag der Schuldverschreibungen und bis zum [14]. Juli 2016 verbleibende Zinszahlungen auf jährlicher Basis, unter Zugrundelegung eines Jahres mit 365 bzw. 366 Tagen und der Zahl der tatsächlich in dem Jahr verstrichenen Tage und der Vergleichbaren Benchmark Rendite zuzüglich [0,50 – 1,00]%, abgezinst werden.

The ***Present Values*** will be calculated by the Calculation Agent by discounting the principal amount of the Bonds and the remaining interest payments to July [14], 2016 on an annual basis, assuming a 365-day year or a 366-day year, as the case may be, and the actual number of days elapsed in such year and using the Comparable Benchmark Yield plus [0.50 – 1.00]%.

Die Vergleichbare Benchmark Rendite entspricht der am Rückzahlungs-Berechnungstag bestehenden Rendite der von der Berechnungsstelle im Einvernehmen mit der Emittentin ausgewählten Euro-Referenz-Anleihe mit einer mit der verbleibenden Laufzeit der Schuldverschreibungen bis zum [14]. Juli 2016 vergleichbaren Laufzeit. Dabei handelt es sich um die Rendite einer solchen Euro-Referenz-Anleihe, die im Zeitpunkt der Auswahlentscheidung und entsprechend der üblichen Finanzmarktpraxis zur Preisbestimmung bei Neuemissionen von Unternehmensanleihen mit einer mit dem Zeitraum bis zum [14]. Juli 2016 vergleichbaren Laufzeit verwendet würde.

The ***Comparable Benchmark Yield*** will be the yield at the Redemption Calculation Date on the Euro benchmark security selected by the Calculation Agent, after consultation with the Issuer, as having a maturity comparable to the remaining term of the Bonds to July [14], 2016 that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to July [14], 2016.

Rückzahlungs-Berechnungstag ist der dritte Geschäftstag vor dem Tag, an dem die Schuldverschreibungen nach Wahl der Emittentin infolge eines der in diesem Absatz (4) genannten Ereignisse zurückgezahlt werden.

Redemption Calculation Date means the third Business Day prior to the date on which the Bonds are redeemed at the option of the Issuer as a result of any event specified in this paragraph (4).

Der Besondere Abgezinste Marktpreis wird von der Berechnungsstelle errechnet und entspricht der Summe der auf den Rückzahlungstag Besonderen Abgezinsten Werte (i) des Nennbetrages der Schuldverschreibungen und (ii) der bis zum [14]. Juli [2016] (ausschließlich) verbleibenden vorgesehenen Zinszahlungen auf die Schuldverschreibungen. Bei dieser Berechnung ist anzunehmen, dass die Zahlung des Nennbetrags der Schuldverschreibungen am [14]. Juli 2016 fällig ist und alle relevanten Zinsen in vollem Umfang gezahlt werden.

The Special Make-Whole Amount will be calculated by the Calculation Agent, and will equal the sum of the Special Present Values on the date of redemption of (i) the principal amount of the Bonds and (ii) the remaining scheduled payments of interest on the Bonds to but excluding July [14], 2016. In performing such calculation it shall be assumed that the principal amount of the Bonds is a cash flow due on July [14], 2016 and that all applicable interest payments are to be made in full.

Ein ***Besonderer Abgezinster Wert*** wird von der Berechnungsstelle errechnet, indem der Nennbetrag der Schuldverschreibungen und bis zum [14]. Juli 2016 verbleibende Zinszahlungen auf jährlicher Basis, unter Zugrundelegung eines Jahres mit 365 bzw. 366 Tagen und der Zahl der tatsächlich in dem Jahr verstrichenen Tage und der Besonderen Angepassten Vergleichbaren Rendite zuzüglich [1,00 – 4,00]%, abgezinst werden.

Vergleichbarer Swapsatz bedeutet die „EUR-ISDA-EURIBOR Swap Rate – 11.00" (der jährliche Euro Swapsatz, ausgedrückt als Prozentsatz für Euro Swap-Transaktionen mit einer Laufzeit, die einer Laufzeit bis zum [14]. Juli 2016 am ehesten vergleichbar ist (die „***Vorgesehene Laufzeit***")), die auf dem Reuters Bildschirm „ISDAFIX2" unter der Überschrift „EURIBOR BASIS" und unter dem Untertitel „11:00 a.m. Frankfurt" um 11 Uhr vormittags mitteleuropäischer Zeit (oder auf einer sonstigen Seite oder ein sonstiger Informationsdienst, die/der diese Seite für Zwecke dieses Swapsatzes ersetzt) (die „***Relevante Bildschirmseite***") am Rückzahlungs-Berechnungstag erscheint.

Für den Fall, dass der vorgenannte Swapsatz an dem Rückzahlungs-Berechnungstag nicht auf der Relevanten Bildschirmseite erscheint, ist der Vergleichbare Swapsatz der Prozentsatz, der auf Basis der „mid-market jährlichen Swapsatz"-Quotierungen, die der Berechnungsstelle ungefähr um 11:00 Uhr vormittags mitteleuropäischer Zeit von fünf führenden Swap-Händlern im Interbankenhandel (die „***Swap Referenzbanken***") gestellt werden, am Rückzahlungs-Berechnungstag festgelegt wird. Wenn mindestens drei Quotierungen genannt werden, ist der Vergleichbare Swapsatz das arithmetische Mittel der Quotierungen unter Ausschluss der höchsten Quotierung (bzw., für den Fall von gleich hohen Quotierungen, einer der höchsten Quotierungen) und der niedrigsten Quotierung (bzw. für den Fall von gleich hohen Quotierungen, einer der niedrigsten Quotierungen).

Hierbei bedeutet der „***mid-market jährlichen Swapsatz***" das arithemetische Mittel der nachgefragten und angebotenen Sätze für den jährlichen Festzinszahlungsstrom (berechnet auf einer 30/360 Tagesberechnungsbasis) einer fixed-for-floating Euro Zinsswap-Transaktion, (a) die eine Laufzeit hat, die der Vorgesehenen Laufzeit entspricht, und am Rückzahlungs-Berechnungstag beginnt, (b) die auf einen Betrag lautet, der dem einer repräsentativen einzelnen Transaktion in dem relevanten Markt zur

The ***Special Present Values*** will be calculated by the Calculation Agent by discounting the principal amount of the Bonds and the remaining interest payments to July [14], 2016 on an annual basis, assuming a 365-day year or a 366-day year, as the case may be, and the actual number of days elapsed in such year and using the Comparable Swap Rate plus [1.00 – 4.00]%.

Comparable Swap Rate means the "EUR-ISDA-EURIBOR Swap Rate – 11.00" (the annual Euro swap rate expressed as a percentage for Euro swap transactions with a maturity comparable to the remaining term of the Bonds to July [14], 2016 (the "***Designated Maturity***")), which appears on the Reuters screen "ISDAFIX2" under the heading "EURIBOR BASIS" and above the caption "11:00 AM Frankfurt" as of 11.00 central European time (or such other page or service as may replace it for the purposes of such rate) (the "***Relevant Screen Page***") on the Redemption Calculation Date.

In the event that the foregoing rate does not appear on the Relevant Screen Page on the Redemption Calculation Date, the Comparable Swap Rate will equal the percentage rate determined on the basis of the quotations of the "mid-market annual swap rate" provided by five leading swap dealers in the interbank market (the "***Swap Reference Banks***") to the Calculation Agent at approximately 11:00 a.m., central European time, on the Redemption Calculation Date. If at least three quotations are provided, the Comparable Swap Rate will equal the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest).

The "***mid-market annual swap rate***" means the arithmetic mean of the bid and offer rates for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating Euro interest rate swap transaction which transaction (a) has a term equal to the Designated Maturity and commencing on the Redemption Calculation Date (b) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap relevanten Zeit eines anerkannten Händlers mit guter Bonität im Swap-Markt entspricht, und (c) deren variabler Zahlungsstrom auf dem 6-Monats EURIBOR Satz beruht (berechnet auf einer Anzahl der tatsächlichen Tage/360 Tageberechnungsbasis).

(5) Rückkauf; Kündigungsrecht bei geringem ausstehendem Nennbetrag. Die Emittentin, die Garantin oder eine Konzerngesellschaft können jederzeit Schuldverschreibungen im Markt oder anderweitig zu jedem beliebigen Preis kaufen. Derartig erworbene Schuldverschreibungen können entwertet, gehalten oder wieder veräußert werden. Falls die Emittentin, die Garantin oder eine Konzerngesellschaft Schuldverschreibungen mit einem Gesamtnennbetrag von [75,00 – 85,00]% oder mehr des ursprünglich begebenen Gesamtnennbetrages der Schuldverschreibungen erworben hat, kann die Emittentin die verbleibenden Schuldverschreibungen (insgesamt, jedoch nicht teilweise) kündigen und zum Nennbetrag zuzüglich bis zum Rückzahlungstag (ausschließlich) aufgelaufener Zinsen zurückzahlen. Der Emittentin steht ein Kündigungsrecht gemäß diesem § 6(5) nicht zu, solange Zinsrückstände ausstehen. Für Zwecke dieses Absatzes (5) gilt als Rückzahlungs-Berechnungstag der dritte Geschäftstag vor dem Tag, an dem die Schuldverschreibungen nach Wahl der Emittentin auf Grundlage dieses Absatzes (5) zurückgezahlt werden.

(6) Kündigung und vorzeitige Rückzahlung bei Kontrollwechsel. Bei Eintritt eines Kontrollwechsels kann die Emittentin die Schuldverschreibungen vollständig, aber nicht in Teilbeträgen, nach unwiderruflicher Kündigungsmitteilung an die Anleihegläubiger gemäß § 13 unter Einhaltung einer Frist von nicht weniger als 30 und nicht mehr als 60 Tagen zum Nennbetrag der Schuldverschreibungen zuzüglich bis zum Rückzahlungstag (ausschließlich) aufgelaufener Zinsen und ausstehender Zinsrückstände mit Wirkung bis spätestens 60 Tage nach Eintritt eines Kontrollwechsels kündigen und zurückzahlen. Die Emittentin hat den Anleihegläubigern den Eintritt eines Kontrollwechsels unverzüglich gemäß § 13 anzuzeigen.

Ein ***Kontrollwechsel*** gilt als eingetreten, wenn (i) eine Person oder mehrere Personen, die abgestimmt handeln, oder einer oder mehrere Dritte, die im Auftrag einer solchen Person oder Personen handeln, zu irgendeinem Zeitpunkt mittelbar oder unmittelbar (x) mehr als 50 % der Aktien der Garantin oder (y) eine solche Anzahl von Aktien der Garantin erworben hat bzw. haben, auf die mehr als

market, and (c) the floating leg of which is based on the 6-months EURIBOR rate (calculated on an Actual/360 day count basis).

(5) Purchase; Call Right for Reason of Minimal Outstanding Amount. The Issuer, the Guarantor or any Group Entity may at any time purchase Bonds in the open market or otherwise and at any price. Such acquired Bonds may be cancelled, held or resold. In the event that the Issuer, the Guarantor or any Group Entity has purchased Bonds equal to or in excess of [75.00 – 85.00]% of the aggregate principal amount of the Bonds initially issued, the Issuer may call and redeem the remaining Bonds (in whole but not in part) at the principal amount of the Bonds plus accrued interest until the date of redemption (exclusive). The Issuer shall not be entitled to call and redeem the Bonds in accordance with this § 6(5) if any Arrears of Interest are outstanding. For purposes of this paragraph (5) the Redemption Calculation Date shall mean the third Business Day prior to the date on which the Bonds are redeemed at the option of the Issuer as a result of this paragraph (5).

(6) Issuer Call Right and Early Redemption in case of Change of Control. If a Change of Control has occurred, the Issuer may call and redeem the Bonds (in whole but not in part) at their principal amount, plus any interest accrued until the redemption date (exclusive) and any outstanding Arrears of Interest on the giving of not less than 30 and not more than 60 days' irrevocable notice to the Bondholders in accordance with § 13 with the redemption becoming effective no later than 60 days following the occurrence of a Change of Control. Immediately after the occurrence of a Change of Control the Issuer has to publish a notice to the Bondholders in accordance with § 13.

A ***Change of Control*** will be deemed to have occurred if (i) any person or persons acting in concert or any third person or persons acting on behalf of such person(s) at any time acquire(s) directly or indirectly (x) more than 50 per cent of the shares in the capital of the Guarantor or (y) such number of shares in the capital of the Guarantor carrying more than 50 per cent of the voting rights

50 % der bei Hauptversammlungen der Garantin normalerweise stimmberechtigten Stimmrechte entfallen und (ii) diese Akquisition zu einem Entzug oder einer Herabsetzung des Ratings für nichtnachrangige unbesicherte Verbindlichkeiten der Garantin auf oder unter Ba1 durch Moody's Investors Services Inc. oder BB+ durch Standard & Poor's Rating Services, a division of the McGraw-Hill Companies Inc. (oder jeweils die entsprechenden dann geltenden Stufen), führt.

Die Garantin hat die unbedingte und unwiderrufliche Verpflichtung gegenüber den jeweiligen Inhabern der in der Verpflichtung genannten qualifizierten Wertpapiere übernommen, den Gläubigern dieser Wertpapiere ein Angebot auf Rückkauf der qualifizierten Wertpapiere zu 100% von deren jeweiligem Nennbetrag zuzüglich aller bis zum Rückkaufstag jeweils aufgelaufener Zinsen zu machen, falls (i) ein Kontrollwechsel eingetreten ist; und (ii) die Emittentin ihr Kündigungsrecht nach § 6(6) der Anleihebedingungen ausgeübt hat.* Die Verpflichtung zu einem Rückkaufsangebot stellt einen Vertrag zugunsten der jeweiligen Wertpapiergläubiger als begünstigte Dritte gemäß § 328 (1) BGB dar, die jedem Wertpapiergläubiger das Recht gibt, Erfüllung der übernommenen Verpflichtungen unmittelbar von der Garantin zu verlangen und diese Verpflichtungen unmittelbar gegen die Garantin durchzusetzen.

(7) Bestimmungen bezüglich einer Kündigung. Nach Absicht der Garantin sollen die Schuldverschreibungen Teil der langfristigen Finanzierung des Konzerns der Garantin sein. Dementsprechend beabsichtigt die Emittentin, außer im Fall der Rückzahlung infolge eines Wandlungsereignisses oder eines BOC-Ereignisses, die Schuldverschreibungen mit Erlösen zurückzuzahlen, die der Emittentin in den sechs Monaten vor dem Tag der Rückzahlung aufgrund der Ausgabe von Aktien der Garantin und/oder anderer Wertpapiere (die ***Neuen Wertpapiere***) durch die Garantin oder eine Finanzierungsgesellschaft des Konzerns der Garantin mit einer Garantie der Garantin zugeflossen sind, die jeweils zusammengenommen mit demselben Eigenkapitalanteil behandelt werden, wie der zusammengenommene Eigenkapitalanteil, der zu diesem Zeitpunkt den Schuldverschreibungen zugerechnet wird.

normally exercisable at general meetings of the Guarantor, and (ii) such acquisition results in any withdrawal or downgrade to a rating of or below Ba1 by Moody's Investors Services, Inc. or BB+ by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies Inc. (or their respective equivalents at such time) of the Guarantor's senior unsecured credit rating.

The Guarantor has unconditionally and irrevocably undertaken to the holders of the qualifying securities mentioned in the undertaking that it will make a tender offer to all holders of such qualifying securities pursuant to which Linde AG will offer the holders to repurchase the qualifying securities at 100% of their respective nominal amounts plus any interest accrued until the day of repurchase if (i) a Change of Control has occurred; and (ii) the Issuer has exercised its call right pursuant to § 6(6) of the Terms and Conditions.* The undertaking to make a tender offer constitutes a contract in favour of the holders of the senior securities as third party beneficiaries pursuant to § 328 (1) of the German Civil Code giving rise to the right of each such holder to require performance of the obligations assumed hereby directly from the Guarantor and to enforce such obligations directly against the Guarantor.

(7) Provisions in Relation to a Call. It is the intention of the Guarantor that the Bonds will constitute permanent funding of the Guarantor's group. Accordingly, the Issuer intends to redeem the principal amount of the Bonds with proceeds raised through the issuance of shares of the Guarantor and/or the issuance of other securities (the ***New Securities***) either by the Guarantor or a finance entity of the Group of the Guarantor with a guarantee of the Guarantor, in each case with an aggregate equity credit at least equal to the aggregate equity credit then ascribed to the Bonds, within a period of six months prior to the redemption date of the Bonds, except in the case of redemption following a Conversion Event or a BOC Event.

* The full text of the undertaking may be found under "Undertaking to effect Tender Offer".

Die Neuen Wertpapiere werden:

(i) keine Endfälligkeit oder eine Laufzeit von mindestens 60 Jahren haben und im gleichen Rang mit den Schuldverschreibungen stehen;

(ii) nicht vor Ablauf von fünf Jahren nach ihrem Ausgabetag (wenn sie keinen Mechanismus zur Erhöhung des Zinssatzes (step-up) enthalten) oder nicht vor Ablauf von zehn Jahren nach ihrem Ausgabetag (wenn sie einen Mechanismus zur Erhöhung des Zinssatzes (step-up) enthalten) kündbar sein, es sei denn, die Kündigung erfolgt auf Grund eines dem Rechnungslegungsereignis, dem Kapitalereignis, dem Gross-up-Ereignis oder dem Steuerereignis, jeweils wie in diesen Anleihebedingungen definiert, entsprechenden Ereignisses;

(iii) einen Aufschub von baren Zinszahlungen durch die Emittentin nur unter Bedingungen erlauben, die den insoweit für diese Schuldverschreibungen geltenden Bedingungen entsprechen; und

(iv) für den Fall der Rückzahlung dieselben Bestimmungen über die Beschaffung von Barmitteln wie in diesem § 6(7) vorsehen, sofern die Neuen Wertpapiere einen Mechanismus zur Erhöhung des Zinssatzes (Step-up) oder eine Kündigungsmöglichkeit der Emittentin im Falle eines Kapitalereignisses enthalten, bzw. im Prospekt generelle Bestimmungen über die Beschaffung von Barmitteln vorsehen, wenn die Neuen Wertpapiere keinen Mechanismus zur Erhöhung des Zinssatzes (Step-up) und keine Kündigungsmöglichkeit der Emittentin im Falle eines Kapitalereignisses enthalten.

The New Securities shall:

(i) have no maturity or a maturity of at least 60 years and rank *pari passu* with the Bonds;

(ii) not be redeemable (other than for reasons of a special event identical to the Accounting Event, Capital Event, Gross-up Event or Tax Event as specified in these Terms and Conditions) prior to the fifth anniversary of their issue date if the New Securities do not contain a coupon step-up or the tenth anniversary of their issue date if the New Securities contain a coupon step-up;

(iii) permit the Issuer in their terms to defer cash interest payments in the same manner as under the Bonds; and

(iv) feature an identical capital replacement provision in the event of redemption as in this § 6(7) to the extent that the New Securities contain a coupon step-up or an option of the Issuer to redeem the securities in case of a Capital Event, or feature a general capital replacement statement in the prospectus if the New Securities do not contain coupon step-up and no option of the Issuer to redeem the securities in case of a Capital Event.

Wenn die Schuldschreibungen aufgrund eines Rechnungslegungsereignisses, eines Kapitalereignisses, eines Gross-up-Ereignisses oder eines Steuerereignisses zurückgezahlt werden, können die Neuen Wertpapiere abweichend davon so ausgestaltet werden, dass sie ohne das Eingreifen eines Rechnungslegungsereignisses, eines Kapitalereignisses, eines Gross-up-Ereignisses oder eines Steuerereignisses ausgegeben werden können, sofern den Neuen Wertpapieren trotz dieser Änderungen eine mindestens so hohe Eigenkapitalanteil zukommt wie den Schuldverschreibungen vor Eintritt des Rechnungslegungsereignisses, Kapitalereignisses, Gross-up-Ereignisses bzw. Steuerereignisses.

If the Bonds are redeemed following an Accounting Event, a Capital Event, a Gross-Up Event or a Tax Event, modifications may be made so that the New Securities to be issued may be issued without there being an Accounting Event, a Capital Event, a Gross-up Event or a Tax Event, as the case may be, provided, however, that such modifications shall result in each case in at least the same or higher equity credit ascribed to the Bonds prior to the occurrence of such Accounting Event, Capital Event, Gross-up Event or Tax Event.

§ 7
ZAHLUNGEN

(1) Zahlung von Kapital und Zinsen. Die Emittentin verpflichtet sich, Kapital und Zinsen auf die Schuldverschreibungen sowie alle sonstigen auf die Schuldverschreibungen zahlbaren Beträge bei Fälligkeit in Euro zu zahlen. Die Zahlung von Kapital und Zinsen erfolgt an die Hauptzahlstelle zur Weiterleitung an das Clearingsystem oder an dessen Order zur Gutschrift für die jeweiligen Kontoinhaber gegen Vorlage und (sofern es sich um die Kapitalrückzahlung handelt) Einreichung der Globalurkunde. Die Zahlung an das Clearingsystem oder an dessen Order, vorausgesetzt, die Schuldverschreibungen werden noch durch das Clearingsystem gehalten, befreit die Emittentin in Höhe der geleisteten Zahlung von ihren entsprechenden Verbindlichkeiten aus den Schuldverschreibungen.

(2) Fälligkeitstag kein Geschäftstag. Falls ein Fälligkeitstag für die Zahlung von Kapital und/oder Zinsen kein Geschäftstag ist, erfolgt die Zahlung, außer im Fall des § 5(2)(b), erst am nächstfolgenden Geschäftstag; Anleihegläubiger sind nicht berechtigt, Zinsen oder eine andere Entschädigung wegen eines solchen Zahlungsaufschubs zu verlangen.

§ 7
PAYMENTS

(1) Payment of Principal and Interest. The Issuer undertakes to pay, as and when due, principal and interest as well as all other amounts payable on the Bonds in euro. Payment of principal and interest on the Bonds shall be made to the Principal Paying Agent for on-payment to the Clearing System or to its order for credit to the respective account holders upon presentation and (in the case of the payment in respect of principal) surrender of the Global Bond. Payments to the Clearing System or to its order shall, to the extent of amounts so paid and provided the Bonds are still held on behalf of the Clearing System, constitute the discharge of the Issuer from its corresponding obligations under the Bonds.

(2) Due Date not a Business Day. Except as otherwise provided in § 5(2)(b), if the due date for any payment of principal and/or interest is not a Business Day, payment shall be effected only on the next Business Day; a Bondholder shall have no right to claim payment of any additional interest or other indemnity in respect of such delay in payment.

§ 8
BESTEUERUNG

Sämtliche Zahlungen von Kapital und Zinsen in Bezug auf die Schuldverschreibungen werden ohne Einbehalt oder Abzug von Steuern, Abgaben, Festsetzungen oder behördlicher Gebühren jedweder Art geleistet, die von den Niederlanden oder einer ihrer Gebietskörperschaften oder Behörden mit der Befugnis zur Erhebung von Steuern auferlegt, erhoben, eingezogen, einbehalten oder festgesetzt werden, es sei denn, ein solcher Einbehalt oder Abzug ist gesetzlich vorgeschrieben. In einem solchen Falle wird die Emittentin solche zusätzlichen Beträge zahlen, so dass die Anleihegläubiger die Beträge erhalten, die sie ohne Einbehalt oder Abzug erhalten hätten. Diese zusätzlichen Beträge sind jedoch nicht in Bezug auf Schuldverschreibungen zahlbar, die

(a) von einem Anleihegläubiger oder in dessen Namen zur Zahlung vorgelegt werden, der solchen Steuern, Abgaben, Festsetzungen oder behördlichen Gebühren in Bezug auf diese Schuldverschreibungen dadurch unterliegt, dass er eine Verbindung zu den Niederlanden hat, die nicht nur aus der bloßen Inhaberschaft der Schuldverschreibungen besteht; oder

(b) von einem Anleihegläubiger oder in dessen Namen zur Zahlung vorgelegt werden, der einen solchen Einbehalt oder Abzug nach rechtzeitiger Aufforderung durch die Emittentin durch Vorlage eines Formulars oder einer Urkunde und/oder durch Abgabe einer Nichtansässigkeits-Erklärung oder Inanspruchnahme einer vergleichbaren Ausnahme oder Geltendmachung eines Erstattungsanspruches hätte vermeiden können; oder

(c) später als 30 Tage nach dem Tag vorgelegt werden an dem die betreffende Zahlung erstmals fällig wird, oder, falls nicht der gesamte an diesem Fälligkeitstag zahlbare Betrag an oder vor diesem Fälligkeitstag bei der Hauptzahlstelle eingegangen ist, dem Tag, an dem den Anleihegläubigern der Erhalt des Gesamtbetrags nach Maßgabe des § 13 bekannt gemacht wurde; oder

(d) falls dieser Einbehalt oder Abzug bei Zahlungen an Einzelpersonen gemäß der Richtlinie der Europäischen Union zur Besteuerung von Zinserträgen vom 3. Juni 2003 oder aufgrund eines Gesetzes erfolgt, das aufgrund dieser Richtlinie erlassen wurde, ihr entspricht oder eingeführt wurde, um dieser Richtlinie nachzukommen; oder

§ 8
TAXATION

All payments of principal and interest in respect of the Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by The Netherlands or any political subdivision or any authority of or in The Netherlands that has power to tax, unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as will result in receipt by the Bondholders of the same amounts as they would have received if no such withholding or deduction had been required, except that no additional amounts will be payable in respect of any Bond if it is presented for payment:

(a) by or on behalf of a Bondholder who is liable to pay such taxes, duties, assessments or governmental charges in respect of such Bond by reason of it having some connection with The Netherlands other than the mere holding of that Bond; or

(b) by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting any form or certificate and/or making a declaration of non-residence or similar claim for exemption or refund upon timely request by the Issuer; or

(c) more than 30 days after the date on which the payment in question first becomes due or, if the full amount payable on such due date has not been received by the Principal Paying Agent on or prior to such due date, the date on which notice of receipt of the full amount has been given to the Bondholders in accordance with § 13; or

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Union Directive on the taxation of savings of June 3, 2003 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) von einem Anleihegläubiger oder in dessen Namen zur Zahlung vorgelegt werden, der diesen Einbehalt oder Abzug durch Vorlage der Schuldverschreibung bei einer Zahlstelle in einem anderen Mitgliedstaat der Europäischen Union hätte vermeiden können.

Eine Bezugnahme in diesen Anleihebedingungen auf Kapital oder Zinsen schließt jegliche zusätzlichen Beträge im Hinblick auf Kapital bzw. Zinsen ein, die gemäß diesem § 8 zahlbar sind.

Falls die Garantin Zahlungen auf Grund der Garantie leistet, gilt dafür aufgrund der Garantie dieser § 8 entsprechend mit der Maßgabe, dass dieser sich außer auf Steuern, Abgaben oder Gebühren der Niederlande auch auf solche der Bundesrepublik Deutschland bezieht.

§ 9
KÜNDIGUNGSGRÜNDE

Bei Eintritt und Fortdauer eines der nachstehenden Ereignisse kann ein Anleihegläubiger seine Schuldverschreibungen durch schriftliche Mitteilung an die Emittentin und die Garantin, die der Emittentin und der Garantin oder der Hauptzahlstelle zu übermitteln ist, sofort kündigen, woraufhin seine Schuldverschreibungen sofort zu ihrem Nennbetrag, zusammen mit aufgelaufenen Zinsen und allen ausstehenden Zinsrückständen, ohne weitere Handlungen oder Formalitäten fällig und zahlbar werden:

(1) **Nichtzahlung.** Die Emittentin oder die Garantin zahlt Zinsbeträge in bezug auf die Schuldverschreibungen nicht innerhalb von 30 Geschäftstagen nach Fälligkeit oder zahlt Kapitalbeträge in bezug auf die Schuldverschreibungen nicht bei Fälligkeit; oder

(2) **Insolvenz, Liquidation etc.**

(a) die Emittentin oder die Garantin gibt ihre Zahlungsunfähigkeit bekannt, oder ein Insolvenzverfahren wird gegen die Emittentin oder die Garantin eröffnet und nicht innerhalb von 30 Tagen eingestellt oder ausgesetzt, oder die Emittentin oder die Garantin beantragt die Eröffnung eines solchen Verfahrens (im Fall der Emittentin: beantragt Bankrott oder Zahlungseinstellung) oder stellt ihre Zahlungen ein oder bietet einen allgemeinen Vergleich zugunsten ihrer Gläubiger an oder führt einen solchen durch; oder

(e) by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the Bond to a Paying Agent in another Member State of the European Union.

Any reference in these Terms and Conditions to principal or interest will be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this § 8.

In the event that the Guarantor makes payments, this § 8 applies *mutatis mutandis* to any such payments, in such a manner that it also refers to taxes, duties and charges of the Federal Republic of Germany apart from those of The Netherlands.

§ 9
EVENTS OF DEFAULT

If any of the events below occurs and is continuing then any Bond may, by written notice addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or the Principal Paying Agent, be declared immediately due and payable, whereupon such Bonds shall become immediately due and payable at their nominal amount together with accrued interest thereon including all outstanding Arrears of Interest without further action or formality:

(1) **Non-Payment.** Failure by the Issuer or the Guarantor to pay any amount of interest in respect of the Bonds within 30 Business Days of the due date for payment of that amount or failure to pay any amount of the principal in respect of the Bonds on the due date for payment of that amount; or

(2) **Insolvency, Liquidation etc.**

(a) the Issuer or the Guarantor announces its inability to meet its financial obligations (*Zahlungsunfähigkeit*) or insolvency proceedings are commenced against the Issuer or the Guarantor and are not dismissed or stayed within 30 days or the Issuer or the Guarantor institutes such proceedings (in the case of the Issuer, applies for bankruptcy or for suspension of payments) or suspends payments or offers or makes a general arrangement for the benefit of its creditors; or

(b) die Emittentin oder die Garantin geht in die Liquidation oder wird abgewickelt oder aufgelöst (sofern dies nicht für die Zwecke oder als Folge eines Zusammenschlusses, einer Umstrukturierung oder Sanierung geschieht, bei dem bzw. der die Emittentin oder die Garantin noch zahlungsfähig ist und bei dem bzw. der die fortführende Gesellschaft im wesentlichen alle Vermögenswerte und Verpflichtungen der Emittentin bzw. der Garantin übernimmt); oder

(3) Unwirksamkeit der Nachrangigen Garantie. Die Nachrangige Garantie wird mit rechtskräftiger Entscheidung eines zuständigen Gerichts als nicht vollumfänglich wirksam erklärt, oder die Garantin behauptet einen Mangel der Wirksamkeit und dieser Mangel wird nicht innerhalb von zehn Geschäftstagen behoben.

§ 10
VORLEGUNGSFRIST

Die Vorlegungsfrist im Hinblick auf Kapital wird auf zehn Jahre und im Hinblick auf Zinsen auf die Schuldverschreibungen auf vier Jahre reduziert. Die Emittentin kann beim Amtsgericht in Frankfurt am Main innerhalb eines Jahres nach Fälligkeit unwiderruflich sämtliche Beträge hinterlegen, die nicht innerhalb eines Jahres nach Fälligkeit von Anleihegläubigern beansprucht worden sind. Die Gefahr sowie die Kosten dieser Hinterlegung werden von den betreffenden Anleihegläubigern getragen. Die Emittentin hat keine weiteren Verpflichtungen in Bezug auf diese Beträge. Soweit die Emittentin auf das Recht zur Rücknahme der hinterlegten Beträge verzichtet, erlöschen die betreffenden Ansprüche der Anleihegläubiger gegen die Emittentin.

§ 11
ZAHLSTELLEN UND BERECHNUNGSSTELLE

(1) Hauptzahlstelle. Citibank, N.A., Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, Großbritannien ist die anfängliche Hauptzahlstelle (***Hauptzahlstelle***).

(2) Irische Zahlstelle. Citibank International plc, 1 North Wall Quay, Dublin 1, Irland, ist als weitere Zahlstelle (gemeinsam mit der Hauptzahlstelle, die ***Zahlstellen,*** und jede eine ***Zahlstelle***) bestellt.

(b) the Issuer or the Guarantor enters into a winding up or dissolution and liquidation (other than for the purposes of or pursuant to an amalgamation, reorganization or restructuring whilst solvent, where the continuing entity assumes substantially all of the assets and obligations of the Issuer or the Guarantor, as the case may be); or

(3) Subordinated Guarantee not in Force. The Subordinated Guarantee is determined by the final decision of a competent court or is claimed by the Guarantor not to be in full force and effect and such defect is not corrected within ten Business Days.

§ 10
PRESENTATION PERIOD

The presentation period shall be reduced to ten years in respect of principal and to four years in respect of interest on the Bonds. The Issuer may irrevocably deposit with the local court (*Amtsgericht*) in Frankfurt am Main any amounts due on the Bonds not claimed by the Bondholders within one year after such amounts have become due and payable. The deposit will be at the risk and expense of those Bondholders, and the Issuer will have no further obligation in respect of such amounts. If the Issuer waives all rights to withdraw such deposits, the respective claims of the Bondholders against the Issuer shall cease.

§ 11
PAYING AGENTS AND CALCULATION AGENT

(1) Principal Paying Agent. Citibank, N.A., Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom shall be the initial principal paying agent (***Principal Paying Agent***).

(2) Irish Paying Agent. Citibank International plc, 1 North Wall Quay, Dublin 1, Republic of Ireland, shall be appointed as additional paying agent (together with the Principal Paying Agent, the ***Paying Agents***, and each a ***Paying Agent***).

(3) Berechnungsstelle. Citigroup Global Markets Limited, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, Großbritannien, ist die anfängliche Berechnungsstelle (***Berechnungsstelle***).

(4) Rechtsverhältnisse der Zahlstellen und der Berechnungsstelle. Die Zahlstellen und die Berechnungsstelle handeln ausschließlich als Beauftragte der Emittentin und übernehmen keine Verpflichtungen gegenüber den Anleihegläubigern; es wird kein Vertrags-, Auftrags- oder Treuhandverhältnis zwischen ihnen und den Anleihegläubigern begründet.

(5) Ersetzung von Zahlstellen und Berechnungsstelle. Die Emittentin behält sich das Recht vor, jederzeit eine andere Zahlstelle oder Berechnungsstelle zu beauftragen oder eine solche Beauftragung zu beenden und zusätzliche oder Nachfolge-Zahlstellen bzw. Nachfolge-Berechnungsstellen zu ernennen. Die Emittentin wird jedoch gewährleisten, dass, solange die Schuldverschreibungen an einer Börse notiert sind, jederzeit eine Zahlstelle in dem Staat beauftragt ist, in dem die Börse ihren Sitz hat. Die Emittentin wird auch sicherstellen, dass für den Fall, dass im Hinblick auf die Richtlinie der Europäischen Union zur Besteuerung von Zinserträgen vom 3. Juni 2003 ein Gesetz, das diese Richtlinie umsetzt oder eingeführt wird, um dieser Richtlinie nachzukommen, erlassen wird, eine Zahlstelle in einem Mitgliedstaat der Europäischen Union unterhalten wird (sofern es eine derartige gibt), die nicht dazu verpflichtet ist, Steuern aufgrund dieser Richtlinie oder eines solchen Gesetzes an der Quelle einzubehalten oder abzuziehen. Den Anleihegläubigern werden Änderungen in Bezug auf die Zahlstellen oder die Berechnungsstelle oder ihre jeweils angegebenen Geschäftsstellen umgehend gemäß § 13 mitgeteilt.

§ 12
AUFSTOCKUNG

Die Emittentin kann ohne Zustimmung der Anleihegläubiger weitere Schuldverschreibungen begeben, die in jeder Hinsicht (oder in jeder Hinsicht mit Ausnahme der ersten Zinszahlung) die gleichen Bedingungen wie die Schuldverschreibungen dieser Anleihe haben und die zusammen mit den Schuldverschreibungen dieser Anleihe eine einzige Serie bilden.

(3) Calculation Agent. Citigroup Global Markets Limited, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom, shall be the initial calculation agent (***Calculation Agent***).

(4) Paying Agents and Calculation Agent Legal Matters. The Paying Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligations towards or relationship of contract, agency or trust for or with any of the Bondholders.

(5) Replacement of Paying Agents and Calculation Agent. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent or the Calculation Agent and to appoint successor or additional Paying Agents or a successor Calculation Agent, provided that, for as long as the Bonds are listed on any stock exchange, the Issuer will at all times maintain a Paying Agent in the jurisdiction in which such stock exchange is located; and provided further that if, in light of the European Union Directive on the taxation of savings of June 3, 2003, any law implementing or introduced in order to conform to such Directive is introduced, the Issuer will ensure that (to the extent that such a Paying Agent exists) it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to this Directive or any such law. Notice of any change in the Paying Agents or Calculation Agent or in the specified office of any Paying Agent or the Calculation Agent will be given without undue delay to the Bondholders in accordance with § 13.

§ 12
FURTHER ISSUES OF THE SAME SERIES

The Issuer may from time to time and without the consent of the Bondholders create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects, except for the first payment of interest) so as to form a single series with the Bonds.

§ 13
MITTEILUNGEN

(1) Falls die Schuldverschreibungen zum Handel an einer oder mehreren Börsen zugelassen werden, gelten sämtliche Mitteilungen an die Anleihegläubiger als ordnungsgemäß bekannt gemacht, wenn sie in dem Staat einer jeden Wertpapierbörse, an der die Schuldverschreibungen notiert werden, in einer Tageszeitung mit landesweiter Verbreitung veröffentlicht werden, solange diese Notierung fortdauert und die Regeln der jeweiligen Börse dies erfordern. Jede Mitteilung gilt mit dem Tag der ersten Veröffentlichung als bekannt gemacht; falls eine Veröffentlichung in mehr als einer Tageszeitung zu erfolgen hat, ist der Tag maßgeblich, an dem die Bekanntmachung erstmals in allen erforderlichen Tageszeitungen erfolgt ist.

(2) Mitteilungen an die Anleihegläubiger können anstelle der Veröffentlichung in einer Zeitung nach Maßgabe des § 13(1), (vorbehaltlich anwendbarer Börsenvorschriften bzw. -regeln) solange eine die Schuldverschreibungen verbriefende Globalurkunde für das Clearingsystem gehalten wird, durch Abgabe der entsprechenden Mitteilung an das Clearingsystem zur Weiterleitung an die Anleihegläubiger ersetzt werden.

§ 14
ERSETZUNG, SONSTIGE ÄNDERUNGEN UND AUSTAUSCH

(1) **Ersetzung.** Die Garantin ist jederzeit berechtigt, ohne Zustimmung der Anleihegläubiger sich selbst oder eine andere Gesellschaft, die direkt oder indirekt von der Garantin kontrolliert wird, als neue Anleiheschuldnerin für alle sich aus oder im Zusammenhang mit den Schuldverschreibungen ergebenden Verpflichtungen mit schuldbefreiender Wirkung für die Emittentin an die Stelle der Emittentin zu setzen (die ***Neue Anleiheschuldnerin***), sofern.

(a) alle fälligen Zahlungsverpflichtungen der Emittentin erfüllt sind;

(b) die Neue Anleiheschuldnerin sämtliche Verpflichtungen der Emittentin aus oder im Zusammenhang mit den Schuldverschreibungen übernimmt;

(c) die Neue Anleiheschuldnerin sämtliche für die Schuldnerersetzung und die Erfüllung der Verpflichtungen aus oder im Zusammenhang mit den Schuldverschreibungen erforderlichen Genehmigungen und Zustimmungen erhalten hat;

§ 13
NOTICES

(1) If the Bonds are admitted for trading on any stock exchange, notices to the Bondholders will be valid if published in a leading daily newspaper having general circulation in the jurisdiction of any stock exchange on which the Bonds may be listed from time to time, for so long as the Bonds are listed on the respective exchange and the rules of any such exchange so require. Any such notice shall be deemed to have been given on the date of the first publication or, when required to be published in more than one newspaper, on the date on which the notice has first been published in all required newspapers.

(2) Notices to Bondholders may (subject to applicable stock exchange rules and requirements), so long as any Global Bond representing the Bonds is held on behalf of the Clearing System, be given *in lieu* of publication in a newspaper pursuant to § 13(1) by delivery of the relevant notice to the Clearing System for communication to the Bondholders.

§ 14
SUBSTITUTION; OTHER MODIFICATIONS AND EXCHANGE

(1) **Substitution.** The Guarantor may at any time, without the consent of the Bondholders, substitute for the Issuer either itself or any other company which is directly or indirectly controlled by the Guarantor, as new issuer (the ***New Issuer***) in respect of all obligations arising under or in connection with the Bonds, with the effect of releasing the Issuer of all such obligations, if:

(a) all payment obligations of the Issuer having fallen due have been performed;

(b) the New Issuer assumes any and all obligations of the Issuer arising under or in connection with the Bonds;

(c) the New Issuer has obtained all authorizations and approvals necessary for the substitution and the fulfillment of the obligations arising under or in connection with the Bonds;

(d) die Neue Anleiheschuldnerin in der Lage ist, sämtliche zur Erfüllung der aufgrund der Schuldverschreibungen bestehenden Zahlungsverpflichtungen erforderlichen Beträge in Euro an das Clearingsystem zu zahlen, und zwar ohne Abzug oder Einbehalt von Steuern oder sonstigen Abgaben jedweder Art, die von dem Land (oder den Ländern), in dem (in denen) die Neue Anleiheschuldnerin ihren Sitz oder Steuersitz hat, auferlegt, erhoben oder eingezogen werden;

(e) die Neue Anleiheschuldnerin oder die Garantin sich verpflichtet haben, die Anleihegläubiger hinsichtlich solcher Steuern, Abgaben oder behördlicher Gebühren freizustellen, die den Anleihegläubigern bezüglich der Ersetzung auferlegt werden; und

(f) für den Fall, dass die Neue Anleiheschuldnerin nicht die Garantin ist, die Bestimmungen der Ziffer 1.7 der Nachrangigen Garantie, wonach sich die Nachrangige Garantie auf die von der Neuen Anleiheschuldnerin gemäß den Anleihebedingungen zahlbaren Beträge erstreckt, in vollem Umfang Bestand haben,

(2) **Bezugnahmen.** Im Fall einer Schuldnerersetzung nach Maßgabe von § 14(1) gilt jede Bezugnahme in diesen Anleihebedingungen auf die Emittentin als eine solche auf die Neue Anleiheschuldnerin und jede Bezugnahme auf die Niederlande als eine solche auf den Staat, in welchem die Neue Anleiheschuldnerin steuerlich ansässig ist.

(3) **Bekanntmachung und Wirksamwerden der Ersetzung.** Die Ersetzung der Emittentin ist gemäß § 13 bekanntzumachen. Mit der Bekanntmachung der Ersetzung wird die Ersetzung wirksam und die Emittentin (und im Falle einer wiederholten Anwendung dieses § 14 jede frühere Neue Anleiheschuldnerin) von ihren sämtlichen Verpflichtungen aus oder im Zusammenhang mit den Schuldverschreibungen frei. Im Falle einer solchen Ersetzung werden die Wertpapierbörsen informiert, an denen die Schuldverschreibungen notiert sind, und eine Ergänzung zu dem Informationsmemorandum mit einer Beschreibung der Neuen Anleiheschuldnerin erstellt.

(4) **Sonstige Änderungen und Austausch.** Tritt ein Rechnungslegungsereignis, ein Kapitalereignis oder ein Steuerereignis ein, ist die Emittentin jederzeit und ohne Zustimmung der Anleihegläubiger berechtigt, die Anleihebedingungen für die Schuldver-

(d) the New Issuer is in the position to pay to the Clearing System in Euro and without deducting or withholding any taxes or other duties of whatever nature imposed, levied or deducted by the country (or countries) in which the New Issuer has its domicile or tax residence all amounts required for the performance of the payment obligations arising from or in connection with the Bonds;

(e) the New Issuer or the Guarantor has agreed to indemnify the Bondholders against such taxes, duties or governmental charges as may be imposed on the Bondholders in connection with the substitution; and

(f) in the event that the New Issuer is not the Guarantor, the provisions of Clause 1.7 of the Subordinated Guarantee, pursuant to which the Subordinated Guarantee shall extend to any and all amounts expressed to be payable by the New Issuer pursuant to these Terms and Conditions of the Bonds, shall be in full force and effect.

(2) **References.** In the event of a substitution pursuant to § 14(1), any reference in these Terms and Conditions to the Issuer shall be a reference to the New Issuer and any reference to The Netherlands shall be a reference to the New Issuer's country of domicile for tax purposes.

(3) **Notice and Effectiveness of Substitution.** Notice of any substitution of the Issuer shall be given by publication in accordance with § 13. Upon such publication, the substitution shall become effective, and the Issuer and, in the event of a repeated application of this § 14, any previous New Issuer shall be discharged from any and all obligations under or in connection with the Bonds. In case of such substitution, the stock exchange(s), if any, on which the Bonds are then listed will be notified and a supplemental information memorandum describing the New Issuer will be prepared.

(4) **Other Modifications and Exchange.** In case of an Accounting Event, a Capital Event or a Tax Event, the Issuer may at any time, without the consent or approval of Bondholders, modify (and upon such modification, if required under German law,

schreibungen (insgesamt, jedoch nicht teilweise) zu ändern (und, sofern nach deutschem Recht erforderlich, die Globalurkunden auszutauschen, womit die Globalurkunden das Recht der Anleihegläubiger verbriefen, einen entsprechenden Miteigentumsanteil an den Globalurkunden mit den angehängten geänderten Anleihebedingungen zu erhalten), so dass das jeweilige Ereignis nach einer solchen Änderung nicht länger fortdauert. Die Emittentin kann eine Schuldnerersetzung im Sinne von Absatz (1) bis (3) mit einer Änderung nach diesem Absatz (4) verbinden, sofern alle in diesem § 14 genannten Voraussetzungen vorliegen.

Jede solche Änderung setzt voraus, dass die Nachrangige Garantie vollständig in Kraft bleibt und die so geänderten Schuldverschreibungen Bedingungen haben, die:

(a) für die Anleihegläubiger nicht weniger günstig sind als die der Schuldverschreibungen (dies schließt die Besteuerung der Anleihegläubiger ein); und

(b) mit den Bedingungen der Schuldverschreibungen mit Ausnahme der zur Vermeidung der oben genannten Ereignisse erforderlichen Änderungen im Wesentlichen identisch sind (insbesondere hinsichtlich Fälligkeitsdatum, Zinsen, Zahlungsterminen und Kündigungsterminen).

Die Bedingungen der Schuldverschreibungen dürfen nur geändert werden, sofern (i) alle aufgelaufenen Zinsen einschließlich etwaiger Zinsrückstände am jeweiligen Zinszahlungstag vollständig gezahlt wurden und (ii) die Änderungen weder (a) zu einer Änderung des dann gültigen Ratings der Schuldverschreibungen und/oder der Garantin noch (b) zu einem Rechnungslegungsereignis, einem Kapitalereignis oder einem Steuerereignis führen. Absatz (3) (Bekanntmachung) dieses § 14 gilt für eine solche Änderung entsprechend.

exchange the Global Bonds in which case the Global Bond in respect of these Bonds will represent the Bondholder's right to receive a corresponding number of co-ownership interests represented by the Global Bond with the modified terms attached) the Terms and Conditions of the Bonds, in whole but not in part, so that the relevant event no longer exists after such modification. The Issuer may combine a substitution pursuant to paragraphs (1) through (3) above with a modification pursuant to this paragraph (4) if all provisions of this § 14 are satisfied.

Any such modification to the Bonds is conditioned on the Subordinated Guarantee remaining in full force and effect and the modified Bonds having terms that:

(a) are not less favourable to the Bondholders than the terms of the Bonds, including the same tax treatment for the relevant Bondholder; and

(b) are, except for the modifications required to avoid the events specified above, substantially identical to the terms of the Bonds (including maturity date, interest rate(s), payment dates and redemption dates).

The Terms and Conditions of the Bonds may only be modified if (i) all accrued interest on the relevant Interest Payment Date has been paid in full, including any Arrears of Interest, and (ii) the modification does not itself give rise to (a) any detrimental change in any published rating of the Bonds and/or of the Guarantor in effect at such time or (b) an Accounting Event, a Capital Event or a Tax Event. Paragraph (3) (notice) of this § 14 shall apply *mutatis mutandis* to any such modification.

§ 15
ANWENDBARES RECHT UND GERICHTSSTAND

(1) Anwendbares Recht. Form und Inhalt der Schuldverschreibungen sowie die Rechte und Pflichten der Anleihegläubiger und der Emittentin bestimmen sich ausschließlich nach dem Recht der Bundesrepublik Deutschland, mit Ausnahme von § 4(1), der dem Recht der Niederlande unterliegt.

(2) Erfüllungsort. Erfüllungsort ist Frankfurt am Main, Bundesrepublik Deutschland.

(3) Gerichtsstand. Die Emittentin vereinbart zugunsten der Anleihegläubiger, dass Frankfurt am Main der Gerichtsstand für alle Klagen, Verfahren oder Rechtsstreitigkeiten gegen die Emittentin, die aus oder im Zusammenhang mit den Schuldverschreibungen entstehen (jeweils ***Verfahren*** bzw. ***Streitigkeiten***), ist. Die Emittentin erkennt diesen Gerichtsstand zu diesem Zweck unwiderruflich an. Für etwaige Streitigkeiten oder sonstige Verfahren vor deutschen Gerichten bestellt die Emittentin die Linde Aktiengesellschaft, Wiesbaden, Bundesrepublik Deutschland, zur Zustellungsbevollmächtigten.

(4) Gerichtsstand. Die Emittentin verzichtet unwiderruflich darauf, Einwände oder Einreden geltend zu machen, die jetzt oder in Zukunft gegen die Vereinbarung vorgebracht werden könnten, dass Frankfurt am Main der Gerichtsstand für alle Verfahren und Streitigkeiten sein soll, und verpflichtet sich, nicht zu bestreiten, dass diese Gerichte geeignet oder zuständig sind.

(5) Nichtausschließlichkeit. Die Gerichtsstandsvereinbarung beschränkt nicht das Recht eines Anleihegläubigers (und wird auch nicht dahingehend ausgelegt), Verfahren vor einem anderen zuständigen Gericht anzustrengen. Ebenso wenig schließt die Einleitung von Verfahren an einem oder mehreren Gerichtsständen die Einleitung von Verfahren an einem anderen Gerichtsstand aus (gleichgültig, ob diese gleichzeitig geführt werden oder nicht), falls und soweit dies rechtlich zulässig ist.

§ 16
SPRACHE

Diese Anleihebedingungen sind in deutscher Sprache abgefasst und mit einer Übersetzung in die englische Sprache versehen. Der deutsche Wortlaut ist allein rechtsverbindlich. Die englische Übersetzung dient zu Informationszwecken.

§ 15
GOVERNING LAW AND JURISDICTION

(1) Governing law. The form and contents of the Bonds and the rights and obligations of the Bondholders and the Issuer shall be governed exclusively by, and construed in accordance with, the laws of the Federal Republic of Germany, except for § 4(1), which shall be subject to the laws of The Netherlands.

(2) Place of Performance. Place of performance is Frankfurt am Main, Federal Republic of Germany.

(3) Jurisdiction. The Issuer agrees for the benefit of the Bondholders that the courts of Frankfurt am Main shall have jurisdiction to hear and determine any suit, action or proceedings and to settle any disputes which may arise out of or in connection with the Bonds (respectively, ***Proceedings*** and ***Disputes***) and, for that purpose, the Issuer irrevocably submits to the jurisdiction of the courts of Frankfurt am Main. For any Disputes or other Proceedings before German courts, the Issuer appoints Linde Aktiengesellschaft, Wiesbaden, Federal Republic of Germany, as authorised agent for accepting services of process.

(4) Forum. The Issuer irrevocably waives any objection which it might now or hereafter have to the courts of Frankfurt am Main being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any of those courts is not a convenient or appropriate forum.

(5) Non-exclusivity. The submission to the jurisdiction of the courts of Frankfurt am Main shall not (and shall not be construed so as to) limit the right of any Bondholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

§ 16
LANGUAGE

These Terms and Conditions are drawn up in the German language and provided with an English language translation. The German version shall be the only legally binding version. The English translation is for convenience only.

TERMS AND CONDITIONS OF THE £-BONDS

ANLEIHEBEDINGUNGEN der

bis zu £ 893.620.000
fest bzw. variabel verzinslichen
nachrangigen Schuldverschreibungen 2006 der

Linde Finance B.V.,
Amsterdam, Niederlande

mit einer nachrangigen Garantie der

Linde Aktiengesellschaft,
Wiesbaden, Deutschland

DER DEUTSCHE TEXT DIESER ANLEIHEBEDINGUNGEN IST ALLEIN RECHTSVERBINDLICH. DIE ENGLISCHE ÜBERSETZUNG DIENT NUR ZU INFORMATIONSZWECKEN.

§ 1 DEFINITIONEN UND AUSLEGUNG

Soweit aus dem Zusammenhang nicht etwas anderes hervorgeht, haben die nachfolgenden Begriffe in diesen Anleihebedingungen die folgende Bedeutung:

Abgezinste Werte hat die in § 6(4) festgelegte Bedeutung.

Abgezinster Marktpreis hat die in § 6(4) festgelegte Bedeutung.

Vergleichbare Benchmark Rendite hat die in § 6(4) festgelegte Bedeutung.

Anleihebedingungen bezeichnet diese Bedingungen der Schuldverschreibungen.

Anleihegläubiger bezeichnet jeden Inhaber eines Miteigentumsanteils oder -rechts an der Globalurkunde.

Ausgabetag bezeichnet den [14]. Juli 2006.

Austauschtag hat die in § 2(2)(b) festgelegte Bedeutung.

Berechnungsstelle hat die in § 11(3) festgelegte Bedeutung.

Bildschirmseite bezeichnet Reuters Seite LIBOR01 (oder eine andere Bildschirmseite von Reuters oder einem anderen Informationsanbieter als Nachfolger, welche Reuters Seite LIBOR01 zur Anzeige solcher Sätze ersetzt).

BOC-Ereignis hat die in § 6(3)(e) festgelegte Bedeutung.

Clearingsystem bezeichnet jeweils Clearstream Luxemburg und Euroclear.

TERMS AND CONDITIONS of the

up to £ 893,620,000
Fixed to Floating Rate
Subordinated Bonds 2006
issued by

Linde Finance B.V.,
Amsterdam, The Netherlands

guaranteed, on a subordinated basis, by

Linde Aktiengesellschaft,
Wiesbaden, Germany

THE GERMAN TEXT OF THESE TERMS AND CONDITIONS IS THE LEGALLY BINDING ONE. THE ENGLISH TRANSLATION IS FOR CONVENIENCE ONLY.

§ 1 DEFINITIONS AND INTERPRETATION

Unless the context otherwise requires, the following terms will have the following meanings in these Terms and Conditions:

Present Values has the meaning specified in § 6(4).

Make-Whole Amount has the meaning specified in § 6(4).

Comparable Benchmark Yield has the meaning specified in § 6(4).

Terms and Conditions means these terms and conditions of the Bonds.

Bondholder means any holder of a proportional co-ownership participation or right in the Global Bond.

Issue Date means July [14], 2006.

Exchange Date has the meaning specified in § 2(2)(b).

Calculation Agent has the meaning specified in § 11(3).

Screen Page means Reuters Page LIBOR01 (or such other screen page of Reuters or such other information service, which is the successor to Reuters Page LIBOR01 for the purpose of displaying such rates).

BOC Event has the meaning specified in § 6(3)(e).

Clearing System means each of Clearstream Luxembourg and Euroclear.

Clearstream Luxemburg bezeichnet Clearstream Banking S.A., Luxemburg.

Dauerglobalurkunde hat die in § 2(2)(a) festgelegte Bedeutung.

Emissionsvolumen hat die in § 5(4)(c) festgelegte Bedeutung.

Emittentin hat die in § 2(1) festgelegte Bedeutung.

Euroclear bezeichnet Euroclear Bank S.A./N.V. als Betreiberin des Euroclear-Systems.

Fälligkeitstag hat die in § 6(1) festgelegte Bedeutung.

Festzins-Zahlungstag hat die in § 5(1)(a) festgelegte Bedeutung.

Garantin hat die in § 3 festgelegte Bedeutung.

Geschäftstag bezeichnet jeden Tag (außer einen Samstag oder einen Sonntag), an dem die Banken in London für den Geschäftsverkehr geöffnet sind und das TARGET (das Trans-European Automated Real Time Gross Settlement Express Transfer System) Buchungen oder Zahlungsanweisungen im Hinblick auf Zahlungen in britischen Pfund Sterling abwickelt.

Gleichrangiges Wertpapier bezeichnet (i) jede Verpflichtung der Emittentin, die auf der Basis ihrer Bedingungen oder aufgrund gesetzlicher Bestimmungen gleichrangig im Verhältnis zu den Schuldverschreibungen ist (dies schließt zur Klarstellung die Nachranganleihe 2003 ein), und (ii) jede Verpflichtung der Garantin, die gleichrangig im Verhältnis zu den Verpflichtungen der Garantin aus der Nachrangigen Garantie ist (dies schließt zur Klarstellung die Verpflichtungen der Garantin aus der Garantie in Bezug auf die Nachranganleihe 2003 ein).

Globalurkunden bezeichnet die Vorläufige Globalurkunde und die Dauerglobalurkunde.

Gross-up-Ereignis hat die in § 6(3)(a) festgelegte Bedeutung.

Hauptzahlstelle hat die in § 11(1) festgelegte Bedeutung.

Jahreshauptversammlung ist die ordentliche Hauptversammlung der Garantin, welche über die Zahlung einer Dividende für das jeweils vorangegangene Geschäftsjahr der Garantin entscheidet.

Kapitalereignis hat die in § 6(3)(b) festgelegte Bedeutung.

Kontrollwechsel hat die in § 6(6) festgelegte Bedeutung.

Clearstream Luxembourg means Clearstream Banking S.A., Luxembourg.

Permanent Global Bond has the meaning specified in § 2(2)(a).

Issue Volume has the meaning specified in § 5(4)(c).

Issuer has the meaning specified in § 2(1).

Euroclear means Euroclear Bank S.A./N.V. as operator of the Euroclear System.

Maturity Date has the meaning specified in § 6(1).

Fixed Interest Payment Date has the meaning specified in § 5(1)(a).

Guarantor has the meaning specified in § 3.

Business Day means a day (other than a Saturday or a Sunday) on which banks are open for business in London and TARGET (the Trans-European Automated Real Time Gross Settlement Express Transfer System) is effecting credit or transfer instructions in respects of payments in Pound Sterling.

Parity Security means (i) any obligation of the Issuer, which by its terms or by operation of law ranks *pari passu* with the Bonds (including, for the avoidance of doubt, the obligations of the Issuer under the Subordinated Bond 2003), and (ii) any obligation of the Guarantor which ranks *pari passu*with the Guarantor's obligations under the Subordinated Guarantee (including, for the aviodance of doubt, the obligations of the Guarantor under the guarantee issued in relation to the Subordinated Bond 2003).

Global Bonds means the Temporary Global Bond and the Permanent Global Bond.

Gross-up Event has the meaning specified in § 6(3)(a).

Principal Paying Agent has the meaning specified in § 11(1).

Annual General Meeting is the general shareholder meeting of the Guarantor which resolves on the payment of a dividend for the respective preceding business year of the Guarantor.

Capital Event has the meaning specified in § 6(3)(b).

Change of Control has the meaning specified in § 6(6).

Konzerngesellschaft bezeichnet jedwede verbundenen Unternehmen der Garantin i.S.d. § 15 Aktiengesetz.

Group Entity means any of the Guarantor's affiliated enterprises within the meaning of Section 15 of the German Stock Corporation Act.

Marge bezeichnet [1,50 – 5,75]% plus 1,00% p.a. Die Marge erhöht sich ab dem Tag, der 60 Tage nach dem Eintritt eines Kontrollwechsels liegt (einschließlich) um 5,00% p.a.

Margin means [1.50 – 5.75] per cent. plus 1.00 per cent. *per annum*. The Margin will be increased by 5.00% p.a. from the day (inclusive) falling 60 days after the day on which a Change of Control has occurred.

Nachranganleihe 2003 bezeichnet die € 400.000.000 nachrangigen Schuldverschreibungen der Linde Finance B.V. ohne Fälligkeitstag, die am 3. Juli 2003 emittiert wurden (ISIN XS0171231060), deren Anleihebedingungen als **Anlage I** beigefügt sind.

Subordinated Bonds 2003 means the € 400,000,000 undated subordinated bonds issued by Linde Finance B.V. on July 3, 2003 (ISIN XS0171231060) and the terms and conditions of which are attached as **Annex I**.*

Nachrangige Garantie hat die in § 3 festgelegte Bedeutung.

Subordinated Guarantee has the meaning specified in § 3.

Nachrangiges Wertpapier bezeichnet (i) jede Verpflichtung der Emittentin, die den Schuldverschreibungen gegenüber nachrangig ist, und (ii) jede Verpflichtung der Garantin, die gegenüber den Verpflichtungen der Garantin aus der Nachrangigen Garantie nachrangig ist.

Junior Security means (i) any obligation of the Issuer which ranks junior to the Bonds and (ii) any obligation of the Guarantor which ranks junior to the obligations of the Guarantor under the Subordinated Guarantee.

Neue Anleiheschuldnerin hat die in § 14(1) festgelegte Bedeutung.

New Issuer has the meaning specified in § 14(1).

Neue Wertpapiere hat die in § 6(7) festgelegte Bedeutung.

New Securities has the meaning specified in § 6(7).

Rechnungslegungsereignis hat die in § 6(3)(d) festgelegte Bedeutung.

Accounting Event has the meaning specified in § 6(3)(d).

Referenzbanken hat die in § 5(2)(c) festgelegte Bedeutung.

Reference Banks has the meaning specified in § 5(2)(c).

Rückzahlungs-Berechnungstag hat die in § 6(4) festgelegte Bedeutung.

Redemption Calculation Date has the meaning specified in § 6(4).

Schuldverschreibungen hat die in § 2(1) festgelegte Bedeutung.

Bonds has the meaning specified in § 2(1).

Steuerereignis hat die in § 6 (3)(c) festgelegte Bedeutung.

Tax Event has the meaning specified in § 6(3)(c).

Streitigkeiten hat die in § 15(3) festgelegte Bedeutung.

Disputes has the meaning specified in § 15(3).

Variabler Zinszahlungstag ist, vorbehaltlich § 5(2)(b), der [14]. Januar, [14]. April, [14]. Juli und [14]. Oktober eines jeden Jahres beginnend mit dem [14]. Oktober [2016][2018] (einschließlich).

Floating Interest Payment Date means, subject to § 5(2)(b), January [14], April [14], July [14] and October [14] of each year, commencing and including October [14]**,** [2016][2018].

Variabler Zinszeitraum bezeichnet jeweils den Zeitraum vom [14]. Juli [2016][2018] (einschließlich) bis zum ersten Variablen Zinszahlungstag (ausschließlich) und

Floating Interest Period means each period from and including July [14], [2016][2018] to but excluding the first Floating Interest Payment Date and, thereafter, from

* The terms and conditions of the Subordinated Bonds 2003 will be annexed to the Global Bonds but have not been reproduced in this document. They are obtainable at request from the Guarantor at its principal business address.

danach von jedem Variablen Zinszahlungstag (einschließlich) bis zum jeweils darauffolgenden Variablen Zahlungstag (ausschließlich).

and including each Floating Interest Payment Date to but excluding the immediately following Floating Interest Payment Date.

Vereinigte Staaten bezeichnet die Vereinigten Staaten von Amerika (einschließlich deren Bundesstaaten und des Districts of Columbia) sowie deren Territorien (einschließlich Puerto Ricos, der U.S. Virgin Islands, Guam, American Samoa, Wake Island und der Northern Mariana Islands).

United States means the United States of America (including the States thereof and the District of Columbia) and its possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island und Northern Mariana Islands).

Verfahren hat die in § 15(3) festgelegte Bedeutung.

Proceedings has the meaning specified in § 15(3).

Vorläufige Globalurkunde hat die in § 2(2)(a) festgelegte Bedeutung.

Temporary Global Bond has the meaning specified in § 2(2)(a).

Vorzeitiger Rückzahlungsbetrag die in § 6(4) festgelegte Bedeutung.

Early Redemption Amount has the meaning specified in § 6(4).

Zahlstelle und ***Zahlstellen*** hat die in § 11(2) festgelegte Bedeutung.

Paying Agent and ***Paying Agents*** has the meaning specified in § 11(2).

Zinsberechnungszeitraum hat die in § 5(2)(d) festgelegte Bedeutung.

Calculation Period has the meaning specified in § 5(2)(d).

Zinsbetrag hat die in § 5(2)(d) festgelegte Bedeutung.

Interest Amount has the meaning specified in § 5(2)(d).

Zinsfestlegungstag ist der zweite Geschäftstag vor Beginn des jeweiligen Variablen Zinszeitraums.

Interest Determination Date means the second Business Day prior to the commencement of the relevant Floating Interest Period.

Zinsrückstände hat die in § 5(3) festgelegte Bedeutung.

Arrears of Interest has the meaning specified in § 5(3).

Zinsrückstände-Zahlungstag hat die in § 5(4)(b) festgelegte Bedeutung.

Arrears of Interest Payment Date has the meaning specified in § 5(4)(b).

Zinssatz hat die in § 5(2)(c) festgelegte Bedeutung.

Rate of Interest has the meaning specified in § 5(2)(c).

Zinstagequotient hat die in § 5(2)(d) festgelegte Bedeutung.

Day Count Fraction has the meaning specified in § 5(2)(d).

Zinszahlungstag bezeichnet jeden Festzins-Zahlungstag und jeden Variablen Zinszahlungstag.

Interest Payment Date means any Fixed Interest Payment Date and any Floating Interest Payment Date.

§ 2
NENNBETRAG UND STÜCKELUNG; VERBRIEFUNG; ÜBERTRAGBARKEIT

(1) **Nennbetrag und Stückelung.** Die Emission der nachrangigen fest bzw. variabel verzinslichen Schuldverschreibungen der Linde Finance B.V., Amsterdam, Niederlande (die ***Emittentin***) im Gesamtnennbetrag von [bis zu £ 893.620.000 (in Worten: britische Pfund achthundertdreiundneunzig Millionen sechshundertzwanzig Tausend)] ist eingeteilt in [bis zu 893.620] an den Inhaber zahlbare und untereinander gleichrangige Schuldverschreibungen mit einem Nennbetrag von jeweils £ 1.000 (die ***Schuldverschreibungen;*** dieser Begriff umfasst sämtliche wei-

§ 2
PRINCIPAL AMOUNT AND DENOMINATION; FORM; TRANSFERABILITY

(1) **Principal Amount and Denomination.** The issue of the subordinated fixed to floating rate bonds by Linde Finance B.V., Amsterdam, The Netherlands (the ***Issuer***) in the aggregate principal amount of [bis zu £ 893,620,000 (in words: Pound Sterling eighthundred ninetythree million sixhundred twenty thousand)] is divided into [up to 893,620] bonds payable to bearer and ranking *pari passu* among themselves, with a principal amount of £ 1,000 each (the ***Bonds***; this term includes any further Bonds issued pursuant to § 12 that form a single series with

teren Schuldverschreibungen, die gemäß § 12 begeben werden und eine einheitliche Serie mit den Schuldverschreibungen bilden).

the Bonds).

(2) Vorläufige Globalurkunde – Austausch.

(a) Die Schuldverschreibungen sind anfänglich durch eine vorläufige Globalurkunde (die ***Vorläufige Globalurkunde***) ohne Zinsscheine verbrieft. Die vorläufige Globalurkunde wird gegen eine Dauerglobalurkunde (die ***Dauerglobalurkunde***) ohne Zinsscheine ausgetauscht. Die Vorläufige Globalurkunde und die Dauerglobalurkunde tragen jeweils die eigenhändigen Unterschriften zweier ordnungsgemäß bevollmächtigter Vertreter der Emittentin und sind jeweils von der Hauptzahlstelle oder in deren Namen mit einer Kontrollunterschrift versehen. Einzelurkunden und Zinsscheine werden nicht ausgegeben.

(b) Die Vorläufige Globalurkunde wird an einem Tag (der ***Austauschtag***) gegen die Dauerglobalurkunde ausgetauscht, der nicht mehr als 180 Tage nach dem Ausgabetag liegt. Der Austauschtag darf nicht weniger als 40 Tage nach dem Ausgabetag liegen. Ein solcher Austausch darf nur nach Vorlage von Bescheinigungen erfolgen, wonach der oder die wirtschaftlichen Eigentümer der Schuldverschreibungen keine U.S.-Personen sind (ausgenommen bestimmte Finanzinstitute oder bestimmte Personen, die Schuldverschreibungen über solche Finanzinstitute halten). Solange die Schuldverschreibungen durch die Vorläufige Globalurkunde verbrieft sind, werden Zinszahlungen erst nach Vorlage solcher Bescheinigungen vorgenommen. Eine gesonderte Bescheinigung ist für jede solche Zinszahlung erforderlich. Jede Bescheinigung, die am oder nach dem 40. Tag nach dem Ausgabetag eingeht, wird als ein Ersuchen behandelt werden, die Vorläufige Globalurkunde gemäß diesem § 2(2)(b) auszutauschen. Schuldverschreibungen, die im Austausch für die Vorläufige Globalurkunde geliefert werden, dürfen nur außerhalb der Vereinigten Staaten geliefert werden.

(2) Temporary Global Bond – Exchange.

(a) The Bonds are initially represented by a temporary global bond (the ***Temporary Global Bond***) without coupons. The Temporary Global Bond will be exchangeable for a permanent global bond (the ***Permanent Global Bond***) without coupons. The Temporary Global Bond and the Permanent Global Bond shall each be signed manually by two authorised signatories of the Issuer and shall each be authenticated by or on behalf of the Principal Paying Agent. Definitive Bonds and interest coupons shall not be issued.

(b) The Temporary Global Bond shall be exchanged for the Permanent Global Bond on a date (the ***ExchangeDate***) not later than 180 days after the Issue Date. The Exchange Date will not be earlier than 40 days after the Issue Date. Such exchange shall only be made upon delivery of certifications to the effect that the beneficial owner or owners of the Bonds is not a U.S. person (other than certain financial institutions or certain persons holding Bonds through such financial institutions). Payment of interest on Bonds represented by a Temporary Global Bond shall be made only after delivery of such certifications. A separate certification shall be required in respect of each such payment of interest. Any such certification received on or after the 40th day after the Issue Date shall be treated as a request to exchange the Temporary Global Bond pursuant to this § 2(2)(b). Any Bonds delivered in exchange for the Temporary Global Bond shall be delivered only outside of the United States.

(3) Clearingsystem. Die Dauerglobalurkunden werden solange von einem oder im Namen des Clearingsystems verwahrt, bis sämtliche Verbindlichkeiten der Emittentin aus den Schuldverschreibungen erfüllt sind.

(4) Übertragbarkeit. Den Anleihegläubigern stehen Miteigentumsanteile oder -rechte an den Globalurkunden zu, die nach Maßgabe des anwendbaren Rechts und der jeweils geltenden Regelwerke des Clearingsystems übertragen werden können.

§ 3
NACHRANGIGE GARANTIE

Die Linde Aktiengesellschaft, Wiesbaden, Deutschland (die ***Garantin***) hat gegenüber der Hauptzahlstelle die unbedingte und unwiderrufliche nachrangige Garantie (die ***Nachrangige Garantie***) zugunsten der Anleihegläubiger für die ordnungsgemäße und pünktliche Zahlung, jeweils bei Fälligkeit nach Maßgabe dieser Anleihebedingungen, von Kapital und Zinsen und allen anderen zu zahlenden Beträgen unter den Schuldverschreibungen übernommen. Die Nachrangige Garantie stellt einen Vertrag zugunsten der Anleihegläubiger als begünstigte Dritte im Sinne des § 328 Abs. 1 BGB dar, der jedem Anleihegläubiger das Recht gibt, Erfüllung der in der Nachrangigen Garantie übernommenen Verpflichtungen unmittelbar von der Garantin zu verlangen und diese Verpflichtungen unmittelbar gegen die Garantin durchzusetzen.

§ 4
STATUS DER SCHULDVERSCHREIBUNGEN UND DER NACHRANGIGEN GARANTIE

(1) Status der Schuldverschreibungen. Die Schuldverschreibungen begründen nicht besicherte und nachrangige Verbindlichkeiten der Emittentin, die (i) dem Grundkapital der Emittentin vorrangig sind, (ii) untereinander und mit Verbindlichkeiten der Emittentin aus der Nachranganleihe 2003 gleichrangig sind und (iii) nachrangig sind zu allen anderen derzeitigen oder künftigen nicht nachrangigen und solchen nachrangigen Verbindlichkeiten, die als den Schuldverschreibungen vorrangig vereinbart sind, soweit zwingende gesetzliche Bestimmungen nichts anderes vorschreiben. Im Fall der Liquidation, der Auflösung oder der Insolvenz der Emittentin oder eines Vergleichs oder eines anderen der Abwendung der Insolvenz der Emittentin dienenden Verfahrens erfolgen Zahlungen auf die Schuldverschreibungen erst dann, wenn die Ansprüche aller nicht nachrangigen und nachrangigen Gläubiger der Emittentin, deren Ansprüche als gegenüber den Schuldverschrei-

(3) Clearing System. The Global Bonds will be kept in custody by or on behalf of the Clearing System until all obligations of the Issuer under the Bonds have been satisfied.

(4) Transferability. The Bondholders will receive proportional co-ownership participations or rights in the Global Bonds that are transferable in accordance with applicable law and applicable rules of the Clearing System.

§ 3
SUBORDINATED GUARANTEE

Linde Aktiengesellschaft, Wiesbaden, Germany (the ***Guarantor***) has issued an unconditional and irrevocable subordinated guarantee (the ***Subordinated Guarantee***) to the Principal Paying Agent for the benefit of the Bondholders, for the due and punctual payment of principal of, and interest on, and any other amounts payable under the Bonds, in each case when falling due in accordance with these Terms and Conditions. The Subordinated Guarantee constitutes a contract for the benefit of the Bondholders from time to time as third party beneficiaries in accordance with § 328(1) of the German Civil Code, giving rise to the right of each Bondholder to require performance of the obligations under the Subordinated Guarantee directly from the Guarantor and to enforce the obligations under the Subordinated Guarantee directly against the Guarantor.

§ 4
STATUS OF THE BONDS AND THE SUBORDINATED GUARANTEE

(1) Status of the Bonds. The obligations of the Issuer under the Bonds constitute unsecured and subordinated obligations of the Issuer ranking (i) senior to the Issuer's share capital, (ii) *pari passu* among themselves and with any obligations of the Issuer under the Subordinated Bonds 2003 and (iii) junior to all other present or future unsubordinated obligations of the Issuer and subordinated obligations of the Issuer that are expressed to rank senior to the Bonds, except in each case as otherwise required by mandatory provisions of law. In the event of the liquidation, dissolution, insolvency, composition or other proceedings for the avoidance of insolvency of the Issuer no amounts shall be payable in respect of the Bonds until the claims of all unsubordinated and subordinated creditors of the Issuer the claims of which are expressed to rank senior to the Bonds shall have first been satisfied in full. No Bondholder bungen vorrangig vereinbart wurden, vollständig befriedigt sind. Anleihegläubiger sind nicht berechtigt, Forderungen aus den Schuldverschreibungen gegen mögliche Forderungen der Emittentin aufzurechnen. Die Emittentin ist nicht berechtigt, Forderungen gegenüber Anleihegläubigern gegen Verpflichtungen aus den Schuldverschreibungen aufzurechnen. Für die Rechte der Anleihegläubiger aus den Schuldverschreibungen ist diesen mit Ausnahme der Nachrangigen Garantie keine Sicherheit durch die Emittentin oder durch Dritte gestellt; eine solche Sicherheit (mit Ausnahme der Nachrangigen Garantie) wird auch zu keinem Zeitpunkt gestellt werden.

(2) Status der Nachrangigen Garantie. Die Verpflichtungen der Garantin aus der Nachrangigen Garantie sind nicht besicherte, nachrangige Verbindlichkeiten der Garantin, die vorbehaltlich § 5(5) (i) dem Grundkapital der Garantin vorrangig sind, (ii) untereinander und mit den Verbindlichkeiten der Garantin aus der Nachrangigen Garantie in Bezug auf die Nachranganleihe 2003 gleichrangig sind und (iii) nachrangig sind zu allen anderen derzeitigen und zukünftigen nicht nachrangigen und nachrangigen Verbindlichkeiten der Garantin, die als gegenüber den Verpflichtungen der Garantin aus der Garantie vorrangig vereinbart sind, soweit nicht zwingende gesetzliche Bestimmungen etwas anderes vorschreiben. Im Fall der Auflösung, der Liquidation, der Insolvenz oder eines der Abwendung der Insolvenz der Garantin dienenden Verfahrens erfolgen Zahlungen auf die Nachrangige Garantie erst dann, wenn alle Ansprüche gegen die Garantin aus nicht nachrangigen Verbindlichkeiten sowie nachrangigen Verbindlichkeiten, die als gegenüber Verbindlichkeiten aus der Nachrangigen Garantie vorrangig vereinbart wurden vollständig befriedigt sind. Anleihegläubiger sind nicht berechtigt, Forderungen aus der Nachrangigen Garantie gegen mögliche Forderungen der Garantin gegen sie aufzurechnen. Die Garantin ist nicht berechtigt, Forderungen gegenüber Anleihegläubigern gegen Verpflichtungen aus der Nachrangigen Garantie aufzurechnen. Für die Rechte der Anleihegläubiger aus der Nachrangigen Garantie ist diesen keine Sicherheit durch die Garantin oder durch Dritte gestellt; eine solche Sicherheit wird auch zu keinem Zeitpunkt gestellt werden.

Die Anleihegläubiger erkennen ausdrücklich an, dass unter den oben genannten Umständen Zahlungen der Garantin unter der Nachrangigen Garantie auf die Schuldverschreibungen nur unter Wahrung obenstehender Nachrangigkeit erfolgen werden.

may set-off any claims arising under the Bonds against any claims that the Issuer may have against it. The Issuer may not set-off any claims it may have against the Bondholders against any of its obligations under the Bonds. Except for the Subordinated Guarantee, no security is, or shall at any time be, provided by the Issuer or any other person securing rights of the Bondholders under the Bonds.

(2) Status of the Subordinated Guarantee. Subject to § 5(5), the obligations of the Guarantor under the Subordinated Guarantee constitute unsecured and subordinated obligations of the Guarantor ranking (i) senior to the Guarantor's share capital, (ii) *pari passu* among themselves and with any obligations of the Guarantor under the subordinated guarantee in relation to the Subordinated Bonds 2003, and (iii) junior to all other present or future unsubordinated and subordinated obligations of the Guarantor expressed to rank senior to the claims under the Subordinated Guarantee, except as otherwise required by mandatory law. In the event of the dissolution, liquidation, insolvency or any proceeding for the avoidance of the insolvency of the Guarantor, no amounts shall be payable under the Subordinated Guarantee until the claims of all unsubordinated and subordinated creditors of the Guarantor the claims of which are expressed to rank senior to the Subordinated Guarantee shall first have been satisfied in full. No Bondholder may set-off any claims arising under the Subordinated Guarantee against any claims that the Guarantor may have against it. The Guarantor may not set-off any claims it may have against the Bondholders against any of its obligations under the Subordinated Guarantee. No security is, or shall at any time be, provided by the Guarantor or any other person securing rights of the Bondholders under the Subordinated Guarantee.

Bondholders explicitly accept that, in the circumstances described above, payments in respect of the Bonds will be made by the Guarantor pursuant to the Subordinated Guarantee only in accordance with the subordination described above.

§ 5
ZINSEN

(1) **Fester Zinszeitraum.** Zinsen auf die Schuldverschreibungen werden vom Ausgabetag (einschließlich) bis zum [14]. Juli [2016][2018] (ausschließlich) wie folgt gezahlt:

(a) Die Schuldverschreibungen werden mit jährlich [6,75 – 10,75]% auf ihren Nennbetrag verzinst und die Zinsen sind, vorbehaltlich § 5(3), nachträglich halbjährlich am [14]. Januar sowie am [14]. Juli eines jeden Jahres, erstmals am [14]. Januar 2007 fällig (jeweils ein ***Festzins-Zahlungstag***). Der vorgenannte Zinssatz erhöht sich ab dem Tag, der 60 Tage nach dem Eintritt eines Kontrollwechsels liegt (einschließlich) um 5,00 % p.a.

(b) Zinsen, die auf einen festen Zinszeitraum von weniger als einem Jahr zu berechnen sind, werden auf Basis der tatsächlich verstrichenen Tage, geteilt durch 365 bzw. 366 (tatsächliche Anzahl der Tage im betreffenden Zinsjahr), berechnet.

(2) **Variabler Zinszeitraum.** Zinsen auf die Schuldverschreibungen werden vorbehaltlich § 5(3) vom [14]. Juli [2016][2018] (einschließlich) bis zum Tag der Rückzahlung der Schuldverschreibungen (ausschließlich) wie folgt gezahlt:

(a) Vorbehaltlich einer vorzeitigen Rückzahlung gemäß diesen Anleihebedingungen werden die Schuldverschreibungen in Höhe des von der Berechnungsstelle gemäß § 5(2)(d) festgesetzten Zinssatzes verzinst, wobei die Zinsen, vorbehaltlich § 5(3), vierteljährlich nachträglich an jedem Variablen Zinszahlungstag gezahlt werden.

(b) Falls ein Variabler Zinszahlungstag auf einen Tag fallen würde, der kein Geschäftstag ist, wird die Zinszahlung auf den nächstfolgenden Geschäftstag verschoben, es sei denn, jener würde dadurch in den nächsten Kalendermonat fallen; in diesem Fall fällt der Variable Zinszahlungstag auf den unmittelbar vorausgehenden Geschäftstag.

(c) Der Zinssatz für jeden Variablen Zinszeitraum (der ***Zinssatz***) ist, sofern nachstehend nichts Abweichendes bestimmt wird, entweder:

§ 5
INTEREST

(1) **Fixed Interest Period.** Interest on the Bonds from and including the Issue Date to but excluding July [14], [2016][2018] will be paid as follows:

(a) The Bonds bear interest at the rate of [6.75 – 10.75]% per annum on their principal amount and, subject to § 5(3), interest shall be payable semi-annually in arrears on January [14] and July [14] of each year commencing on January [14], 2007 (each a ***Fixed Interest Payment Date***). The interest rate pursuant to the preceding sentence will be increased by 5.00% p.a. from the day falling 60 days after the day on which a Change of Control has occurred (inclusive).

(b) If interest is to be calculated for a fixed period of less than one year, it shall be calculated on the basis of the actual number of days elapsed, divided by the actual number of days (365 or 366) in the relevant annual interest period.

(2) **Floating Interest Period.** Subject to § 5(3), interest on the Bonds from and including July [14], [2016][2018] to but excluding the day of redemption of the Bonds will be paid as follows:

(a) Unless previously redeemed in accordance with the Terms and Conditions, the Bonds shall bear interest at a rate determined by the Calculation Agent pursuant to § 5(2)(d) below, payable, subject to § 5(3), quarterly in arrears on each Floating Interest Payment Date.

(b) If any Floating Interest Payment Date would otherwise fall on a day which is not a Business Day, payment of interest shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which case the Floating Interest Payment Date shall be the immediately preceding Business Day.

(c) The rate of interest for each Floating Interest Period (the ***Rate of Interest***) will, except as provided below, be either:

(i) der angezeigte Angebotssatz (für den Fall, dass auf der Bildschirmseite üblicherweise nur ein Angebotssatz angezeigt wird); oder

(ii) das arithmetische Mittel der angezeigten Angebotssätze (falls erforderlich, auf das nächste eintausendstel Prozent auf- oder abgerundet, wobei 0,0005 aufgerundet wird),

(ausgedrückt als Prozentsatz per annum) für Dreimonats-Einlagen in britischen Pfund Sterling für den jeweiligen Variablen Zinszeitraum, der bzw. die auf der Bildschirmseite am Zinsfestlegungstag um 11:00 Uhr (Londoner Ortszeit) angezeigt wird bzw. werden, zuzüglich der Marge, wobei alle Festlegungen durch die Berechnungsstelle erfolgen.

Wenn im vorstehenden Fall (ii) auf der Bildschirmseite fünf oder mehr Angebotssätze angezeigt werden, werden der höchste (oder, falls mehr als ein solcher Höchstsatz angezeigt wird, nur einer dieser Sätze) und der niedrigste Angebotssatz (oder, falls mehr als ein solcher Niedrigstsatz angezeigt wird, nur einer dieser Sätze) von der Berechnungsstelle für die Bestimmung des arithmetischen Mittels der Angebotssätze (das wie vorstehend beschrieben auf- oder abgerundet wird) außer Acht gelassen; diese Bestimmung gilt entsprechend für diesen gesamten § 5(2)(c).

Sollte die Bildschirmseite nicht zur Verfügung stehen, oder wird im vorstehenden Fall (i) kein Angebotssatz angezeigt, oder werden im vorstehenden Fall (ii) weniger als drei Angebotssätze angezeigt, wird die Berechnungsstelle von fünf von ihr ausgewählten Referenzbanken deren jeweilige Angebotssätze (jeweils als Prozentsatz per annum ausgedrückt) für Dreimonats-Einlagen in britischen Pfund Sterling für den betreffenden Variablen Zinszeitraum gegenüber führenden Banken im Interbanken-Markt in den Teilnehmerstaaten der dritten Stufe der Wirtschafts- und Währungsunion im Sinne des Vertrages über die Europäische Union anfordern. Maßgeblich sind die Sätze um ca. 11:00 Uhr (Londoner Ortszeit) am Zinsfestlegungstag. Sofern zwei oder mehr der ausgewählten Referenzbanken der Berechnungsstelle solche Angebotssätze nennen, ist der Zinssatz für den betreffenden Variablen Zinszeitraum das arithmetische Mit-

(i) the offered quotation displayed (if the Screen Page ordinarily provides only one quotation); or

(ii) the arithmetic mean (rounded, if necessary, to the nearest one thousandth of a percentage point, with 0.0005 being rounded upwards) of the offered quotations displayed,

(expressed as a percentage rate per annum) for three-month deposits in Pound Sterling for that Floating Interest Period which appears or appear, as the case may be, on the Screen Page as of 11:00 a.m. (London time) on the Interest Determination Date, plus the Margin, all as determined by the Calculation Agent.

If, in the case of (ii) above, five or more such offered quotations are available on the Screen Page, the highest rate (or, if there is more than one such highest rate, only one of such rates) and the lowest rate (or, if there is more than one such lowest rate, only one of such rates) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations and this rule shall apply throughout this § 5(2)(c) accordingly.

If the Screen Page is not available or if, in the case of (i) above, no such quotation appears or, in the case of (ii) above, fewer than three such offered quotations appear the Calculation Agent shall request five Reference Banks selected by it to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for three-month deposits in Pound Sterling for the relevant Floating Interest Period to leading banks in the interbank market of the participating Member States in the third stage of the Economic and Monetary Union, as contemplated by the Treaty on European Union. The relevant offered quotations shall be those offered at approximately 11:00 a.m. (London time) on the Interest Determination Date. As long as two or more of the selected Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Floating Interest Period shall be the tel dieser Angebotssätze (falls erforderlich, auf- oder abgerundet auf das nächste ein tausendstel Prozent, wobei 0,0005 aufgerundet wird), zuzüglich der Marge.

Für den Fall, dass der Zinssatz nicht gemäß den vorstehenden Bestimmungen ermittelt werden kann, ist der Zinssatz der Angebotssatz oder das arithmetische Mittel der Angebotssätze auf der Bildschirmseite, wie vorstehend beschrieben, an dem letzten Tag vor dem Zinsfestlegungstag, an dem ein solcher Angebotssatz bzw. solche Angebotssätze angezeigt wurde(n) zuzüglich der Marge.

Referenzbanken sind diejenigen Banken, deren Angebotssätze zur Ermittlung des angezeigten Angebotssatzes zu dem Zeitpunkt benutzt wurden, als solch ein Angebot letztmals auf der Bildschirmseite angezeigt wurde.

(d) Die Berechnungsstelle wird zu oder baldmöglichst nach jedem Zinsfestlegungstag den Zinssatz bestimmen und den auf den Gesamtnennbetrag der Schuldverschreibungen zahlbaren Zinsbetrag (der ***Zinsbetrag***) für den entsprechenden Variablen Zinszeitraum berechnen. Der jeweilige Zinsbetrag ergibt sich aus der Multiplikation des Zinssatzes mit dem Zinstagequotienten und dem Gesamtnennbetrag der Schuldverschreibungen, wobei der daraus resultierende Betrag auf den nächsten vollen Pence auf- oder abgerundet wird, und 0,5 oder mehr eines Pence aufgerundet werden.

Zinstagequotient bezeichnet im Hinblick auf die Berechnung des Zinsbetrages auf jede Schuldverschreibung für einen Variablen Zinszeitraum oder einen Teil davon (der ***Zinsberechnungszeitraum***) die tatsächliche Anzahl von Tagen im Zinsberechnungszeitraum dividiert durch 360.

(e) Die Berechnungsstelle wird veranlassen, dass der Zinssatz, der Zinsbetrag für den jeweiligen Variablen Zinszeitraum, jeder Variable Zinszeitraum und der betreffende Variable Zinszahlungstag der Emittentin und jeder Börse, an der die Schuldverschreibungen zu diesem Zeitpunkt notiert sind und deren Regeln eine Mitteilung an die Börse verlangen, sowie den Anleihegläubigern gemäß § 13 unverzüglich, aber keinesfalls später als am vierten auf die Festlegung folgenden Geschäftstag mitgeteilt werden.

arithmetic mean of such offered quotations (rounded if necessary to the nearest one thousandth of a percentage point, with 0.0005 being rounded upwards), plus the Margin.

If the Rate of Interest cannot be determined in accordance with the foregoing provisions, the Rate of Interest shall be the offered quotation or the arithmetic mean of the offered quotations on the Screen Page, as described above, on the last day preceding the Interest Determination Date on which such quotation or, as the case may be, quotations were offered, plus the Margin.

Reference Banks means those banks whose offered rates were used to determine such quotation when such quotation last appeared on the Screen Page.

(d) The Calculation Agent shall, on or as soon as practicable after each Interest Determination Date, determine the Rate of Interest and calculate the amount of interest (the ***Interest Amount***) payable on the aggregate principal amount of the Bonds for the relevant Floating Interest Period. Each Interest Amount shall be calculated by multiplying the Rate of Interest with the Day Count Fraction and the aggregate principal amount of the Bonds and rounding the resulting figure to the nearest whole Pence, with 0.5 or more of a Pence being rounded upwards.

Day Count Fraction means, in respect of the calculation of an amount of interest on each Bond for any Floating Interest Period or part thereof (the ***Calculation Period***), the actual number of days in the Calculation Period divided by 360.

(e) The Calculation Agent will cause the Rate of Interest, each Interest Amount for each Floating Interest Period, each Floating Interest Period and the relevant Floating Interest Payment Date to be notified to the Issuer and, if required by the rules of any stock exchange on which the Bonds are listed from time to time, to such stock exchange, and to the Bondholders in accordance with § 13 without undue delay, but, in any case, not later than on the fourth Business Day after their determination.

(f) Sämtliche Bescheinigungen, Mitteilungen, Gutachten, Festsetzungen, Berechnungen, Quotierungen und Entscheidungen, die von der Berechnungsstelle für die Zwecke dieser Anleihebedingungen gemacht, abgegeben, getroffen oder eingeholt werden, sind (sofern nicht vorsätzliches Fehlverhalten oder ein offensichtlicher Irrtum vorliegt) für die Emittentin und die Anleihegläubiger bindend.

(f) All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of these Terms and Conditions by the Calculation Agent shall (in the absence of wilful default or manifest error) be binding upon the Issuer and the Bondholders.

(3) Zinsaufschub. Die Emittentin ist nicht verpflichtet, an einem Zinszahlungstag Zinsen zu zahlen, wenn und soweit sie sich gegen eine solche Zahlung entschieden hat; eine Nichtzahlung aus diesem Grunde begründet keinen Verzug der Emittentin. Soweit sich die Emittentin entscheidet, an einem Zinszahlungstag nicht den gesamten Zinsbetrag zu zahlen, hat sie dies den Anleihegläubigern gemäß § 13 unter Einhaltung einer Frist von mindestens 10 und höchstens 15 Geschäftstagen vor diesem Zinszahlungstag bekannt zu machen. Jedwede aufgrund einer derartigen Entscheidung der Emittentin nicht gezahlte Zinsen stellen ***Zinsrückstände*** dar. Die Emittentin kann vorbehaltlich der Bedingungen gemäß § 5(4) ausstehende Zinsrückstände jederzeit ganz oder teilweise nach Mitteilung an die Anleihegläubiger gemäß § 13 unter Einhaltung einer Frist von nicht weniger als 10 und nicht mehr als 15 Geschäftstagen zahlen (wobei eine solche Mitteilung unwiderruflich ist und die Emittentin verpflichtet ist, die jeweiligen Zinsrückstände an dem in dieser Mitteilung genannten Zahlungstag zu zahlen).

(3) Interest Deferral. The Issuer shall not have any obligation to pay interest on any Interest Payment Date if and to the extent it elects not to do so, and any such failure to pay interest shall not constitute a default of the Issuer. If the Issuer decides not to pay the full amount of interest on an Interest Payment Date, the Issuer shall notify the Bondholders in accordance with § 13 not less than 10 and not more than 15 Business Days prior to such Interest Payment Date. Any interest not paid due to such an election by the Issuer shall constitute ***Arrears of Interest***. Subject to the conditions in § 5(4), the Issuer may pay outstanding Arrears of Interest (in whole or in part) at any time on the giving of not less than 10 and not more than 15 Business Days' notice to the Bondholders in accordance with § 13 (such notice will be irrevocable and will oblige the Issuer to pay the relevant Arrears of Interest on the payment date specified in such notice).

(4) Tilgung von Zinsrückständen.

(a) Jede Zahlung von Zinsrückständen nach Maßgabe der nachfolgenden Bestimmungen erfolgt vorbehaltlich der Bedingungen gemäß § 5(4)(c).

(b) Die Emittentin ist verpflichtet, ausstehende Zinsrückstände (vollständig, jedoch nicht teilweise) an dem zuerst eintretenden der folgenden Tage zu zahlen (jeder solche Tag ein ***Zinsrückstände-Zahlungstag***):

(i) an dem Tag, an dem die Garantin eine Dividendenzahlung oder eine sonstige Ausschüttung in Bezug auf Aktien gleich welcher Gattung beschließt, zahlt oder vornimmt;

(ii) an dem Zinszahlungstag, bezüglich dessen die Emittentin von ihrem Wahlrecht, die Zinszahlung ganz oder teilweise aufzuschieben, keinen Gebrauch macht;

(4) Payment of Arrears of Interest.

(a) Any payment of Arrears of Interest in accordance with the following provisions shall be subject to the conditions set forth in § 5(4)(c) below.

(b) The Issuer will be obliged to pay outstanding Arrears of Interest (in whole but not in part) on the earlier of (each such date an ***Arrears of Interest Payment Date***):

(i) the date on which the Guarantor has declared, paid or made a dividend or other distribution on, or in respect of, any class of shares;

(ii) the Interest Payment Date in relation to which the Issuer does not elect to defer interest payments (in whole or in part);

(iii) an dem Tag, an dem die Schuldverschreibungen gemäß § 6(1) zur Rückzahlung fällig sind;

(iii) the due date for redemption of the Bonds pursuant to § 6(1);

(iv) an dem Tag, an dem die Emittentin, die Garantin oder eine Konzerngesellschaft (direkt, aufgrund einer Garantie oder anderweitig) eine Zinszahlung oder eine sonstige Ausschüttung auf ein Nachrangiges Wertpapier oder ein Gleichrangiges Wertpapier leistet, ausgenommen obligatorische Zinszahlungen der Emittentin (oder bei deren Nichtleistung der Garantin) an einem Wiederholten Fakultativen Zinszahlungstag wie in § 5(3) der Anleihebedingungen der Nachranganleihe 2003 definiert; und

(iv) the date on which the Issuer, the Guarantor or any Group Entity (directly, pursuant to any guarantee or otherwise) makes any payment of interest or distribution of any sort on a Junior Security or a Parity Security, except for any mandatory payment of the Issuer (or failing whom the Guarantor) on a Recurred Optional Interest Payment Date as defined in § 5(3) of the Terms and Conditions of the Subordinated Bonds 2003; and

(v) an dem Tag, an dem die Emittentin, die Garantin oder eine Konzerngesellschaft für eine Gegenleistung die Schuldverschreibungen (ganz oder teilweise), Aktien, Gleichrangige Wertpapiere oder Nachrangige Wertpapiere zurückzahlt, zurückkauft oder anderweitig erwirbt, außer im Zusammenhang mit (i) derzeit bestehenden oder zukünftig geschaffenen Aktienoptionsplänen oder (ii) der Umwandlung von Aktien in Aktien einer anderen Gattung.

(v) the date on which the Issuer, the Guarantor or any Group Entity redeems, repurchases or otherwise acquires any of the Bonds (in whole or in part), any shares, any Parity Security or any Junior Security against consideration therefor, except in connection with (i) any present or future stock option plan or (ii) a reclassification of shares for shares of another class.

Zinsrückstände werden nicht verzinst.

Arrears of Interest shall not themselves bear interest.

(c) Die Verpflichtung der Emittentin zur Nachzahlung von Zinsrückständen steht, ausgenommen im Fall von § 5(5) (Insolvenz), unter der aufschiebenden Bedingung, dass die Garantin Mittel in Höhe der zahlbaren Zinsrückstände durch die Ausgabe oder den Verkauf von Aktien der Garantin im Rahmen des Emissionsvolumens (mit Ausnahme von eigenen Aktien, welche innerhalb eines Zeitraums von sechs Monaten vor dem betreffenden Zinsrückstände-Zahlungstag gegen Barzahlung erworben wurden) beschafft hat (wobei der Anspruch der Anleihegläubiger auf Zahlung ausstehender Zinsrückstände ein Barzahlungsanspruch bleibt).

(c) The obligation of the Issuer to pay Arrears of Interest is, except for § 5(5) (insolvency), subject to the condition precedent that the Guarantor raised proceeds in an amount equal to the amount of Arrears of Interest payable through the issuance or sale of shares of the Guarantor (except for treasury shares which have been acquired against cash within a period of six months before the relevant Arrears of Interest Payment Date) within the Issue Volume (it being understood that the claim of Bondholders in respect of outstanding Arrears of Interest continues to be a claim for a fixed monetary amount in cash).

Emissionsvolumen: Für die Zwecke der Prüfung der Einhaltung der Bedingungen für die Zahlung von Zinsrückständen werden Erlöse aus der Ausgabe oder dem Verkauf von neuen Aktien der Garantin nur berücksichtigt, soweit die Zahl der Aktien der Garantin, die

Issue Volume: For the purposes of determining whether the conditions for the payment of Arrears of Interest have been met, proceeds raised through the sale or issuance of new shares of the Guarantor will only be considered to the extent that the number of während eines Zeitraums von zwölf Monaten zu diesem Zweck (wie von der Garantin festgelegt) gemäß diesem § 5(4)(c) ausgegeben oder verkauft werden, 2 % der am ersten Tag dieses Zwölfmonatszeitraums ausgegebenen und ausstehenden Aktien nicht übersteigt.

shares of the Guarantor sold or issued within any twelve months period for such purpose (as determined by the Guarantor) pursuant to this § 5(4)(c) does not exceed 2% of all issued and outstanding shares on the first day of such period.

Die Garantin wird sich bemühen, die für die Zahlung von Zinsrückständen erforderlichen Mittel innerhalb eines Zeitraums von sechs Monaten vor dem für die Zahlung der Zinsrückstände in § 5(4)(b) vorgesehenen Tag beschaffen. Wenn die die Garantin aufgrund der vorstehenden Beschränkungen des Emissionsvolumens oder aus rechtlichen Gründen, insbesondere solchen deutschen Gesellschaftsrechts, nicht in der Lage gewesen ist, innerhalb der im vorgenannten Satz genannten Frist Aktien nach Maßgabe dieses § 5(4) zu begeben oder zu verkaufen, erlischt die Verpflichtung der Emittentin zur Nachzahlung der Zinsrückstände nicht. Die Garantin wird sich im Rahmen des rechtlich Möglichen weiterhin bemühen, die vorstehenden Bedingungen sobald wie möglich zu erfüllen und Aktien nach Maßgabe dieses § 5(4) zu begeben oder zu verkaufen (bzw. die Begebung bzw. den Verkauf zu veranlassen), so dass alle ausstehenden Zinsrückstände unverzüglich danach gezahlt werden.

The Guarantor will endeavour to raise proceeds in an amount equal to the Arrears of Interest within the six months prior to the date for payment of Arrears of Interest specified in § 5(4)(b). If, due to the limitations relating to the Issue Volume or due to legal restrictions, in particular provisions of German corporate law, the Guarantor has not been able to issue or sell shares in accordance with this § 5(4) within the period stipulated by in the preceding sentence, the obligation of the Issuer to make up for any Arrears of Interest shall not lapse. To the extent legally possible, the Guarantor will continue to endeavour to meet the preceding conditions as soon as possible and to issue or sell (or cause the issuance or sale of) shares of the Guarantor in accordance with this § 5(4) such that all outstanding Arrears of Interest will be paid for immediately thereafter.

Die Garantin wird für einen Zeitraum von 12 Monaten nach einer Zahlung von Zinsrückständen gemäß diesem § 5(4) Aktien nur insoweit gegen Zahlung einer Gegenleistung einziehen, zurückkaufen oder erwerben, als die Anzahl der seit der Ausgabe oder dem Verkauf von Aktien zur Zahlung von Zinsrückständen (einschließlich) insgesamt ausgegebenen Aktien abzüglich die Anzahl der seit diesem Zeitpunkt eingezogenen, zurückgekauften oder erworbenen Aktien die Anzahl der zur Zahlung von Zinsrückständen ausgegebenen Aktien übersteigt, außer im Zusammenhang mit (i) derzeit bestehenden oder zukünftigen Aktienoptionsplänen oder (ii) der Umwandlung von Aktien in Aktien einer anderen Gattung.

For a period of at least 12 months following settlement of Arrears of Interest in accordance with § 5(4), the Guarantor shall not redeem, repurchase or acquire any of its shares for any consideration if and to the extent that such redemption, repurchase or acquisition would result in the balance of (x) the number of shares issued since and including the issuance or selling of shares for payment of Arrears of Interest and (y) the number of shares redeemed, repurchased or acquired since and including the issuance or selling of shares for payment of Arrears of Interest exceeding the number of shares issued for the settlement of any Arrears of Interest, other than in connection with (i) any present or future stock option plan or (ii) a reclassification of shares for shares of another class.

Anleihegläubiger werden darauf hingewiesen, dass die Garantin durch zwingende Bestimmungen des deutschen Aktienrechts an der Ausgabe oder dem Verkauf von Aktien gehindert sein kann.

(d) Soweit die Emittentin Zinsrückstände gemäß diesem § 5(4) nachzahlt, hat sie dies den Anleihegläubigern gemäß § 13 unter Einhaltung einer Frist von mindestens 10 und höchstens 15 Geschäftstagen vor dem Tag der Nachzahlung unter Angabe des Tags der Nachzahlung und des auf jede Schuldverschreibung nachzuzahlenden Betrages mitzuteilen. Eine solche Mitteilung ist unwiderruflich und verpflichtet die Emittentin, die jeweiligen Zahlungen an dem in der Mitteilung genannten Tag zu bewirken.

(e) Die Emittentin kann, unter Einhaltung der in diesem § 5(4) genannten Bedingungen, ausstehende Zinsrückstände jederzeit ganz oder teilweise nach Mitteilung an die Anleihegläubiger gemäß § 13, in der das Rückzahlungsdatum und der Betrag der zurückzuzahlenden Zinsrückstände anzugeben ist, unter Einbehaltung einer Frist von nicht weniger als 10 und nicht mehr als 15 Geschäftstagen zahlen. Eine solche Mitteilung ist unwiderruflich und verpflichtet die Emittentin, die jeweiligen Zahlungen an dem in der Mitteilung genannten Tag zu bewirken.

(5) Nachzahlungsverpflichtung bei Insolvenz. Sofern eine Verfügung oder ein Beschluss zur Auflösung, Abwicklung oder Liquidation der Garantin ergeht (sofern dies nicht für die Zwecke oder als Folge eines Zusammenschlusses, einer Umstrukturierung oder Sanierung geschieht, bei dem bzw. bei der die Garantin noch zahlungsfähig ist und bei dem bzw. der die fortführende Gesellschaft im Wesentlichen alle Vermögenswerte und Verpflichtungen der Emittentin übernimmt), findet § 5(4) keine Anwendung und stehen die Ansprüche der Anleihegläubiger aus der Nachrangigen Garantie auf Zahlung von Zinsrückständen abweichend von § 4(2) den Ansprüchen aus Aktien der Garantin im Rang gleich.

(6) Ende des Zinslaufs. Der Zinslauf der Schuldverschreibungen endet mit Beginn des Tages, an dem sie zur Rückzahlung fällig werden. Sollte die Emittentin die Schuldverschreibungen bei Fälligkeit nicht zurückzahlen, endet die Verpflichtung zur Zahlung von Zinsen auf den ausstehenden Nennbetrag zu dem dann maßgeblichen Zinssatz nicht am Fällig-

Bondholders are notified that compulsory provisions of German stock corporation law may prevent the Guarantor from selling treasury shares or issuing new shares.

(d) If the Issuer pays Arrears of Interest pursuant to this § 5(4), it shall notify the Bondholders in accordance with § 13 not less than 10 and not more than 15 Business Days prior to the date on which such payment will be made; such notice shall state the date of payment and the payment per Bond. Such notice shall be irrevocable and shall oblige the Issuer to make the relevant payment on the date specified in such notice.

(e) The Issuer may at any time, subject to the conditions set forth in this § 5(4), make payment in full or in part of any outstanding Arrears of Interest upon giving notice to the Bondholders in accordance with § 13 not less than 10 and not more than 15 Business Days prior to the date on which such payment will be made. Such notice shall state the date and the amount of the voluntary make-up payment. Such notice shall be irrevocable and shall oblige the Issuer to make the relevant payment on the date specified in such notice.

(5) Make-up Payment Obligation in case of Insolvency. If an order or a resolution is made for the winding-up, or dissolution or liquidation of the Guarantor (other than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring while solvent, where the continuing entity assumes substantially all of the assets and obligations of the Guarantor), § 5(4) shall be inapplicable and the claims of the Bondholders for payment of Arrears of Interest under the Subordinated Guarantee shall notwithstanding § 4(2) rank *pari passu* with the Guarantor's share capital.

(6) Cessation of Interest Payments. The Bonds shall cease to bear interest from the beginning of the day on which they are due for redemption. If the Issuer shall fail to redeem the Bonds when due, the obligation to pay interest shall continue to accrue at the then applicable rate on the outstanding principal amount of the Bonds beyond the due date until (and keitstag, sondern erst mit dem Tag der tatsächlichen Rückzahlung der Schuldverschreibungen (ausschließlich).

excluding) actual redemption of the Bonds.

§ 6
RÜCKZAHLUNG UND RÜCKKAUF

(1) ***Endfälligkeit.*** Die Schuldverschreibungen werden am [14]. Juli [2066][2068] (der ***Fälligkeitstag***) zum Nennbetrag zuzüglich aufgelaufener Zinsen zurückgezahlt. Sofern am Fälligkeitstag Zinsrückstände ausstehen, wird die Garantin alle vernünftigerweise zu erwartenden Maßnahmen treffen, um gemäß § 5(4) die notwendigen Mittel in Höhe der Zinsrückstände zu erlösen, um diese Zinsrückstände sobald als vernünftigerweise möglich nach der Rückzahlung von Kapital und aufgelaufenen Zinsen zu zahlen.

(2) **Kündigung und vorzeitige Rückzahlung nach Wahl der Emittentin.** Die Emittentin kann die Schuldverschreibungen zum [14]. Juli [2016][2018] oder zu jedem danach folgenden Variablen Zinszahlungstag durch unwiderrufliche Mitteilung an die Anleihegläubiger gemäß § 13 unter Einhaltung einer Frist von mindestens 30 und höchstens 60 Tagen kündigen und zum Nennbetrag zuzüglich sämtlicher bis zum Rückzahlungstag (ausschließlich) aufgelaufener Zinsen (insgesamt, jedoch nicht teilweise) zurückzahlen. Der Emittentin steht ein Kündigungsrecht gemäß diesem § 6(2) nicht zu, soweit Zinsrückstände ausstehen.

Eine solche Kündigungsmitteilung verpflichtet die Emittentin, die Schuldverschreibungen am [14]. Juli [2016][2018] oder an dem in der Kündigung angegebenen Variablen Zinszahlungstag zu ihrem Nennbetrag zuzüglich aufgelaufener Zinsen zurückzuzahlen.

(3) **Kündigungsrecht der Emittentin aus besonderen Gründen.** Bei Eintritt eines Gross-up-Ereignisses, eines Kapitalereignisses, eines Steuerereignisses, eines Rechnungslegungsereignisses oder eines BOC-Ereignisses vor dem [14]. Juli [2016][2018] ist die Emittentin vorbehaltlich Absatz (7) berechtigt, die Schuldverschreibungen jederzeit (insgesamt, jedoch nicht teilweise) durch eine unwiderrufliche Mitteilung an die Anleihegläubiger gemäß § 13 unter Einhaltung einer Frist von mindestens 30 und höchstens 60 Tagen zu kündigen und zum Vorzeitigen Rückzahlungsbetrag (wie in Absatz (4) definiert) zurückzuzahlen. Der Emittentin steht ein Kündigungsrecht gemäß diesem § 6(3) nicht zu, soweit Zinsrückstände ausstehen.

§ 6
REDEMPTION AND PURCHASE

(1) **Maturity.** The Bonds will be redeemed on July [14], [2066][2068] (the ***Maturity Date***) at their principal amount plus any accrued interest. If any Arrears of Interest remain outstanding on the Maturity Date, the Guarantor shall use all reasonable measures at its disposal in accordance with § 5(4) to raise funds equal to the Arrears of Interest outstanding to settle such Arrears of Interest as soon as reasonably practicable after the redemption of principal of the Bonds and accrued interest.

(2) **Issuer Call Right and Early Redemption at the Option of the Issuer.** The Issuer may call and redeem the Bonds (in whole but not in part) on July [14], [2016][2018] or on any Floating Interest Payment Date thereafter at their principal amount, plus any interest accrued until the redemption date (exclusive) on the giving of not less than 30 and not more than 60 days' irrevocable notice of redemption to the Bondholders in accordance with § 13. The Issuer shall not be entitled to call and redeem the Bonds in accordance with this § 6(2) if any Arrears of Interest are outstanding.

Such notice of redemption shall oblige the Issuer to redeem the Bonds on July [14], [2016][2018] or the Floating Interest Payment Date specified in that notice at their principal amount plus accrued interest.

(3) **Issuer Call Right for Special Events**. If prior to July [14], [2016][2018] either a Gross-up Event, a Capital Event, a Tax Event, an Accounting Event, or a BOC Event occurs, the Issuer may subject to paragraph (7) call and redeem the Bonds (in whole but not in part) at their Early Redemption Amount (as defined in paragraph (4)) at any time on the giving of not less than 30 and not more than 60 days' irrevocable notice to the Bondholders in accordance with § 13. The Issuer shall not be entitled to call and redeem the Bonds in accordance with this § 6(3) if any Arrears of Interest are outstanding.

(a) Ein ***Gross-up-Ereignis*** liegt vor, wenn die (i) Emittentin aufgrund einer Gesetzesänderung oder einer Änderung der Vorschriften der Niederlande oder einer ihrer Gebietskörperschaften oder Steuerbehörden oder als Folge einer Änderung der offiziellen Auslegung oder Anwendung dieser Gesetze oder Vorschriften durch eine gesetzgebende Körperschaft, ein Gericht, eine Steuerbehörde, eine Aufsichtsbehörde oder eine sonstige Behörde (einschließlich des Erlasses von Gesetzen sowie der Bekanntmachung gerichtlicher oder aufsichtsrechtlicher Entscheidungen) verpflichtet ist oder verpflichtet sein wird, zusätzliche Beträge gemäß § 8 zu zahlen und die Emittentin diese Verpflichtung nicht abwenden kann, indem sie zumutbare Maßnahmen ergreift, die sie nach Treu und Glauben für angemessen hält; oder (ii) die Garantin aufgrund einer Gesetzesänderung oder einer Änderung der Vorschriften der Bundesrepublik Deutschland oder einer ihrer Gebietskörperschaften oder Steuerbehörden oder als Folge einer Änderung der offiziellen Auslegung oder Anwendung dieser Gesetze oder Vorschriften durch eine gesetzgebende Körperschaft, ein Gericht, eine Steuerbehörde, eine Aufsichtsbehörde oder eine sonstige Behörde (einschließlich des Erlasses von Gesetzen sowie der Bekanntmachung gerichtlicher oder aufsichtsrechtlicher Entscheidungen) verpflichtet ist oder verpflichtet sein wird, zusätzliche Beträge gemäß § 8 zu zahlen und die Garantin diese Verpflichtung nicht abwenden kann, indem sie zumutbare Maßnahmen ergreift, die sie nach Treu und Glauben für angemessen hält.

Eine Kündigung im Falle eines Gross-Up-Ereignisses darf nicht früher als 90 Tage vor dem frühesten Termin vorgenommen werden, an dem die Emittentin oder die Garantin erstmals verpflichtet wäre, die jeweiligen zusätzlichen Beträge auf fällige Beträge auf die Schuldverschreibungen zu zahlen.

(b) Ein ***Kapitalereignis*** liegt vor, wenn die Emittentin von allen Rating-Agenturen, von denen die Garantin so genannte „sponsored ratings" erhält, die Nachricht erhalten hat, dass die Schuldverschreibungen nicht mehr derselben oder einer höheren Eigenkapitalanrechnungskategorie (wie von den Rating-Agenturen, von denen die Garantin so genannte „sponsored

(a) A ***Gross-up Event*** shall occur if (i) the Issuer has or will become obliged to pay additional amounts pursuant to § 8 as a result of any change in, or amendment to, the laws or regulations of The Netherlands or any political subdivision or taxing authority thereof, or therein, or as a result of any amendment to, or any change in, any official interpretation or application of any such laws or regulations by any legislative body, court, or taxing authority, governmental agency or regulatory authority (including the enactment of any legislation and the publication of any judicial decision or regulatory determination), and that obligation cannot be avoided by the Issuer taking such reasonable measures it (acting in good faith) deems appropriate; or (ii) the Guarantor has or will become obliged to pay additional amounts pursuant to § 8 as a result of any change in, or amendment to, the laws or regulations of the Federal Republic of Germany or any political subdivision or taxing authority thereof, or therein, or as a result of any amendment to, or any change in, any official interpretation or application of any such laws or regulations by any legislative body, court, or taxing authority, governmental agency or regulatory authority (including the enactment of any legislation and the publication of any judicial decision or regulatory determination), and that obligation cannot be avoided by the Guarantor taking such reasonable measures it (acting in good faith) deems appropriate.

In the case of a Gross-up Event no such notice of redemption may be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be for the first time obliged to pay the additional amounts in question on payments due in respect of the Bonds.

(b) A ***Capital Event*** shall occur if the Issuer has received confirmation from all rating agencies from whom the Guarantor is assigned sponsored ratings that the Bonds will no longer be eligible for the same or higher category of equity credit, as defined by the rating agencies from whom the Guarantor is assigned sponsored ratings, attributed to the ratings" erhält, definiert) zuzuordnen sind, der sie bei ihrer Begebung ausweislich entsprechender Veröffentlichungen zugeordnet waren.

Bonds as published at the date of issuance.

(c) Ein ***Steuerereignis*** liegt vor, wenn aufgrund einer Gesetzesänderung oder einer Änderung der Vorschriften der Niederlande bzw. der Bundesrepublik Deutschland oder einer ihrer Gebietskörperschaften oder Steuerbehörden oder als Folge einer Änderung der offiziellen Auslegung oder Anwendung solcher Gesetze oder Vorschriften durch eine gesetzgebende Körperschaft, ein Gericht, eine Steuerbehörde, eine Aufsichtsbehörde oder eine sonstige Behörde (einschließlich des Erlasses von Gesetzen sowie der Bekanntmachung gerichtlicher oder aufsichtsrechtlicher Entscheidungen), Zinsen, die von der Emittentin auf die Schuldverschreibungen oder Beträge, die von der Garantin aus der Garantie zu zahlen sind, von der Emittentin und/oder der Garantin nicht mehr für Zwecke der niederländischen und/oder deutschen Einkommensteuer voll abzugsfähig sind und die Emittentin bzw. die Garantin dieses Risiko nicht abwenden kann, indem sie zumutbare Maßnahmen ergreift, die sie nach Treu und Glauben für angemessen hält.

(c) A ***Tax Event*** shall occur if as a result of any change in, or amendment to, the laws or regulations of The Netherlands or the Federal Republic of Germany, respectively, or any political subdivision or taxing authority thereof, or therein, or as a result of any amendment to, or change in, any official interpretation or application of any such laws or regulations by any legislative body, court, taxing authority, governmental agency or regulatory authority (including the enactment of any legislation and the publication of any judicial decision or regulatory determination), interest payable by the Issuer in respect of the Bonds or any amount payable by the Guarantor under the Guarantee is no longer fully deductible by the Issuer and/or the Guarantor for Dutch and/or German income tax purposes, and that risk cannot be avoided by the Issuer and/or the Guarantor taking such reasonable measures as it (acting in good faith) deems appropriate.

(d) Ein ***Rechnungslegungsereignis*** liegt vor, wenn die Verpflichtungen der Emittentin aus den Schuldverschreibungen im Konzernabschluss der Garantin, der nach den International Financial Reporting Standards bzw. anderen anerkannten Rechnungslegungsstandards, die die Garantin für die Erstellung ihrer konsolidierten Finanzabschlüsse zukünftig anwenden mag, erstellt wird, nicht mehr als „Finanzverbindlichkeit" ausgewiesen werden dürfen oder ausgewiesen werden können.

(d) An ***Accounting Event*** shall occur if the obligations of the Issuer under the Bonds must not or may not longer be recorded as "financial liability" in the consolidated financial statements of the Guarantor prepared in accordance with International Financial Reporting Standards or other recognised accounting standards that the Guarantor may adopt in the future for the preparation of its statutory consolidated financial statements.

(e) Ein ***BOC-Ereignis*** liegt vor, wenn die Garantin am oder vor dem 31. März 2007 bestätigt hat, dass sie die Akquisition der The BOC Group plc nicht länger verfolgt und sie hierzu auch rechtlich nicht verpflichtet ist, sofern die Garantin dieses Kündigungsrecht innerhalb von sechs Monaten nach einer solchen Bestätigung ausübt.

(e) A ***BOC Event*** shall occur if the Guarantor has confirmed, on or before March 31, 2007 that it no longer intends and is no longer legally committed to pursue the acquisition of The BOC Group plc, to the extent the Issuer exercises its right to redeem the Bonds within six months following such confirmation.

(f) Die Emittentin hat der Hauptzahlstelle vor Kündigung (wie oben beschrieben) folgende Dokumente zu übermitteln oder deren Übermittlung sicherzustellen:

(f) Prior to the giving of any such notice of redemption as described above, the Issuer will deliver or procure that there is delivered to the Principal Paying Agent:

(i) eine von zwei ordnungsgemäß bevollmächtigten Vertretern der Emittentin unterzeichnete Bescheinigung, die bestätigt, dass die Emittentin berechtigt ist, die entsprechende Kündigung vorzunehmen, und aus der die Tatsachen hervorgehen, auf deren Grundlage die Voraussetzungen für das Kündigungsrecht der Emittentin erfüllt sind; und

(ii) im Fall der vorstehenden Absätze (a), (c) bzw. (e) ein Gutachten eines angesehenen unabhängigen Rechtsberaters, aus dem hervorgeht, dass die Emittentin und/oder die Garantin verpflichtet ist oder verpflichtet sein wird, die betreffenden zusätzlichen Beträge als Folge eines Gross-up-Ereignisses zu zahlen oder die Emittentin und/oder die Garantin die Abzugsfähigkeit von der niederländischen bzw. deutschen Einkommensteuer als Folge eines Steuerereignisses verliert bzw. dass die Garantin zum Erwerb der The BOC Group plc nicht länger verpflichtet ist; bzw

(iii) im Fall des vorstehenden Absatzes (b) eine Bestätigung der betreffenden Rating-Agenturen über die in (b) genannte Änderung bei der Eigenkapitalbehandlung; bzw

(iv) im Fall des vorstehenden Absatzes (d) ein Gutachten einer anerkannten unabhängigen Wirtschaftsprüfungsgesellschaft, aus dem hervorgeht, dass die Verpflichtung der Emittentin aus den Schuldverschreibungen im Konzernabschluss der Garantin, der nach den International Financial Reporting Standards bzw. anderen anerkannten Rechnungslegungsstandards, die die Garantin für die Erstellung ihrer konsolidierten Finanzabschlüsse zukünftig anwenden mag, erstellt wird, nicht mehr als „Finanzverbindlichkeit" ausgewiesen werden müssen oder ausgewiesen werden können.

(4) Vorzeitige Rückzahlungsbetrag. Der ***Vorzeitige Rückzahlungsbetrag*** entspricht (i) im Falle eines Gross-up-Ereignisses dem Nennbetrag der Schuldverschreibungen, (ii) im Falle eines Kapitalereignisses, eines Rechnungslegungsereignisses oder eines Steuerereignisses dem (x) Nennbetrag der Schuldver-

(i) a certificate signed by any two duly authorized representatives of the Issuer stating that the Issuer is entitled to effect such redemption and setting out a statement of facts showing that the conditions precedent to the exercise of the right of the Issuer to redeem have been satisfied; and

(ii) in case of (a), (c) or (e) above, respectively, an opinion of an independent legal adviser of recognised standing to the effect that the Issuer and/or the Guarantor has or will become obliged to pay the additional amounts in question as a result of a Gross-up Event or the Issuer and/or the Guarantor has suffered the loss of deductibility for Dutch or German income tax purposes as a result of a Tax Event or that the Guarantor is no longer legally committed to pursue the acquisition of The BOC Group plc; respectively

(iii) in case of (b) above a confirmation from the relevant rating agencies confirming the change in capital treatment of the Bonds pursuant to (b) above; respectively

(iv) in case of (d) above an opinion of an independent accountancy firm of recognized standing to the effect that the obligations of the Issuer under the Bonds must not or may not longer be recorded as "financial liability" in the consolidated financial statements of the Guarantor prepared in accordance with International Financial Reporting Standards or other recognised accounting standards that the Guarantor may adopt in the future for the preparation of its statutory consolidated financial statements.

(4) Early Redemption Amount. The ***Early Redemption Amount*** will (i) upon the occurrence of a Gross-up Event, equal the principal amount of the Bonds, (ii) upon the occurrence of a Capital Event, an Accounting Event or a Tax Event, be calculated as the greater of (x) the principal amount of the Bonds schreibungen oder (y) falls höher, dem Abgezinsten Marktpreis der Schuldverschreibungen, (iii) im Falle eines BOC-Ereignisses [101]% des Nennbetrags der Schuldverschreibungen, in jedem dieser Fälle (i) bis (iv) zuzüglich bis zum Rückzahlungstag (ausschließlich) aufgelaufener Zinsen.

Der ***Abgezinste Marktpreis*** wird von der Berechnungsstelle errechnet und entspricht der Summe der auf den Rückzahlungstag Abgezinsten Werte (i) des Nennbetrages der Schuldverschreibungen und (ii) der bis zum [14]. Juli [2016][2018] (ausschließlich) verbleibenden vorgesehenen Zinszahlungen auf die Schuldverschreibungen. Bei dieser Berechnung ist anzunehmen, dass die Zahlung des Nennbetrags der Schuldverschreibungen am [14]. Juli [2016][2018] fällig ist und alle relevanten Zinsen in vollem Umfang gezahlt werden.

Ein ***Abgezinster Wert*** wird von der Berechnungsstelle errechnet, indem der Nennbetrag der Schuldverschreibungen und bis zum [14]. Juli [2016][2018] verbleibende Zinszahlungen auf jährlicher Basis, unter Zugrundelegung eines Jahres mit 365 bzw. 366 Tagen und der Zahl der tatsächlich in dem Jahr verstrichenen Tage und der Vergleichbaren Benchmark Rendite zuzüglich [0,50 – 1,00]%, abgezinst werden.

Die Vergleichbare Benchmark Rendite entspricht der am Rückzahlungs-Berechnungstag bestehenden Rendite der von der Berechnungsstelle im Einvernehmen mit der Emittentin ausgewählten britischen Pfund Sterling-Referenz-Anleihe mit einer mit der verbleibenden Laufzeit der Schuldverschreibungen bis zum [14]. Juli [2016][2018] vergleichbaren Laufzeit. Dabei handelt es sich um die Rendite einer solchen britischen Pfund Sterling-Referenz-Anleihe, die im Zeitpunkt der Auswahlentscheidung und entsprechend der üblichen Finanzmarktpraxis zur Preisbestimmung bei Neuemissionen von Unternehmensanleihen mit einer mit dem Zeitraum bis zum [14]. Juli [2016][2018] vergleichbaren Laufzeit verwendet würde.

Rückzahlungs-Berechnungstag ist der dritte Geschäftstag vor dem Tag, an dem die Schuldverschreibungen nach Wahl der Emittentin infolge eines der in diesem Absatz (4) genannten Ereignisse zurückgezahlt werden.

(5) Rückkauf; Kündigungsrecht bei geringem ausstehendem Nennbetrag. Die Emittentin, die Garantin oder eine Konzerngesellschaft können jederzeit Schuldverschreibungen im Markt oder anderweitig

and (y) the Make-Whole Amount of the Bonds, (iii) in case of a BOC Event equal to [101]% of the principal amount of the Bonds, in each case of (i) to (iv) plus accrued interest until the date of redemption (exclusive).

The ***Make-Whole Amount*** will be calculated by the Calculation Agent, and will equal the sum of the Present Values on the date of redemption of (i) the principal amount of the Bonds and (ii) the remaining scheduled payments of interest on the Bonds to but excluding July [14], [2016][2018]. In performing such calculation it shall be assumed that the principal amount of the Bonds is a cash flow due on July [14], [2016][2018] and that all applicable interest payments are to be made in full.

The ***Present Values*** will be calculated by the Calculation Agent by discounting the principal amount of the Bonds and the remaining interest payments to July [14], [2016][2018], on an annual basis, assuming a 365-day year or a 366-day year, as the case may be, and the actual number of days elapsed in such year and using the Comparable Benchmark Yield plus [0.50 – 1.00]%.

The ***Comparable Benchmark Yield*** will be the yield at the Redemption Calculation Date on the Pound Sterling benchmark security selected by the Calculation Agent, after consultation with the Issuer, as having a maturity comparable to the remaining term of the Bonds to July [14], [2016][2018] that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to July [14], [2016][2018].

Redemption Calculation Date means the third Business Day prior to the date on which the Bonds are redeemed at the option of the Issuer as a result of any event specified in this paragraph (4).

(5) Purchase; Call Right for Reason of Minimal Outstanding Amount. The Issuer, the Guarantor or any Group Entity may at any time purchase Bonds in the open market or otherwise and at any price.

zu jedem beliebigen Preis kaufen. Derartig erworbene Schuldverschreibungen können entwertet, gehalten oder wieder veräußert werden. Falls die Emittentin, die Garantin oder eine Konzerngesellschaft Schuldverschreibungen mit einem Gesamtnennbetrag von [75,00 – 85,00]% oder mehr des ursprünglich begebenen Gesamtnennbetrages der Schuldverschreibungen erworben hat, kann die Emittentin die verbleibenden Schuldverschreibungen (insgesamt, jedoch nicht teilweise) kündigen und zum Nennbetrag der Schuldverschreibungen zuzüglich bis zum Rückzahlungstag (ausschließlich) aufgelaufener Zinsen zurückzahlen. Der Emittentin steht ein Kündigungsrecht gemäß diesem § 6(5) nicht zu, solange Zinsrückstände ausstehen. Für Zwecke dieses Absatzes (5) gilt als Rückzahlungs-Berechnungstag der dritte Geschäftstag vor dem Tag, an dem die Schuldverschreibungen nach Wahl der Emittentin auf Grundlage dieses Absatzes (5) zurückgezahlt werden.

Such acquired Bonds may be cancelled, held or resold. In the event that the Issuer, the Guarantor or any Group Entity has purchased Bonds equal to or in excess of [75.00 – 85.00]% of the aggregate principal amount of the Bonds initially issued, the Issuer may call and redeem the remaining Bonds (in whole but not in part) at the principal amount of the Bonds plus accrued interest until the date of redemption (exclusive). The Issuer shall not be entitled to call and redeem the Bonds in accordance with this § 6(5) if any Arrears of Interest are outstanding. For purposes of this paragraph (5) the Redemption Calculation Date shall mean the third Business Day prior to the date on which the Bonds are redeemed at the option of the Issuer as a result of this paragraph (5).

(6) Kündigung und vorzeitige Rückzahlung bei Kontrollwechsel. Bei Eintritt eines Kontrollwechsels kann die Emittentin die Schuldverschreibungen vollständig, aber nicht in Teilbeträgen, nach unwiderruflicher Kündigungsmitteilung an die Anleihegläubiger gemäß § 13 unter Einhaltung einer Frist von nicht weniger als 30 und nicht mehr als 60 Tagen zum Nennbetrag der Schuldverschreibungen zuzüglich bis zum Rückzahlungstag (ausschließlich) aufgelaufener Zinsen und ausstehender Zinsrückstände mit Wirkung bis spätestens 60 Tage nach Eintritt eines Kontrollwechsels kündigen und zurückzahlen. Die Emittentin hat den Anleihegläubigern den Eintritt eines Kontrollwechsels unverzüglich gemäß § 13 anzuzeigen.

Ein ***Kontrollwechsel*** gilt als eingetreten, wenn (i) eine Person oder mehrere Personen, die abgestimmt handeln, oder einer oder mehrere Dritte, die im Auftrag einer solchen Person oder Personen handeln, zu irgendeinem Zeitpunkt mittelbar oder unmittelbar (x) mehr als 50 % der Aktien der Garantin oder (y) eine solche Anzahl von Aktien der Garantin erworben hat bzw. haben, auf die mehr als 50 % der bei Hauptversammlungen der Garantin normalerweise stimmberechtigten Stimmrechte entfallen und (ii) diese Akquisition zu einem Entzug oder einer Herabsetzung des Ratings für nicht-nachrangige unbesicherte Verbindlichkeiten der Garantin auf oder unter Ba1 durch Moody's Investors Services Inc. oder BB+ durch Standard & Poor's Rating Services, a division of the McGraw-Hill Companies Inc. (oder jeweils die entsprechenden dann geltenden Stufen), führt.

(6) Issuer Call Right and Early Redemption in case of Change of Control. If a Change of Control has occurred, the Issuer may call and redeem the Bonds (in whole but not in part) at their principal amount, plus any interest accrued until the redemption date (exclusive) and any outstanding Arrears of Interest on the giving of not less than 30 and not more than 60 days' irrevocable notice to the Bondholders in accordance with § 13 with the redemption becoming effective no later than 60 days following the occurrence of a Change of Control. Immediately after the occurrence of a Change of Control the Issuer has to publish a notice to the Bondholders in accordance with § 13.

A ***Change of Control*** will be deemed to have occurred if (i) any person or persons acting in concert or any third person or persons acting on behalf of such person(s) at any time acquire(s) directly or indirectly (x) more than 50 per cent of the shares in the capital of the Guarantor or (y) such number of shares in the capital of the Guarantor carrying more than 50 per cent of the voting rights normally exercisable at general meetings of the Guarantor, and (ii) such acquisition results in any withdrawal or downgrade to a rating of or below Ba1 by Moody's Investors Services, Inc. or BB+ by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies Inc. (or their respective equivalents at such time) of the Guarantor's senior unsecured credit rating.

Die Garantin hat die unbedingte und unwiderrufliche Verpflichtung gegenüber den jeweiligen Inhabern der in der Verpflichtung genannten qualifizierten Wertpapiere übernommen, den Gläubigern dieser Wertpapiere ein Angebot auf Rückkauf der qualifizierten Wertpapiere zu 100% von deren jeweiligem Nennbetrag zuzüglich aller bis zum Rückkaufstag jeweils aufgelaufener Zinsen zu machen, falls (i) ein Kontrollwechsel eingetreten ist; und (ii) die Emittentin ihr Kündigungsrecht nach § 6(6) der Anleihebedingungen ausgeübt hat.* Die Verpflichtung zu einem Rückkaufsangebot stellt einen Vertrag zugunsten der jeweiligen Wertpapiergläubiger als begünstigte Dritte gemäß § 328 (1) BGB dar, die jedem Wertpapiergläubiger das Recht gibt, Erfüllung der übernommenen Verpflichtungen unmittelbar von der Garantin zu verlangen und diese Verpflichtungen unmittelbar gegen die Garantin durchzusetzen.

The Guarantor has unconditionally and irrevocably undertaken to the holders of the qualifying securities mentioned in the undertaking that it will make a tender offer to all holders of such qualifying securities pursuant to which Linde AG will offer the holders to repurchase the qualifying securities at 100% of their respective nominal amounts plus any interest accrued until the day of repurchase if (i) a Change of Control has occurred; and (ii) the Issuer has exercised its call right pursuant to § 6(6) of the Terms and Conditions.* The undertaking to make a tender offer constitutes a contract in favour of the holders of the senior securities as third party beneficiaries pursuant to § 328 (1) of the German Civil Code giving rise to the right of each such holder to require performance of the obligations assumed hereby directly from the Guarantor and to enforce such obligations directly against the Guarantor.

(7) Bestimmungen bezüglich einer Kündigung. Nach Absicht der Garantin sollen die Schuldverschreibungen Teil der langfristigen Finanzierung des Konzerns der Garantin sein. Dementsprechend beabsichtigt die Emittentin, außer im Fall der Rückzahlung infolge eines BOC-Ereignisses, die Schuldverschreibungen mit Erlösen zurückzuzahlen, die der Emittentin in den sechs Monaten vor dem Tag der Rückzahlung aufgrund der Ausgabe von Aktien der Garantin und/oder anderer Wertpapiere (die ***Neuen Wertpapiere***) durch die Garantin oder eine Finanzierungsgesellschaft des Konzerns der Garantin mit einer Garantie der Garantin zugeflossen sind, die jeweils zusammengenommen mit demselben Eigenkapitalanteil behandelt werden, wie der zusammengenommene Eigenkapitalanteil, der zu diesem Zeitpunkt den Schuldverschreibungen zugerechnet wird.

(7) Provisions in Relation to a Call. It is the intention of the Guarantor that the Bonds will constitute permanent funding of the Guarantor's group. Accordingly, the Issuer intends to redeem the principal amount of the Bonds with proceeds raised through the issuance of shares of the Guarantor and/or the issuance of other securities (the ***New Securities***) either by the Guarantor or a finance entity of the Group of the Guarantor with a guarantee of the Guarantor, in each case with an aggregate equity credit at least equal to the aggregate equity credit then ascribed to the Bonds, within a period of six months prior to the redemption date of the Bonds, except in the case of redemption following a BOC Event.

Die Neuen Wertpapiere werden:

(i) keine Endfälligkeit oder eine Laufzeit von mindestens 60 Jahren haben und im gleichen Rang mit den Schuldverschreibungen stehen;

(ii) nicht vor Ablauf von fünf Jahren nach ihrem Ausgabetag (wenn sie keinen Mechanismus zur Erhöhung des Zinssatzes (step-up) enthalten) oder nicht vor Ablauf von [zehn] [zwölf] Jahren nach ihrem Ausgabetag (wenn sie einen Mechanismus zur Erhöhung des Zinssatzes

The New Securities shall:

(i) have no maturity or a maturity of at least 60 years and rank *pari passu* with the Bonds;

(ii) not be redeemable (other than for reasons of a special event identical to the Accounting Event, Capital Event, Gross-up Event or Tax Event as specified in these Terms and Conditions) prior to the fifth anniversary of their issue date if the New Securities do not

* The full text of the undertaking may be found under "Undertaking to effect Tender Offer".

(step-up) enthalten) kündbar sein, es sei denn, die Kündigung erfolgt auf Grund eines dem Rechnungslegungsereignis, dem Kapitalereignis, dem Gross-up-Ereignis oder dem Steuerereignis, jeweils wie in diesen Anleihebedingungen definiert, entsprechenden Ereignisses;

(iii) einen Aufschub von baren Zinszahlungen durch die Emittentin nur unter Bedingungen erlauben, die den insoweit für diese Schuldverschreibungen geltenden Bedingungen entsprechen; und

(iv) für den Fall der Rückzahlung dieselben Bestimmungen über die Beschaffung von Barmitteln wie in diesem § 6(7) vorsehen, sofern die Neuen Wertpapiere einen Mechanismus zur Erhöhung des Zinssatzes (Step-up) oder eine Kündigungsmöglichkeit der Emittentin im Falle eines Kapitalereignisses enthalten, bzw. im Prospekt generelle Bestimmungen über die Beschaffung von Barmitteln vorsehen, wenn die Neuen Wertpapiere keinen Mechanismus zur Erhöhung des Zinssatzes (Step-up) und keine Kündigungsmöglichkeit der Emittentin im Falle eines Kapitalereignisses enthalten.

Wenn die Schuldschreibungen aufgrund eines Rechnungslegungsereignisses, eines Kapitalereignisses, eines Gross-up-Ereignisses oder eines Steuerereignisses zurückgezahlt werden, können die Neuen Wertpapiere abweichend davon so ausgestaltet werden, dass sie ohne das Eingreifen eines Rechnungslegungsereignisses, eines Kapital-ereignisses, eines Gross-up-Ereignisses oder eines Steuerereignisses ausgegeben werden können, sofern den Neuen Wertpapieren trotz dieser Änderungen eine mindestens so hohe Eigenkapitalanteil zukommt wie den Schuldverschreibungen vor Eintritt des Rechnungslegungsereignisses, Kapitalereignisses, Gross-up-Ereignisses bzw. Steuerereignisses.

§ 7
ZAHLUNGEN

(1) **Zahlung von Kapital und Zinsen.** Die Emittentin verpflichtet sich, Kapital und Zinsen auf die Schuldverschreibungen sowie alle sonstigen auf die Schuldverschreibungen zahlbaren Beträge bei Fälligkeit in britischen Pfund Sterling zu zahlen. Die Zahlung von Kapital und Zinsen erfolgt an die Hauptzahlstelle zur Weiterleitung an das Clearingsystem oder

contain a coupon step-up or the [tenth][twelfth] anniversary of their issue date if the New Securities contain a coupon step-up;

(iii) permit the Issuer in their terms to defer cash interest payments in the same manner as under the Bonds; and

(iv) feature an identical capital replacement provision in the event of redemption as in this § 6(7) to the extent that the New Securities contain a coupon step-up or an option of the Issuer to redeem the securities in case of a Capital Event, or feature a general capital replacement statement in the prospectus if the New Securities do not contain coupon step-up and no option of the Issuer to redeem the securities in case of a Capital Event.

If the Bonds are redeemed following an Accounting Event, a Capital Event, a Gross-Up Event or a Tax Event, modifications may be made so that the New Securities to be issued may be issued without there being an Accounting Event, a Capital Event, a Gross-up Event or a Tax Event, as the case may be, provided, however, that such modifications shall result in each case in at least the same or higher equity credit ascribed to the Bonds prior to the occurrence of such Accounting Event, Capital Event, Gross-up Event or Tax Event.

§ 7
PAYMENTS

(1) **Payment of Principal and Interest.** The Issuer undertakes to pay, as and when due, principal and interest as well as all other amounts payable on the Bonds in Pound Sterling. Payment of principal and interest on the Bonds shall be made to the Principal Paying Agent for on-payment to the Clearing System or to its order for credit to the respective account an dessen Order zur Gutschrift für die jeweiligen Kontoinhaber gegen Vorlage und (sofern es sich um die Kapitalrückzahlung handelt) Einreichung der Globalurkunde. Die Zahlung an das Clearingsystem oder an dessen Order, vorausgesetzt, die Schuldverschreibungen werden noch durch das Clearingsystem gehalten, befreit die Emittentin in Höhe der geleisteten Zahlung von ihren entsprechenden Verbindlichkeiten aus den Schuldverschreibungen.

(2) Fälligkeitstag kein Geschäftstag. Falls ein Fälligkeitstag für die Zahlung von Kapital und/oder Zinsen kein Geschäftstag ist, erfolgt die Zahlung, außer im Fall des § 5(2)(b), erst am nächstfolgenden Geschäftstag; Anleihegläubiger sind nicht berechtigt, Zinsen oder eine andere Entschädigung wegen eines solchen Zahlungsaufschubs zu verlangen.

§ 8
BESTEUERUNG

Sämtliche Zahlungen von Kapital und Zinsen in Bezug auf die Schuldverschreibungen werden ohne Einbehalt oder Abzug von Steuern, Abgaben, Festsetzungen oder behördlicher Gebühren jedweder Art geleistet, die von den Niederlanden oder einer ihrer Gebietskörperschaften oder Behörden mit der Befugnis zur Erhebung von Steuern auferlegt, erhoben, eingezogen, einbehalten oder festgesetzt werden, es sei denn, ein solcher Einbehalt oder Abzug ist gesetzlich vorgeschrieben. In einem solchen Falle wird die Emittentin solche zusätzlichen Beträge zahlen, so dass die Anleihegläubiger die Beträge erhalten, die sie ohne Einbehalt oder Abzug erhalten hätten. Diese zusätzlichen Beträge sind jedoch nicht in Bezug auf Schuldverschreibungen zahlbar, die

(a) von einem Anleihegläubiger oder in dessen Namen zur Zahlung vorgelegt werden, der solchen Steuern, Abgaben, Festsetzungen oder behördlichen Gebühren in Bezug auf diese Schuldverschreibungen dadurch unterliegt, dass er eine Verbindung zu den Niederlanden hat, die nicht nur aus der bloßen Inhaberschaft der Schuldverschreibungen besteht; oder

(b) von einem Anleihegläubiger oder in dessen Namen zur Zahlung vorgelegt werden, der einen solchen Einbehalt oder Abzug nach rechtzeitiger Aufforderung durch die Emittentin durch Vorlage eines Formulars oder einer Urkunde und/oder durch Abgabe einer Nichtansässigkeits-Erklärung oder Inan-

holders upon presentation and (in the case of the payment in respect of principal) surrender of the Global Bond. Payments to the Clearing System or to its order shall, to the extent of amounts so paid and provided the Bonds are still held on behalf of the Clearing System, constitute the discharge of the Issuer from its corresponding obligations under the Bonds.

(2) Due Date not a Business Day. Except as otherwise provided in § 5(2)(b), if the due date for any payment of principal and/or interest is not a Business Day, payment shall be effected only on the next Business Day; a Bondholder shall have no right to claim payment of any additional interest or other indemnity in respect of such delay in payment.

§ 8
TAXATION

All payments of principal and interest in respect of the Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by The Netherlands or any political subdivision or any authority of or in The Netherlands that has power to tax, unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as will result in receipt by the Bondholders of the same amounts as they would have received if no such withholding or deduction had been required, except that no additional amounts will be payable in respect of any Bond if it is presented for payment:

(a) by or on behalf of a Bondholder who is liable to pay such taxes, duties, assessments or governmental charges in respect of such Bond by reason of it having some connection with The Netherlands other than the mere holding of that Bond; or

(b) by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting any form or certificate and/or making a declaration of non-residence or similar claim for exemption or refund upon timely request by the Issuer; or spruchnahme einer vergleichbaren Ausnahme oder Geltendmachung eines Erstattungsanspruches hätte vermeiden können; oder

(c) später als 30 Tage nach dem Tag vorgelegt werden an dem die betreffende Zahlung erstmals fällig wird, oder, falls nicht der gesamte an diesem Fälligkeitstag zahlbare Betrag an oder vor diesem Fälligkeitstag bei der Hauptzahlstelle eingegangen ist, dem Tag, an dem den Anleihegläubigern der Erhalt des Gesamtbetrags nach Maßgabe des § 13 bekannt gemacht wurde; oder

(d) falls dieser Einbehalt oder Abzug bei Zahlungen an Einzelpersonen gemäß der Richtlinie der Europäischen Union zur Besteuerung von Zinserträgen vom 3. Juni 2003 oder aufgrund eines Gesetzes erfolgt, das aufgrund dieser Richtlinie erlassen wurde, ihr entspricht oder eingeführt wurde, um dieser Richtlinie nachzukommen; oder

(e) von einem Anleihegläubiger oder in dessen Namen zur Zahlung vorgelegt werden, der diesen Einbehalt oder Abzug durch Vorlage der Schuldverschreibung bei einer Zahlstelle in einem anderen Mitgliedstaat der Europäischen Union hätte vermeiden können.

Eine Bezugnahme in diesen Anleihebedingungen auf Kapital oder Zinsen schließt jegliche zusätzlichen Beträge im Hinblick auf Kapital bzw. Zinsen ein, die gemäß diesem § 8 zahlbar sind.

Falls die Garantin Zahlungen auf Grund der Garantie leistet, gilt dafür aufgrund der Garantie dieser § 8 entsprechend mit der Maßgabe, dass dieser sich außer auf Steuern, Abgaben oder Gebühren der Niederlande auch auf solche der Bundesrepublik Deutschland bezieht.

§ 9
KÜNDIGUNGSGRÜNDE

Bei Eintritt und Fortdauer eines der nachstehenden Ereignisse kann ein Anleihegläubiger seine Schuldverschreibungen durch schriftliche Mitteilung an die Emittentin und die Garantin, die der Emittentin und der Garantin oder der Hauptzahlstelle zu übermitteln ist, sofort kündigen, woraufhin seine Schuldverschreibungen sofort zu ihrem Nennbetrag, zusammen mit aufgelaufenen Zinsen und allen ausstehenden Zinsrückständen, ohne weitere Handlungen oder Formalitäten fällig und zahlbar werden:

(1) **Nichtzahlung.** Die Emittentin oder die Garantin zahlt Zinsbeträge in bezug auf die Schuldverschreibungen nicht innerhalb von 30 Geschäftstagen nach

(c) more than 30 days after the date on which the payment in question first becomes due or, if the full amount payable on such due date has not been received by the Principal Paying Agent on or prior to such due date, the date on which notice of receipt of the full amount has been given to the Bondholders in accordance with § 13; or

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Union Directive on the taxation of savings of June 3, 2003 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the Bond to a Paying Agent in another Member State of the European Union.

Any reference in these Terms and Conditions to principal or interest will be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this § 8.

In the event that the Guarantor makes payments, this § 8 applies *mutatis mutandis* to any such payments, in such a manner that it also refers to taxes, duties and charges of the Federal Republic of Germany apart from those of The Netherlands.

§ 9
EVENTS OF DEFAULT

If any of the events below occurs and is continuing then any Bond may, by written notice addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or the Principal Paying Agent, be declared immediately due and payable, whereupon such Bonds shall become immediately due and payable at their nominal amount together with accrued interest thereon including all outstanding Arrears of Interest without further action or formality:

(1) **Non-Payment.** Failure by the Issuer or the Guarantor to pay any amount of interest in respect of the Bonds within 30 Business Days of the due

Fälligkeit oder zahlt Kapitalbeträge in bezug auf die Schuldverschreibungen nicht bei Fälligkeit; oder

(2) Insolvenz, Liquidation etc.

(a) die Emittentin oder die Garantin gibt ihre Zahlungsunfähigkeit bekannt, oder ein Insolvenzverfahren wird gegen die Emittentin oder die Garantin eröffnet und nicht innerhalb von 30 Tagen eingestellt oder ausgesetzt, oder die Emittentin oder die Garantin beantragt die Eröffnung eines solchen Verfahrens (im Fall der Emittentin: beantragt Bankrott oder Zahlungseinstellung) oder stellt ihre Zahlungen ein oder bietet einen allgemeinen Vergleich zugunsten ihrer Gläubiger an oder führt einen solchen durch; oder

(b) die Emittentin oder die Garantin geht in die Liquidation oder wird abgewickelt oder aufgelöst (sofern dies nicht für die Zwecke oder als Folge eines Zusammenschlusses, einer Umstrukturierung oder Sanierung geschieht, bei dem bzw. der die Emittentin oder die Garantin noch zahlungsfähig ist und bei dem bzw. der die fortführende Gesellschaft im wesentlichen alle Vermögenswerte und Verpflichtungen der Emittentin bzw. der Garantin übernimmt); oder

(3) Unwirksamkeit der Nachrangigen Garantie. Die Nachrangige Garantie wird mit rechtskräftiger Entscheidung eines zuständigen Gerichts als nicht vollumfänglich wirksam erklärt, oder die Garantin behauptet einen Mangel der Wirksamkeit und dieser Mangel wird nicht innerhalb von zehn Geschäftstagen behoben.

§ 10
VORLEGUNGSFRIST

Die Vorlegungsfrist im Hinblick auf Kapital wird auf zehn Jahre und im Hinblick auf Zinsen auf die Schuldverschreibungen auf vier Jahre reduziert. Die Emittentin kann beim Amtsgericht in Frankfurt am Main innerhalb eines Jahres nach Fälligkeit unwiderruflich sämtliche Beträge hinterlegen, die nicht innerhalb eines Jahres nach Fälligkeit von Anleihegläubigern beansprucht worden sind. Die Gefahr sowie die Kosten dieser Hinterlegung werden von den betreffenden Anleihegläubigern getragen. Die Emittentin hat keine weiteren Verpflichtungen in Bezug auf diese Beträge. Soweit die Emittentin auf das Recht zur Rücknahme der hinterlegten Beträge verzichtet, erlöschen die betreffenden Ansprüche der Anleihegläubiger gegen die Emittentin.

date for payment of that amount or failure to pay any amount of the principal in respect of the Bonds on the due date for payment of that amount; or

(2) Insolvency, Liquidation etc.

(a) the Issuer or the Guarantor announces its inability to meet its financial obligations (*Zahlungsunfähigkeit*) or insolvency proceedings are commenced against the Issuer or the Guarantor and are not dismissed or stayed within 30 days or the Issuer or the Guarantor institutes such proceedings (in the case of the Issuer, applies for bankruptcy or for suspension of payments) or suspends payments or offers or makes a general arrangement for the benefit of its creditors; or

(b) the Issuer or the Guarantor enters into a winding up or dissolution and liquidation (other than for the purposes of or pursuant to an amalgamation, reorganization or restructuring whilst solvent, where the continuing entity assumes substantially all of the assets and obligations of the Issuer or the Guarantor, as the case may be); or

(3) Subordinated Guarantee not in Force. The Subordinated Guarantee is determined by the final decision of a competent court or is claimed by the Guarantor not to be in full force and effect and such defect is not corrected within ten Business Days.

§ 10
PRESENTATION PERIOD

The presentation period shall be reduced to ten years in respect of principal and to four years in respect of interest on the Bonds. The Issuer may irrevocably deposit with the local court (*Amtsgericht*) in Frankfurt am Main any amounts due on the Bonds not claimed by the Bondholders within one year after such amounts have become due and payable. The deposit will be at the risk and expense of those Bondholders, and the Issuer will have no further obligation in respect of such amounts. If the Issuer waives all rights to withdraw such deposits, the respective claims of the Bondholders against the Issuer shall cease.

§ 11
ZAHLSTELLEN UND
BERECHNUNGSSTELLE

(1) **Hauptzahlstelle.** Citibank, N.A., Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, Großbritannien ist die anfängliche Hauptzahlstelle (***Hauptzahlstelle***).

(2) **Irische Zahlstelle.** Citibank International plc, 1 North Wall Quay, Dublin 1, Irland, ist als weitere Zahlstelle (gemeinsam mit der Hauptzahlstelle, die ***Zahlstellen,*** und jede eine ***Zahlstelle***) bestellt.

(3) **Berechnungsstelle.** Citigroup Global Markets Limited, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, Großbritannien, ist die anfängliche Berechnungsstelle (***Berechnungsstelle***).

(4) **Rechtsverhältnisse der Zahlstellen und der Berechnungsstelle.** Die Zahlstellen und die Berechnungsstelle handeln ausschließlich als Beauftragte der Emittentin und übernehmen keine Verpflichtungen gegenüber den Anleihegläubigern; es wird kein Vertrags-, Auftrags- oder Treuhandverhältnis zwischen ihnen und den Anleihegläubigern begründet.

(5) **Ersetzung von Zahlstellen und Berechnungsstelle.** Die Emittentin behält sich das Recht vor, jederzeit eine andere Zahlstelle oder Berechnungsstelle zu beauftragen oder eine solche Beauftragung zu beenden und zusätzliche oder Nachfolge-Zahlstellen bzw. Nachfolge-Berechnungsstellen zu ernennen. Die Emittentin wird jedoch gewährleisten, dass, solange die Schuldverschreibungen an einer Börse notiert sind, jederzeit eine Zahlstelle in dem Staat beauftragt ist, in dem die Börse ihren Sitz hat. Die Emittentin wird auch sicherstellen, dass für den Fall, dass im Hinblick auf die Richtlinie der Europäischen Union zur Besteuerung von Zinserträgen vom 3. Juni 2003 ein Gesetz, das diese Richtlinie umsetzt oder eingeführt wird, um dieser Richtlinie nachzukommen, erlassen wird, eine Zahlstelle in einem Mitgliedstaat der Europäischen Union unterhalten wird (sofern es eine derartige gibt), die nicht dazu verpflichtet ist, Steuern aufgrund dieser Richtlinie oder eines solchen Gesetzes an der Quelle einzubehalten oder abzuziehen. Den Anleihegläubigern werden Änderungen in Bezug auf die Zahlstellen oder die Berechnungsstelle oder ihre jeweils angegebenen Geschäftsstellen umgehend gemäß § 13 mitgeteilt.

§ 11
PAYING AGENTS AND
CALCULATION AGENT

(1) **Principal Paying Agent.** Citibank, N.A., Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom shall be the initial principal paying agent (***Principal Paying Agent***).

(2) **Irish Paying Agent.** Citibank International plc, 1 North Wall Quay, Dublin 1, Republic of Ireland, shall be appointed as additional paying agent (together with the Principal Paying Agent, the ***Paying Agents***, and each a ***Paying Agent***).

(3) **Calculation Agent.** Citigroup Global Markets Limited, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom, shall be the initial calculation agent (***Calculation Agent***).

(4) **Paying Agents and Calculation Agent Legal Matters.** The Paying Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligations towards or relationship of contract, agency or trust for or with any of the Bondholders.

(5) **Replacement of Paying Agents and Calculation Agent.** The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent or the Calculation Agent and to appoint successor or additional Paying Agents or a successor Calculation Agent, provided that, for as long as the Bonds are listed on any stock exchange, the Issuer will at all times maintain a Paying Agent in the jurisdiction in which such stock exchange is located; and provided further that if, in light of the European Union Directive on the taxation of savings of June 3, 2003, any law implementing or introduced in order to conform to such Directive is introduced, the Issuer will ensure that (to the extent that such a Paying Agent exists) it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to this Directive or any such law. Notice of any change in the Paying Agents or Calculation Agent or in the specified office of any Paying Agent or the Calculation Agent will be given without undue delay to the Bondholders in accordance with § 13.

§ 12
AUFSTOCKUNG

Die Emittentin kann ohne Zustimmung der Anleihegläubiger weitere Schuldverschreibungen begeben, die in jeder Hinsicht (oder in jeder Hinsicht mit Ausnahme der ersten Zinszahlung) die gleichen Bedingungen wie die Schuldverschreibungen dieser Anleihe haben und die zusammen mit den Schuldverschreibungen dieser Anleihe eine einzige Serie bilden.

§ 12
FURTHER ISSUES OF THE SAME SERIES

The Issuer may from time to time and without the consent of the Bondholders create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects, except for the first payment of interest) so as to form a single series with the Bonds.

§ 13
MITTEILUNGEN

(1) Falls die Schuldverschreibungen zum Handel an einer oder mehreren Börsen zugelassen werden, gelten sämtliche Mitteilungen an die Anleihegläubiger als ordnungsgemäß bekannt gemacht, wenn sie in dem Staat einer jeden Wertpapierbörse, an der die Schuldverschreibungen notiert werden, in einer Tageszeitung mit landesweiter Verbreitung veröffentlicht werden, solange diese Notierung fortdauert und die Regeln der jeweiligen Börse dies erfordern. Jede Mitteilung gilt mit dem Tag der ersten Veröffentlichung als bekannt gemacht; falls eine Veröffentlichung in mehr als einer Tageszeitung zu erfolgen hat, ist der Tag maßgeblich, an dem die Bekanntmachung erstmals in allen erforderlichen Tageszeitungen erfolgt ist.

(2) Mitteilungen an die Anleihegläubiger können anstelle der Veröffentlichung in einer Zeitung nach Maßgabe des § 13(1), (vorbehaltlich anwendbarer Börsenvorschriften bzw. -regeln) solange eine die Schuldverschreibungen verbriefende Globalurkunde für das Clearingsystem gehalten wird, durch Abgabe der entsprechenden Mitteilung an das Clearingsystem zur Weiterleitung an die Anleihegläubiger ersetzt werden.

§ 13
NOTICES

(1) If the Bonds are admitted for trading on any stock exchange, notices to the Bondholders will be valid if published in a leading daily newspaper having general circulation in the jurisdiction of any stock exchange on which the Bonds may be listed from time to time, for so long as the Bonds are listed on the respective exchange and the rules of any such exchange so require. Any such notice shall be deemed to have been given on the date of the first publication or, when required to be published in more than one newspaper, on the date on which the notice has first been published in all required newspapers.

(2) Notices to Bondholders may (subject to applicable stock exchange rules and requirements), so long as any Global Bond representing the Bonds is held on behalf of the Clearing System, be given *in lieu* of publication in a newspaper pursuant to § 13(1) by delivery of the relevant notice to the Clearing System for communication to the Bondholders.

§ 14
ERSETZUNG, SONSTIGE ÄNDERUNGEN UND AUSTAUSCH

(1) **Ersetzung.** Die Garantin ist jederzeit berechtigt, ohne Zustimmung der Anleihegläubiger sich selbst oder eine andere Gesellschaft, die direkt oder indirekt von der Garantin kontrolliert wird, als neue Anleiheschuldnerin für alle sich aus oder im Zusammenhang mit den Schuldverschreibungen ergebenden Verpflichtungen mit schuldbefreiender Wirkung für die Emittentin an die Stelle der Emittentin zu setzen (die ***Neue Anleiheschuldnerin***), sofern

(a) alle fälligen Zahlungsverpflichtungen der Emittentin erfüllt sind;

§ 14
SUBSTITUTION; OTHER MODIFICATIONS AND EXCHANGE

(1) **Substitution.** The Guarantor may at any time, without the consent of the Bondholders, substitute for the Issuer either itself or any other company which is directly or indirectly controlled by the Guarantor, as new issuer (the ***New Issuer***) in respect of all obligations arising under or in connection with the Bonds, with the effect of releasing the Issuer of all such obligations, if:

(a) all payment obligations of the Issuer having fallen due have been performed;

(b) die Neue Anleiheschuldnerin sämtliche Verpflichtungen der Emittentin aus oder im Zusammenhang mit den Schuldverschreibungen übernimmt;

(c) die Neue Anleiheschuldnerin sämtliche für die Schuldnerersetzung und die Erfüllung der Verpflichtungen aus oder im Zusammenhang mit den Schuldverschreibungen erforderlichen Genehmigungen und Zustimmungen erhalten hat;

(d) die Neue Anleiheschuldnerin in der Lage ist, sämtliche zur Erfüllung der aufgrund der Schuldverschreibungen bestehenden Zahlungsverpflichtungen erforderlichen Beträge in britischen Pfund Sterling an das Clearingsystem zu zahlen, und zwar ohne Abzug oder Einbehalt von Steuern oder sonstigen Abgaben jedweder Art, die von dem Land (oder den Ländern), in dem (in denen) die Neue Anleiheschuldnerin ihren Sitz oder Steuersitz hat, auferlegt, erhoben oder eingezogen werden;

(e) die Neue Anleiheschuldnerin oder die Garantin sich verpflichtet haben, die Anleihegläubiger hinsichtlich solcher Steuern, Abgaben oder behördlicher Gebühren freizustellen, die den Anleihegläubigern bezüglich der Ersetzung auferlegt werden; und

(f) für den Fall, dass die Neue Anleiheschuldnerin nicht die Garantin ist, die Bestimmungen der Ziffer 1.7 der Nachrangigen Garantie, wonach sich die Nachrangige Garantie auf die von der Neuen Anleiheschuldnerin gemäß den Anleihebedingungen zahlbaren Beträge erstreckt, in vollem Umfang Bestand haben.

(2) **Bezugnahmen.** Im Fall einer Schuldnerersetzung nach Maßgabe von § 14(1) gilt jede Bezugnahme in diesen Anleihebedingungen auf die Emittentin als eine solche auf die Neue Anleiheschuldnerin und jede Bezugnahme auf die Niederlande als eine solche auf den Staat, in welchem die Neue Anleiheschuldnerin steuerlich ansässig ist.

(3) **Bekanntmachung und Wirksamwerden der Ersetzung.** Die Ersetzung der Emittentin ist gemäß § 13 bekanntzumachen. Mit der Bekanntmachung der Ersetzung wird die Ersetzung wirksam und die Emittentin (und im Falle einer wiederholten Anwendung dieses § 14 jede frühere Neue Anleiheschuldnerin) von ihren sämtlichen Verpflichtungen aus oder im Zusammenhang mit den Schuldverschreibungen frei. Im Falle einer solchen Ersetzung werden die

(b) the New Issuer assumes any and all obligations of the Issuer arising under or in connection with the Bonds;

(c) the New Issuer has obtained all authorizations and approvals necessary for the substitution and the fulfillment of the obligations arising under or in connection with the Bonds;

(d) the New Issuer is in the position to pay to the Clearing System in Pound Sterling and without deducting or withholding any taxes or other duties of whatever nature imposed, levied or deducted by the country (or countries) in which the New Issuer has its domicile or tax residence all amounts required for the performance of the payment obligations arising from or in connection with the Bonds;

(e) the New Issuer or the Guarantor has agreed to indemnify the Bondholders against such taxes, duties or governmental charges as may be imposed on the Bondholders in connection with the substitution; and

(f) in the event that the New Issuer is not the Guarantor, the provisions of Clause 1.7 of the Subordinated Guarantee, pursuant to which the Subordinated Guarantee shall extend to any and all amounts expressed to be payable by the New Issuer pursuant to these Terms and Conditions of the Bonds, shall be in full force and effect.

(2) **References.** In the event of a substitution pursuant to § 14(1), any reference in these Terms and Conditions to the Issuer shall be a reference to the New Issuer and any reference to The Netherlands shall be a reference to the New Issuer's country of domicile for tax purposes.

(3) **Notice and Effectiveness of Substitution.** Notice of any substitution of the Issuer shall be given by publication in accordance with § 13. Upon such publication, the substitution shall become effective, and the Issuer and, in the event of a repeated application of this § 14, any previous New Issuer shall be discharged from any and all obligations under or in connection with the Bonds. In case of such substitution, the stock exchange(s), if any, on

Wertpapierbörsen informiert, an denen die Schuldverschreibungen notiert sind, und eine Ergänzung zu dem Informationsmemorandum mit einer Beschreibung der Neuen Anleiheschuldnerin erstellt.

which the Bonds are then listed will be notified and a supplemental information memorandum describing the New Issuer will be prepared.

(4) Sonstige Änderungen und Austausch. Tritt ein Rechnungslegungsereignis, ein Kapitalereignis oder ein Steuerereignis ein, ist die Emittentin jederzeit und ohne Zustimmung der Anleihegläubiger berechtigt, die Anleihebedingungen für die Schuldverschreibungen (insgesamt, jedoch nicht teilweise) zu ändern (und, sofern nach deutschem Recht erforderlich, die Globalurkunden auszutauschen, womit die Globalurkunden das Recht der Anleihegläubiger verbriefen, einen entsprechenden Miteigentumsanteil an den Globalurkunden mit den angehängten geänderten Anleihebedingungen zu erhalten), so dass das jeweilige Ereignis nach einer solchen Änderung nicht länger fortdauert. Die Emittentin kann eine Schuldnerersetzung im Sinne von Absatz (1) bis (3) mit einer Änderung nach diesem Absatz (4) verbinden, sofern alle in diesem § 14 genannten Voraussetzungen vorliegen.

(4) Other Modifications and Exchange. In case of an Accounting Event, a Capital Event or a Tax Event, the Issuer may at any time, without the consent or approval of Bondholders, modify (and upon such modification, if required under German law, exchange the Global Bonds in which case the Global Bond in respect of these Bonds will represent the Bondholder's right to receive a corresponding number of co-ownership interests represented by the Global Bond with the modified terms attached) the Terms and Conditions of the Bonds, in whole but not in part, so that the relevant event no longer exists after such modification. The Issuer may combine a substitution pursuant to paragraphs (1) through (3) above with a modification pursuant to this paragraph (4) if all provisions of this § 14 are satisfied.

Jede solche Änderung setzt voraus, dass die Nachrangige Garantie vollständig in Kraft bleibt und die so geänderten Schuldverschreibungen Bedingungen haben, die:

(a) für die Anleihegläubiger nicht weniger günstig sind als die der Schuldverschreibungen (dies schließt die Besteuerung der Anleihegläubiger ein); und

(b) mit den Bedingungen der Schuldverschreibungen mit Ausnahme der zur Vermeidung der oben genannten Ereignisse erforderlichen Änderungen im Wesentlichen identisch sind (insbesondere hinsichtlich Fälligkeitsdatum, Zinsen, Zahlungsterminen und Kündigungsterminen).

Any such modification to the Bonds is conditioned on the Subordinated Guarantee remaining in full force and effect and the modified Bonds having terms that:

(a) are not less favourable to the Bondholders than the terms of the Bonds, including the same tax treatment for the relevant Bondholder; and

(b) are, except for the modifications required to avoid the events specified above, substantially identical to the terms of the Bonds (including maturity date, interest rate(s), payment dates and redemption dates).

Die Bedingungen der Schuldverschreibungen dürfen nur geändert werden, sofern (i) alle aufgelaufenen Zinsen einschließlich etwaiger Zinsrückstände am jeweiligen Zinszahlungstag vollständig gezahlt wurden und (ii) die Änderungen weder (a) zu einer Änderung des dann gültigen Ratings der Schuldverschreibungen und/oder der Garantin noch (b) zu einem Rechnungslegungsereignis, einem Kapitalereignis oder einem Steuerereignis führen. Absatz (3) (Bekanntmachung) dieses § 14 gilt für eine solche Änderung entsprechend.

The Terms and Conditions of the Bonds may only be modified if (i) all accrued interest on the relevant Interest Payment Date has been paid in full, including any Arrears of Interest, and (ii) the modification does not itself give rise to (a) any detrimental change in any published rating of the Bonds and/or of the Guarantor in effect at such time or (b) an Accounting Event, a Capital Event or a Tax Event. Paragraph (3) (notice) of this § 14 shall apply *mutatis mutandis* to any such modification.

§ 15
ANWENDBARES RECHT UND GERICHTSSTAND

(1) Anwendbares Recht. Form und Inhalt der Schuldverschreibungen sowie die Rechte und Pflichten der Anleihegläubiger und der Emittentin bestimmen sich ausschließlich nach dem Recht der Bundesrepublik Deutschland, mit Ausnahme von § 4(1), der dem Recht der Niederlande unterliegt.

(2) Erfüllungsort. Erfüllungsort ist Frankfurt am Main, Bundesrepublik Deutschland.

(3) Gerichtsstand. Die Emittentin vereinbart zugunsten der Anleihegläubiger, dass Frankfurt am Main der Gerichtsstand für alle Klagen, Verfahren oder Rechtsstreitigkeiten gegen die Emittentin, die aus oder im Zusammenhang mit den Schuldverschreibungen entstehen (jeweils ***Verfahren*** bzw. ***Streitigkeiten***), ist. Die Emittentin erkennt diesen Gerichtsstand zu diesem Zweck unwiderruflich an. Für etwaige Streitigkeiten oder sonstige Verfahren vor deutschen Gerichten bestellt die Emittentin die Linde Aktiengesellschaft, Wiesbaden, Bundesrepublik Deutschland, zur Zustellungsbevollmächtigten.

(4) Gerichtsstand. Die Emittentin verzichtet unwiderruflich darauf, Einwände oder Einreden geltend zu machen, die jetzt oder in Zukunft gegen die Vereinbarung vorgebracht werden könnten, dass Frankfurt am Main der Gerichtsstand für alle Verfahren und Streitigkeiten sein soll, und verpflichtet sich, nicht zu bestreiten, dass diese Gerichte geeignet oder zuständig sind.

(5) Nichtausschließlichkeit. Die Gerichtsstandsvereinbarung beschränkt nicht das Recht eines Anleihegläubigers (und wird auch nicht dahingehend ausgelegt), Verfahren vor einem anderen zuständigen Gericht anzustrengen. Ebenso wenig schließt die Einleitung von Verfahren an einem oder mehreren Gerichtsständen die Einleitung von Verfahren an einem anderen

§ 15
GOVERNING LAW AND JURISDICTION

(1) Governing law. The form and contents of the Bonds and the rights and obligations of the Bondholders and the Issuer shall be governed exclusively by, and construed in accordance with, the laws of the Federal Republic of Germany, except for § 4(1), which shall be subject to the laws of The Netherlands.

(2) Place of Performance. Place of performance is Frankfurt am Main, Federal Republic of Germany.

(3) Jurisdiction. The Issuer agrees for the benefit of the Bondholders that the courts of Frankfurt am Main shall have jurisdiction to hear and determine any suit, action or proceedings and to settle any disputes which may arise out of or in connection with the Bonds (respectively, ***Proceedings*** and ***Disputes***) and, for that purpose, the Issuer irrevocably submits to the jurisdiction of the courts of Frankfurt am Main. For any Disputes or other Proceedings before German courts, the Issuer appoints Linde Aktiengesellschaft, Wiesbaden, Federal Republic of Germany, as authorised agent for accepting services of process.

(4) Forum. The Issuer irrevocably waives any objection which it might now or hereafter have to the courts of Frankfurt am Main being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any of those courts is not a convenient or appropriate forum.

(5) Non-exclusivity. The submission to the jurisdiction of the courts of Frankfurt am Main shall not (and shall not be construed so as to) limit the right of any Bondholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other

Gerichtsstand aus (gleichgültig, ob diese gleichzeitig geführt werden oder nicht), falls und soweit dies rechtlich zulässig ist.

jurisdiction (whether concurrently or not) if and to the extent permitted by law.

§ 16
SPRACHE

Diese Anleihebedingungen sind in deutscher Sprache abgefasst und mit einer Übersetzung in die englische Sprache versehen. Der deutsche Wortlaut ist allein rechtsverbindlich. Die englische Übersetzung dient zu Informationszwecken.

§ 16
LANGUAGE

These Terms and Conditions are drawn up in the German language and provided with an English language translation. The German version shall be the only legally binding version. The English translation is for convenience only.

SUBORDINATED GUARANTEE WITH RESPECT TO THE €-BONDS

THE GERMAN TEXT OF THE SUBORDINATED GUARANTEE IS LEGALLY BINDING;
THE ENGLISH TRANSLATION IS FOR CONVENIENCE ONLY

Garantie
(auf nachrangiger Basis)

der Linde Aktiengesellschaft,
Wiesbaden,
Bundesrepublik Deutschland

zugunsten der Gläubiger der

fest bzw. variabel verzinslichen
nachrangigen Schuldverschreibungen
von 2006 mit einem
Gesamtnennbetrag von

[bis zu € 1.300.000.000]

(die ***Schuldverschreibungen***)

der Linde Finance B.V.,
Amsterdam, Niederlande

1.1 Die Linde Aktiengesellschaft (die ***Garantin***) übernimmt hiermit gegenüber den jeweiligen Inhabern der oben genannten Schuldverschreibungen (die ***Anleihegläubiger***) auf nachrangiger Basis die unbedingte und unwiderrufliche Garantie für die ordnungsgemäße Zahlung von Kapital und Zinsen auf die Schuldverschreibungen in Euro sowie aller sonstigen auf die Schuldverschreibungen fällig werdenden Beträge nach Maßgabe der Anleihebedingungen (die ***Nachrangige Garantie***). Zahlungen im Zusammenhang mit dieser Nachrangigen Garantie erfolgen ausschließlich gemäß den Anleihebedingungen. Bei Erfüllung von Verpflichtungen der Emittentin oder der Garantin zugunsten eines Anleihegläubigers erlischt das betreffende garantierte Recht dieses Anleihegläubigers aus den Schuldverschreibungen.

1.2 Sinn und Zweck dieser Nachrangigen Garantie ist es sicherzustellen, dass die Anleihegläubiger unter allen tatsächlichen und rechtlichen Umständen und unabhängig von Wirksamkeit und Durchsetzbarkeit der Verpflichtungen der Linde Finance B.V. (die ***Emittentin***) und unabhängig von sonstigen Gründen, aufgrund derer die Emittentin ihre Verpflichtungen nicht erfüllt, alle zahlbaren Beträge fristgerecht in Übereinstimmung mit den Anleihebedingungen erhalten.

Guarantee
(given on a subordinated basis)

of Linde Aktiengesellschaft,
Wiesbaden,
Federal Republic of Germany

in favor of the holders of the

Fixed to Floating Rate
Subordinated Bonds
of 2006 in an
aggregate principal amount of

[up to € 1,300,000,000]

(the ***Bonds***)

of Linde Finance B.V.,
Amsterdam, the Netherlands

1.1 Linde Aktiengesellschaft (the ***Guarantor***) hereby unconditionally and irrevocably guarantees on a subordinated basis to the holders of the above mentioned Bonds (the ***Bondholders***) the due payment in Euro of the amounts corresponding to the principal of and interest on, as well as any other amounts due under, the Bonds in accordance with the Terms and Conditions of the Bonds (the ***Subordinated Guarantee***). Payments under this Subordinated Guarantee are subject to (without limitation) the Terms and Conditions of the Bonds. Upon discharge of any obligations of the Issuer or the Guarantor subsisting hereunder in favor of any Bondholder, the relevant guaranteed right of such Bondholder under the Bonds shall cease.

1.2 The intent and purpose of this Subordinated Guarantee is to ensure that the Bondholders under any and all circumstances, whether factual or legal, and irrespective of validity or enforceability of the obligations of Linde Finance B.V. (the ***Issuer***), or any other reasons on the basis of which the Issuer may fail to fulfill its obligations, receive on the respective due date any and all sums payable in accordance with the Terms and Conditions of the Bonds.

1.3 Die Garantin kann die von den Anleihegläubigern innerhalb von zwölf Monaten nach Fälligkeit nicht erhobenen Beträge an Kapital und Zinsen sowie etwaige sonstige auf die Schuldverschreibungen fällige Beträge bei dem Amtsgericht in Frankfurt am Main hinterlegen. Soweit die Garantin auf das Recht zur Rücknahme der hinterlegten Beträge verzichtet, erlöschen die betreffenden Ansprüche der Anleihegläubiger gegen die Emittentin und die Garantin.

1.4 Die Verpflichtungen der Garantin aus der Nachrangigen Garantie sind, sofern nicht unten abweichend geregelt, nicht besicherte, nachrangige Verbindlichkeiten der Garantin, die (i) dem Grundkapital der Garantin vorrangig sind, (ii) untereinander und mit den Verbindlichkeiten der Garantin aus der Nachrangigen Garantie in Bezug auf die von der Emittentin im Jahr 2003 begebenen nachrangigen Schuldverschreibungen mit unbegrenzter Laufzeit im Gesamtnennbetrag von € 400 Millionen (ISIN XS0171231060) gleichrangig sind und (iii) nachrangig sind zu allen anderen derzeitigen und zukünftigen nicht nachrangigen und nachrangigen Verbindlichkeiten der Garantin, die als gegenüber den Verpflichtungen der Garantin aus der Nachrangigen Garantie vorrangig vereinbart sind, soweit nicht zwingende gesetzliche Bestimmungen etwas anderes vorschreiben. Im Fall der Auflösung, der Liquidation, der Insolvenz oder eines der Abwendung der Insolvenz der Garantin dienenden Verfahrens erfolgen Zahlungen auf die Nachrangige Garantie erst dann, wenn alle Ansprüche gegen die Garantin aus nicht nachrangigen Verbindlichkeiten sowie nachrangigen Verbindlichkeiten, die als gegenüber Verbindlichkeiten aus der Nachrangigen Garantie vorrangig vereinbart wurden vollständig befriedigt sind.

Sofern eine Verfügung oder ein Beschluss zur Auflösung, Abwicklung oder Liquidation der Garantin ergeht (sofern dies nicht für die Zwecke oder als Folge eines Zusammenschlusses, einer Umstrukturierung oder Sanierung geschieht, bei dem bzw. bei der die Garantin noch zahlungsfähig ist und bei dem bzw. der die fortführende Gesellschaft im Wesentlichen alle Vermögenswerte und Verpflichtungen der Emittentin übernimmt), stehen die Ansprüche der Anleihegläubiger aus der Nachrangigen Garantie auf Zahlung von Zinsrückständen gemäß § 5(4) der Anleihebedingungen den Ansprüchen aus Aktien der Garantin im Rang gleich.

1.3 The Guarantor may deposit with the Lower Court (*Amtsgericht*) in Frankfurt am Main principal and interest as well as any other amounts due on the Bonds, if any, not claimed by Bondholders within twelve months after having become due. If the Guarantor waives all rights to withdraw such deposits the respective claims of Bondholders against the Issuer and the Guarantor shall cease.

1.4 Except as set out below, the obligations of the Guarantor under the Subordinated Guarantee constitute unsecured and subordinated obligations of the Guarantor ranking (i) senior to the Guarantor's share capital, (ii) *pari passu* among themselves and with any obligations of the Guarantor under the subordinated guarantee in relation to the undated subordinated securities issued by the Issuer in an aggregate principal amount of € 400 million in 2003 (ISIN XS0171231060), and (iii) junior to all other present or future unsubordinated and subordinated obligations of the Guarantor expressed to rank senior to the claims under the Subordinated Guarantee, except as otherwise required by mandatory law. In the event of the dissolution, liquidation, insolvency or any proceeding for the avoidance of the insolvency of the Guarantor no amounts shall be payable under the Subordinated Guarantee until the claims of all unsubordinated and subordinated creditors of the Guarantor the claims of which are expressed to rank senior to the Subordinated Guarantee shall first have been satisfied in full.

If an order or a resolution is made for the winding-up, or dissolution or liquidation of the Guarantor (other than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring while solvent, where the continuing entity assumes substantially all of the assets and obligations of the Guarantor), the claims of the Bondholders for payment of Arrears of Interest pursuant to § 5(4) of the Terms and Conditions under this Subordinated Guarantee shall rank *pari passu* with the Guarantor's share capital.

Die Anleihegläubiger erkennen ausdrücklich an, dass unter den oben genannten Umständen Zahlungen der Garantin unter dieser Nachrangigen Garantie auf die Schuldverschreibungen nur unter Wahrung obenstehender Nachrangigkeit erfolgen werden.

Bondholders explicitly accept that, in the circumstances described above, payments in respect of the Bonds will be made by the Guarantor pursuant to this Subordinated Guarantee only in accordance with the subordination described above.

Anleihegläubiger sind nicht berechtigt, Forderungen aus dieser Nachrangigen Garantie gegen mögliche Forderungen der Garantin gegen ihn aufzurechnen. Die Garantin ist nicht berechtigt, Forderungen gegenüber Anleihegläubigern gegen Verpflichtungen aus dieser Nachrangigen Garantie aufzurechnen.

No Bondholder may set-off any claims arising under this Subordinated Guarantee against any claims that the Guarantor may have against it. The Guarantor may not set-off any claims it may have against the Bondholders against any of its obligations under this Subordinated Guarantee.

1.5 Mit Ausnahme der Rechte unter dieser Nachrangigen Garantie sind für die Rechte der Anleihegläubiger keine Sicherheiten irgendwelcher Art durch die Garantin oder durch Dritte gestellt worden; solche Sicherheiten werden ihnen auch zu keinem Zeitpunkt gestellt werden.

1.5 Except for the rights created pursuant to this Subordinated Guarantee, no security of whatever kind is, or shall at any time be, provided by the Guarantor or any other person securing rights of the Bondholders.

1.6 Nachträglich können weder der in dieser Nachrangigen Garantie bestimmte Nachrang noch die Laufzeit der Nachrangigen Garantie beschränkt werden.

1.6 No subsequent agreement may limit the subordination pursuant to the provisions set out in this Subordinated Guarantee or shorten the term of this Subordinated Guarantee.

1.7 Im Falle einer Ersetzung der Emittentin durch eine Tochtergesellschaft der Garantin gemäß § 14 der Anleihebedingungen erstreckt sich diese Nachrangige Garantie auf sämtliche von der Neuen Anleiheschuldnerin gemäß den Anleihebedingungen zahlbaren Beträge. Dies gilt auch dann, wenn die Neue Anleiheschuldnerin die Verpflichtungen aus den Schuldverschreibungen unmittelbar von der Garantin übernommen hat.

1.7 In the event of a substitution of the Issuer by a subsidiary of the Guarantor pursuant to § 14 of the Terms and Conditions of the Bonds, this Subordinated Guarantee shall extend to any and all amounts payable by the New Issuer pursuant to the Terms and Conditions of the Bonds. The foregoing shall also apply if the New Issuer shall have assumed the obligations arising under the Bonds directly from the Guarantor.

2.1 Gemäß § 5(4) der Anleihenbedingungen steht die Zahlung von Zinsrückständen ausgenommen in bestimmten Fällen unter der Bedingung der Beschaffung bestimmter Mittel durch die Garantin. Die Garantin wird sich bemühen, die für die Zahlung von Zinsrückständen erforderlichen Mittel innerhalb eines Zeitraums von sechs Monaten vor dem für die Zahlung der Zinsrückstände in § 5(4) (b) der Anleihebedingungen vorgesehenen Tag beschaffen. Wenn die Garantin aufgrund der Beschränkungen des Emissionsvolumens (wie in den Anleihebedingungen definiert) oder aus rechtlichen Gründen, insbesondere solchen deutschen Gesellschaftsrechts, nicht in der Lage gewesen ist, innerhalb der im vorgenannten Satz genannten Frist Aktien nach Maßgabe von § 5(4) der Anleihebedingungen zu begeben oder zu verkaufen, erlischt die Verpflichtung der Emittentin zur Nachzahlung der Zinsrückstände nicht. Die Garantin wird sich im Rahmen des rechtlich Möglichen weiterhin bemühen, die vorstehenden Bedin-

2.1 Pursuant to § 5(4) of the Terms and Conditions, the payment of Arrears of Interest is, except for certain circumstances, subject to the condition precedent that the Guarantor raised proceeds by certain means. The Guarantor will endeavour to raise proceeds in an amount equal to the Arrears of Interest within the six months prior to the date for payment of Arrears of Interest specified in § 5(4)(b) of the Terms and Conditions. If, due to the limitations relating to the Issue Volume (as defined in the Terms and Conditions) or due to legal restrictions, in particular provisions of German corporate law, the Guarantor has not been able to issue or sell shares in accordance with § 5(4) of the Terms and Conditions within the period stipulated in the preceding sentence, the obligation of the Issuer to make up for any Arrears of Interest shall not lapse. To the extent legally possible, the Guarantor will continue to endeavour to meet the preceding conditions as soon as possible and to issue or sell (or cause the gungen sobald wie möglich zu erfüllen und Aktien nach Maßgabe von § 5(4) der Anleihebedingungen zu begeben oder zu verkaufen (bzw. die Begebung bzw. den Verkauf zu veranlassen), so dass alle ausstehenden Zinsrückstände unverzüglich danach gezahlt werden.

2.2 Die Garantin wird für einen Zeitraum von 12 Monaten nach einer Zahlung von Zinsrückständen gemäß § 5(4) der Anleihebedingungen Aktien nur insoweit gegen Zahlung einer Gegenleistung einziehen, zurückkaufen oder erwerben, als die Anzahl der seit der Ausgabe oder dem Verkauf von Aktien zur Zahlung von Zinsrückständen (einschließlich) insgesamt ausgegebenen Aktien abzüglich die Anzahl der seit diesem Zeitpunkt eingezogenen, zurückgekauften oder erworbenen Aktien die Anzahl der zur Zahlung von Zinsrückständen ausgegebenen Aktien übersteigt, außer im Zusammenhang mit (i) derzeit bestehenden oder zukünftigen Aktienoptionsplänen oder (ii) der Umwandlung von Aktien in Aktien einer anderen Gattung.

2.3 Sofern am Fälligkeitstag (§ 6(1) der Anleihebedingungen) Zinsrückstände ausstehen, wird die Garantin alle vernünftigerweise zu erwartenden Maßnahmen treffen, um gemäß § 5(4) der Anleihebedingungen die notwendigen Mittel in Höhe der Zinsrückstände zu erlösen, damit diese Zinsrückstände sobald als vernünftigerweise möglich nach der Rückzahlung von Kapital und aufgelaufenen Zinsen gezahlt werden können.

2.4 Nach Absicht der Garantin sollen die Schuldverschreibungen Teil der langfristigen Finanzierung des Konzerns der Garantin sein. Dementsprechend beabsichtigt die Emittentin ausweislich der Anleihebedingungen, außer im Fall der Rückzahlung infolge eines Wandlungsereignisses oder eines BOC-Ereignisses, die Schuldverschreibungen mit Erlösen zurückzuzahlen, die der Emittentin in den sechs Monaten vor dem Tag der Rückzahlung aufgrund der Ausgabe von Aktien der Garantin und/oder Neuer Wertpapiere (wie in den Anleihebedingungen definiert) durch die Garantin oder eine Konzerngesellschaft zugeflossen sind, die jeweils zusammengenommen mit demselben Eigenkapitalanteil behandelt werden, wie der zusammengenommene Eigenkapitalanteil, der zu diesem Zeitpunkt den Schuldverschreibungen zugerechnet wird.

3. Diese Nachrangige Garantie stellt einen Vertrag zugunsten der jeweiligen Anleihegläubiger als begünstigte Dritte gemäß § 328(1) BGB dar, die jedem Anleihegläubiger das Recht gibt, Erfüllung der hierin

issuance or sale of) shares of the Guarantor in accordance with § 5(4) of the Terms and Conditions such that all outstanding Arrears of Interest will be paid for immediately thereafter.

2.2 For a period of at least 12 months following settlement of Arrears of Interest in accordance with § 5(4) of the Terms and Conditions, the Guarantor shall not redeem, repurchase or acquire any of its shares for any consideration if and to the extent that such redemption, repurchase or acquisition would result in the balance of (x) the number of shares issued since and including the issuance or selling of shares for payment of Arrears of Interest and (y) the number of shares redeemed, repurchased or acquired since and including the issuance or selling of shares for payment of Arrears of Interest exceeding the number of shares issued for the settlement of any Arrears of Interest, other than in connection with (i) any present or future stock option plan or (ii) a reclassification of shares for shares of another class.

2.3 If any Arrears of Interest remain outstanding on the Maturity Date (§ 6(1) of the Terms and Conditions), the Guarantor shall use all reasonable measures at its disposal in accordance with § 5(4) of the Terms and Conditions to raise funds equal to the Arrears of Interest outstanding so that such Arrears of Interest may be settled as soon as reasonably practicable after the redemption of principal of the Bonds and accrued interest.

2.4 It is the intention of the Guarantor that the Bonds will constitute permanent funding of the Guarantor's group. Accordingly, the Issuer intends as set forth in the Terms and Conditions to redeem the principal amount of the Bonds with proceeds raised through the issuance of shares of the Guarantor and/or the issuance of New Securities (as defined in the Terms and Conditions) either by the Guarantor or a Group Entity, in each case with an aggregate equity credit at least equal to the aggregate equity credit then ascribed to the Bonds, within a period of six months prior to the redemption date of the Bonds, except in the case of redemption following a Conversion Event or BOC Event.

3. This Subordinated Guarantee constitutes a contract in favour of the respective Bondholders as third party beneficiaries pursuant to § 328(1) of the German Civil Code giving rise to the right of each übernommenen Verpflichtungen unmittelbar von der Garantin zu verlangen und diese Verpflichtungen unmittelbar gegen die Garantin durchzusetzen.

such Bondholder to require performance of the obligations assumed hereby directly from the Guarantor and to enforce such obligations directly against the Guarantor.

4. Falls die Garantin Zahlungen leistet, gilt dafür § 8 der Anleihebedingungen entsprechend mit der Maßgabe, dass dieser sich außer auf Steuern, Abgaben oder Gebühren der Niederlande auch auf solche der Bundesrepublik Deutschland bezieht.

4. In the event that the Guarantor makes payments, § 8 of the Terms and Conditions applies *mutatis mutandis* to any such payments, in such a manner that it also refers to taxes, duties and charges of the Federal Republic of Germany apart from those of The Netherlands.

5. Begriffe, die in den Anleihebedingungen definiert sind, haben in dieser Nachrangigen Garantie die gleiche Bedeutung wie in den Anleihebedingungen, soweit sie in dieser Garantie nicht anderweitig definiert sind.

5. Unless otherwise defined herein, terms used herein and defined in the Terms and Conditions shall in this Subordinated Guarantee have the meaning attributed to them in the Terms and Conditions.

6.1 Diese Nachrangige Garantie unterliegt ausschließlich dem Recht der Bundesrepublik Deutschland.

6.1 This Subordinated Guarantee shall be governed exclusively by the laws of the Federal Republic of Germany.

6.2 Zuständig für alle Klagen und sonstigen Verfahren aus oder im Zusammenhang mit dieser Nachrangigen Garantie (die ***Rechtsstreitigkeiten***) ist ausschließlich das Landgericht in Frankfurt am Main.

6.2 Any action or other legal proceedings (***Proceedings***) arising out of or in connection with this Subordinated Guarantee shall exclusively be brought in the District Court (*Landgericht*) in Frankfurt am Main.

7. Die Garantin und Citibank Agency & Trust Services, Citibank, N.A. vereinbaren, dass die Citibank Agency & Trust Services, Citibank, N.A. nicht als Treuhänderin oder in ähnlicher Eigenschaft für die Anleihegläubiger handelt. Die Citibank Agency & Trust Services, Citibank, N.A. verpflichtet sich, das Original dieser Nachrangigen Garantie bis zur Erfüllung sämtlicher Verpflichtungen aus den Schuldverschreibungen und dieser Nachrangigen Garantie in Verwahrung zu halten.

7. The Guarantor and Citibank Agency & Trust Services, Citibank, N.A. agree that Citibank Agency & Trust Services, Citibank, N.A. is not acting as trustee or in a similar capacity for the Bondholders. Citibank Agency & Trust Services, Citibank, N.A. undertakes to hold the original copy of this Subordinated Guarantee in custody until all obligations under the Bonds and this Subordinated Guarantee have been fulfilled.

8. Diese Nachrangige Garantie ist in deutscher Sprache mit englischer Übersetzung abgefasst. Die deutsche Fassung ist die rechtlich verbindliche Fassung. Die englische Übersetzung ist zur Erleichterung des Verständnisses beigefügt.

Wiesbaden, Juli 2006

Linde Aktiengesellschaft

8. This Subordinated Guarantee is drawn up in the German language and provided with an English language translation. The German version shall be the only legally binding version. The English translation is for convenience only.

Wiesbaden, July 2006

Linde Aktiengesellschaft

Wir nehmen die obenstehenden Erklärungen ohne Obligo, Gewährleistung oder Haftung an:

London, Juli 2006

Citibank Agency & Trust Services, Citibank, N.A.

We accept the terms of the above Guarantee without recourse, warranty or liability:

London, July 2006

Citibank Agency & Trust Services, Citibank, N.A.

SUBORDINATED GUARANTEE WITH RESPECT TO THE £-BONDS

THE GERMAN TEXT OF THE SUBORDINATED GUARANTEE IS LEGALLY BINDING;
THE ENGLISH TRANSLATION IS FOR CONVENIENCE ONLY

Garantie
(auf nachrangiger Basis)

der Linde Aktiengesellschaft,
Wiesbaden,
Bundesrepublik Deutschland

zugunsten der Gläubiger der

fest bzw. variabel verzinslichen
nachrangigen Schuldverschreibungen
von 2006 mit einem
Gesamtnennbetrag von

[bis zu £ 893.620.000]

(die ***Schuldverschreibungen***)

der Linde Finance B.V.,
Amsterdam, Niederlande

1.1 Die Linde Aktiengesellschaft (die ***Garantin***) übernimmt hiermit gegenüber den jeweiligen Inhabern der oben genannten Schuldverschreibungen (die ***Anleihegläubiger***) auf nachrangiger Basis die unbedingte und unwiderrufliche Garantie für die ordnungsgemäße Zahlung von Kapital und Zinsen auf die Schuldverschreibungen in britischen Pfund Sterling sowie aller sonstigen auf die Schuldverschreibungen fällig werdenden Beträge nach Maßgabe der Anleihebedingungen (die ***Nachrangige Garantie***). Zahlungen im Zusammenhang mit dieser Nachrangigen Garantie erfolgen ausschließlich gemäß den Anleihebedingungen. Bei Erfüllung von Verpflichtungen der Emittentin oder der Garantin zugunsten eines Anleihegläubigers erlischt das betreffende garantierte Recht dieses Anleihegläubigers aus den Schuldverschreibungen.

1.2 Sinn und Zweck dieser Nachrangigen Garantie ist es sicherzustellen, dass die Anleihegläubiger unter allen tatsächlichen und rechtlichen Umständen und unabhängig von Wirksamkeit und Durchsetzbarkeit der Verpflichtungen der Linde Finance B.V. (die ***Emittentin***) und unabhängig von sonstigen Gründen, aufgrund derer die Emittentin ihre Verpflichtungen nicht erfüllt, alle zahlbaren Beträge fristgerecht in Übereinstimmung mit den Anleihebedingungen erhalten.

Guarantee
(given on a subordinated basis)

of Linde Aktiengesellschaft,
Wiesbaden,
Federal Republic of Germany

in favor of the holders of the

Fixed to Floating Rate
Subordinated Bonds
of 2006 in an
aggregate principal amount of

[up to £ 893,620,000]

(the ***Bonds***)

of Linde Finance B.V.,
Amsterdam, the Netherlands

1.1 Linde Aktiengesellschaft (the ***Guarantor***) hereby unconditionally and irrevocably guarantees on a subordinated basis to the holders of the above mentioned Bonds (the ***Bondholders***) the due payment in Pound Sterling of the amounts corresponding to the principal of and interest on, as well as any other amounts due under, the Bonds in accordance with the Terms and Conditions of the Bonds (the ***Subordinated Guarantee***). Payments under this Subordinated Guarantee are subject to (without limitation) the Terms and Conditions of the Bonds. Upon discharge of any obligations of the Issuer or the Guarantor subsisting hereunder in favor of any Bondholder, the relevant guaranteed right of such Bondholder under the Bonds shall cease.

1.2 The intent and purpose of this Subordinated Guarantee is to ensure that the Bondholders under any and all circumstances, whether factual or legal, and irrespective of validity or enforceability of the obligations of Linde Finance B.V. (the ***Issuer***), or any other reasons on the basis of which the Issuer may fail to fulfill its obligations, receive on the respective due date any and all sums payable in accordance with the Terms and Conditions of the Bonds.

1.3 Die Garantin kann die von den Anleihegläubigern innerhalb von zwölf Monaten nach Fälligkeit nicht erhobenen Beträge an Kapital und Zinsen sowie etwaige sonstige auf die Schuldverschreibungen fällige Beträge bei dem Amtsgericht in Frankfurt am Main hinterlegen. Soweit die Garantin auf das Recht zur Rücknahme der hinterlegten Beträge verzichtet, erlöschen die betreffenden Ansprüche der Anleihegläubiger gegen die Emittentin und die Garantin.

1.4 Die Verpflichtungen der Garantin aus der Nachrangigen Garantie sind, sofern nicht unten abweichend geregelt, nicht besicherte, nachrangige Verbindlichkeiten der Garantin, die (i) dem Grundkapital der Garantin vorrangig sind, (ii) untereinander und mit den Verbindlichkeiten der Garantin aus der Nachrangigen Garantie in Bezug auf die von der Emittentin im Jahr 2003 begebenen nachrangigen Schuldverschreibungen mit unbegrenzter Laufzeit im Gesamtnennbetrag von € 400 Millionen (ISIN XS0171231060) gleichrangig sind und (iii) nachrangig sind zu allen anderen derzeitigen und zukünftigen nicht nachrangigen und nachrangigen Verbindlichkeiten der Garantin, die als gegenüber den Verpflichtungen der Garantin aus der Nachrangigen Garantie vorrangig vereinbart sind, soweit nicht zwingende gesetzliche Bestimmungen etwas anderes vorschreiben. Im Fall der Auflösung, der Liquidation, der Insolvenz oder eines der Abwendung der Insolvenz der Garantin dienenden Verfahrens erfolgen Zahlungen auf die Nachrangige Garantie erst dann, wenn alle Ansprüche gegen die Garantin aus nicht nachrangigen Verbindlichkeiten sowie nachrangigen Verbindlichkeiten, die als gegenüber Verbindlichkeiten aus der Nachrangigen Garantie vorrangig vereinbart wurden vollständig befriedigt sind.

Sofern eine Verfügung oder ein Beschluss zur Auflösung, Abwicklung oder Liquidation der Garantin ergeht (sofern dies nicht für die Zwecke oder als Folge eines Zusammenschlusses, einer Umstrukturierung oder Sanierung geschieht, bei dem bzw. bei der die Garantin noch zahlungsfähig ist und bei dem bzw. der die fortführende Gesellschaft im Wesentlichen alle Vermögenswerte und Verpflichtungen der Emittentin übernimmt), stehen die Ansprüche der Anleihegläubiger aus der Nachrangigen Garantie auf Zahlung von Zinsrückständen gemäß § 5(4) der Anleihebedingungen den Ansprüchen aus Aktien der Garantin im Rang gleich.

1.3 The Guarantor may deposit with the Lower Court (*Amtsgericht*) in Frankfurt am Main principal and interest as well as any other amounts due on the Bonds, if any, not claimed by Bondholders within twelve months after having become due. If the Guarantor waives all rights to withdraw such deposits the respective claims of Bondholders against the Issuer and the Guarantor shall cease.

1.4 Except as set out below, the obligations of the Guarantor under the Subordinated Guarantee constitute unsecured and subordinated obligations of the Guarantor ranking (i) senior to the Guarantor's share capital, (ii) *pari passu* among themselves and with any obligations of the Guarantor under the subordinated guarantee in relation to the undated subordinated securities issued by the Issuer in an aggregate principal amount of € 400 million in 2003 (ISIN XS0171231060), and (iii) junior to all other present or future unsubordinated and subordinated obligations of the Guarantor expressed to rank senior to the claims under the Subordinated Guarantee, except as otherwise required by mandatory law. In the event of the dissolution, liquidation, insolvency or any proceeding for the avoidance of the insolvency of the Guarantor no amounts shall be payable under the Subordinated Guarantee until the claims of all unsubordinated and subordinated creditors of the Guarantor the claims of which are expressed to rank senior to the Subordinated Guarantee shall first have been satisfied in full.

If an order or a resolution is made for the winding-up, or dissolution or liquidation of the Guarantor (other than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring while solvent, where the continuing entity assumes substantially all of the assets and obligations of the Guarantor), the claims of the Bondholders for payment of Arrears of Interest pursuant to § 5(4) of the Terms and Conditions under this Subordinated Guarantee shall rank *pari passu* with the Guarantor's share capital.

Die Anleihegläubiger erkennen ausdrücklich an, dass unter den oben genannten Umständen Zahlungen der Garantin unter dieser Nachrangigen Garantie auf die Schuldverschreibungen nur unter Wahrung obenstehender Nachrangigkeit erfolgen werden.

Anleihegläubiger sind nicht berechtigt, Forderungen aus dieser Nachrangigen Garantie gegen mögliche Forderungen der Garantin gegen ihn aufzurechnen. Die Garantin ist nicht berechtigt, Forderungen gegenüber Anleihegläubigern gegen Verpflichtungen aus dieser Nachrangigen Garantie aufzurechnen.

1.5 Mit Ausnahme der Rechte unter dieser Nachrangigen Garantie sind für die Rechte der Anleihegläubiger keine Sicherheiten irgendwelcher Art durch die Garantin oder durch Dritte gestellt worden; solche Sicherheiten werden ihnen auch zu keinem Zeitpunkt gestellt werden.

1.6 Nachträglich können weder der in dieser Nachrangigen Garantie bestimmte Nachrang noch die Laufzeit der Nachrangigen Garantie beschränkt werden.

1.7 Im Falle einer Ersetzung der Emittentin durch eine Tochtergesellschaft der Garantin gemäß § 14 der Anleihebedingungen erstreckt sich diese Nachrangige Garantie auf sämtliche von der Neuen Anleiheschuldnerin gemäß den Anleihebedingungen zahlbaren Beträge. Dies gilt auch dann, wenn die Neue Anleiheschuldnerin die Verpflichtungen aus den Schuldverschreibungen unmittelbar von der Garantin übernommen hat.

2.1 Gemäß § 5(4) der Anleihenbedingungen steht die Zahlung von Zinsrückständen ausgenommen in bestimmten Fällen unter der Bedingung der Beschaffung bestimmter Mittel durch die Garantin. Die Garantin wird sich bemühen, die für die Zahlung von Zinsrückständen erforderlichen Mittel innerhalb eines Zeitraums von sechs Monaten vor dem für die Zahlung der Zinsrückstände in § 5(4)(b) der Anleihebedingungen vorgesehenen Tag beschaffen. Wenn die Garantin aufgrund der Beschränkungen des Emissionsvolumens (wie in den Anleihebedingungen definiert) oder aus rechtlichen Gründen, insbesondere solchen deutschen Gesellschaftsrechts, nicht in der Lage gewesen ist, innerhalb der im vorgenannten Satz genannten Frist Aktien nach Maßgabe von § 5(4) der Anleihebedingungen zu begeben oder zu verkaufen, erlischt die Verpflichtung der Emittentin zur Nachzahlung der Zinsrückstände nicht. Die Garantin wird sich im Rahmen des rechtlich Möglichen weiterhin bemühen, die vorstehenden Bedin-

Bondholders explicitly accept that, in the circumstances described above, payments in respect of the Bonds will be made by the Guarantor pursuant to this Subordinated Guarantee only in accordance with the subordination described above.

No Bondholder may set-off any claims arising under this Subordinated Guarantee against any claims that the Guarantor may have against it. The Guarantor may not set-off any claims it may have against the Bondholders against any of its obligations under this Subordinated Guarantee.

1.5 Except for the rights created pursuant to this Subordinated Guarantee, no security of whatever kind is, or shall at any time be, provided by the Guarantor or any other person securing rights of the Bondholders.

1.6 No subsequent agreement may limit the subordination pursuant to the provisions set out in this Subordinated Guarantee or shorten the term of this Subordinated Guarantee.

1.7 In the event of a substitution of the Issuer by a subsidiary of the Guarantor pursuant to § 14 of the Terms and Conditions of the Bonds, this Subordinated Guarantee shall extend to any and all amounts payable by the New Issuer pursuant to the Terms and Conditions of the Bonds. The foregoing shall also apply if the New Issuer shall have assumed the obligations arising under the Bonds directly from the Guarantor.

2.1 Pursuant to § 5(4) of the Terms and Conditions, the payment of Arrears of Interest is, except for certain circumstances, subject to the condition precedent that the Guarantor raised proceeds by certain means. The Guarantor will endeavour to raise proceeds in an amount equal to the Arrears of Interest within the six months prior to the date for payment of Arrears of Interest specified in § 5(4)(b) of the Terms and Conditions. If, due to the limitations relating to the Issue Volume (as defined in the Terms and Conditions) or due to legal restrictions, in particular provisions of German corporate law, the Guarantor has not been able to issue or sell shares in accordance with § 5(4) of the Terms and Conditions within the period stipulated in the preceding sentence, the obligation of the Issuer to make up for any Arrears of Interest shall not lapse. To the extent legally possible, the Guarantor will continue to endeavour to meet the preceding conditions as soon as possible and to issue or sell (or cause the gungen sobald wie möglich zu erfüllen und Aktien nach Maßgabe von § 5(4) der Anleihebedingungen zu begeben oder zu verkaufen (bzw. die Begebung bzw. den Verkauf zu veranlassen), so dass alle ausstehenden Zinsrückstände unverzüglich danach gezahlt werden.

issuance or sale of) shares of the Guarantor in accordance with § 5(4) of the Terms and Conditions such that all outstanding Arrears of Interest will be paid for immediately thereafter.

2.2 Die Garantin wird für einen Zeitraum von 12 Monaten nach einer Zahlung von Zinsrückständen gemäß § 5(4) der Anleihebedingungen Aktien nur insoweit gegen Zahlung einer Gegenleistung einziehen, zurückkaufen oder erwerben, als die Anzahl der seit der Ausgabe oder dem Verkauf von Aktien zur Zahlung von Zinsrückständen (einschließlich) insgesamt ausgegebenen Aktien abzüglich die Anzahl der seit diesem Zeitpunkt eingezogenen, zurückgekauften oder erworbenen Aktien die Anzahl der zur Zahlung von Zinsrückständen ausgegebenen Aktien übersteigt, außer im Zusammenhang mit (i) derzeit bestehenden oder zukünftigen Aktienoptionsplänen oder (ii) der Umwandlung von Aktien in Aktien einer anderen Gattung.

2.2 For a period of at least 12 months following settlement of Arrears of Interest in accordance with § 5(4) of the Terms and Conditions, the Guarantor shall not redeem, repurchase or acquire any of its shares for any consideration if and to the extent that such redemption, repurchase or acquisition would result in the balance of (x) the number of shares issued since and including the issuance or selling of shares for payment of Arrears of Interest and (y) the number of shares redeemed, repurchased or acquired since and including the issuance or selling of shares for payment of Arrears of Interest exceeding the number of shares issued for the settlement of any Arrears of Interest, other than in connection with (i) any present or future stock option plan or (ii) a reclassification of shares for shares of another class.

2.3 Sofern am Fälligkeitstag (§ 6(1) der Anleihebedingungen) Zinsrückstände ausstehen, wird die Garantin alle vernünftigerweise zu erwartenden Maßnahmen treffen, um gemäß § 5(4) der Anleihebedingungen die notwendigen Mittel in Höhe der Zinsrückstände zu erlösen, damit diese Zinsrückstände sobald als vernünftigerweise möglich nach der Rückzahlung von Kapital und aufgelaufenen Zinsen gezahlt werden können.

2.3 If any Arrears of Interest remain outstanding on the Maturity Date (§ 6(1) of the Terms and Conditions), the Guarantor shall use all reasonable measures at its disposal in accordance with § 5(4) of the Terms and Conditions to raise funds equal to the Arrears of Interest outstanding so that such Arrears of Interest may be settled as soon as reasonably practicable after the redemption of principal of the Bonds and accrued interest.

2.4 Nach Absicht der Garantin sollen die Schuldverschreibungen Teil der langfristigen Finanzierung des Konzerns der Garantin sein. Dementsprechend beabsichtigt die Emittentin ausweislich der Anleihebedingungen, außer im Fall der Rückzahlung infolge eines BOC-Ereignisses, die Schuldverschreibungen mit Erlösen zurückzuzahlen, die der Emittentin in den sechs Monaten vor dem Tag der Rückzahlung aufgrund der Ausgabe von Aktien der Garantin und/oder Neuer Wertpapiere (wie in den Anleihebedingungen definiert) durch die Garantin oder eine Konzerngesellschaft zugeflossen sind, die jeweils zusammengenommen mit demselben Eigenkapitalanteil behandelt werden, wie der zusammengenommene Eigenkapitalanteil, der zu diesem Zeitpunkt den Schuldverschreibungen zugerechnet wird.

2.4 It is the intention of the Guarantor that the Bonds will constitute permanent funding of the Guarantor's group. Accordingly, the Issuer intends as set forth in the Terms and Conditions to redeem the principal amount of the Bonds with proceeds raised through the issuance of shares of the Guarantor and/or the issuance of New Securities (as defined in the Terms and Conditions) either by the Guarantor or a Group Entity, in each case with an aggregate equity credit at least equal to the aggregate equity credit then ascribed to the Bonds, within a period of six months prior to the redemption date of the Bonds, except in the case of redemption following a BOC Event.

3. Diese Nachrangige Garantie stellt einen Vertrag zugunsten der jeweiligen Anleihegläubiger als begünstigte Dritte gemäß § 328 (1) BGB dar, die jedem Anleihegläubiger das Recht gibt, Erfüllung

3. This Subordinated Guarantee constitutes a contract in favour of the respective Bondholders as third party beneficiaries pursuant to § 328 (1) of the German Civil Code giving rise to the right of each der hierin übernommenen Verpflichtungen unmittelbar von der Garantin zu verlangen und diese Verpflichtungen unmittelbar gegen die Garantin durchzusetzen.

4. Falls die Garantin Zahlungen leistet, gilt dafür § 8 der Anleihebedingungen entsprechend mit der Maßgabe, dass dieser sich außer auf Steuern, Abgaben oder Gebühren der Niederlande auch auf solche der Bundesrepublik Deutschland bezieht.

5. Begriffe, die in den Anleihebedingungen definiert sind, haben in dieser Nachrangigen Garantie die gleiche Bedeutung wie in den Anleihebedingungen, soweit sie in dieser Garantie nicht anderweitig definiert sind.

6.1 Diese Nachrangige Garantie unterliegt ausschließlich dem Recht der Bundesrepublik Deutschland.

6.2 Zuständig für alle Klagen und sonstigen Verfahren aus oder im Zusammenhang mit dieser Nachrangigen Garantie (die ***Rechtsstreitigkeiten***) ist ausschließlich das Landgericht in Frankfurt am Main.

7. Die Garantin und Citibank Agency & Trust Services, Citibank, N.A. vereinbaren, dass die Citibank Agency & Trust Services, Citibank, N.A. nicht als Treuhänderin oder in ähnlicher Eigenschaft für die Anleihegläubiger handelt. Die Citibank Agency & Trust Services, Citibank, N.A. verpflichtet sich, das Original dieser Nachrangigen Garantie bis zur Erfüllung sämtlicher Verpflichtungen aus den Schuldverschreibungen und dieser Nachrangigen Garantie in Verwahrung zu halten.

8. Diese Nachrangige Garantie ist in deutscher Sprache mit englischer Übersetzung abgefasst. Die deutsche Fassung ist die rechtlich verbindliche Fassung. Die englische Übersetzung ist zur Erleichterung des Verständnisses beigefügt.

Wiesbaden, Juli 2006

Linde Aktiengesellschaft

Wir nehmen die obenstehenden Erklärungen ohne Obligo, Gewährleistung oder Haftung an:

London, Juli 2006

Citibank Agency & Trust Services, Citibank, N.A

such Bondholder to require performance of the obligations assumed hereby directly from the Guarantor and to enforce such obligations directly against the Guarantor.

4. In the event that the Guarantor makes payments, § 8 of the Terms and Conditions applies *mutatis mutandis* to any such payments, in such a manner that it also refers to taxes, duties and charges of the Federal Republic of Germany apart from those of The Netherlands.

5. Unless otherwise defined herein, terms used herein and defined in the Terms and Conditions shall in this Subordinated Guarantee have the meaning attributed to them in the Terms and Conditions.

6.1 This Subordinated Guarantee shall be governed exclusively by the laws of the Federal Republic of Germany.

6.2 Any action or other legal proceedings (***Proceedings***) arising out of or in connection with this Subordinated Guarantee shall exclusively be brought in the District Court (*Landgericht*) in Frankfurt am Main.

7. The Guarantor and Citibank Agency & Trust Services, Citibank, N.A. agree that Citibank Agency & Trust Services, Citibank, N.A. is not acting as trustee or in a similar capacity for the Bondholders. Citibank Agency & Trust Services, Citibank, N.A. undertakes to hold the original copy of this Subordinated Guarantee in custody until all obligations under the Bonds and this Subordinated Guarantee have been fulfilled.

8. This Subordinated Guarantee is drawn up in the German language and provided with an English language translation. The German version shall be the only legally binding version. The English translation is for convenience only.

Wiesbaden, July 2006

Linde Aktiengesellschaft

We accept the terms of the above Guarantee without recourse, warranty or liability:

London, July 2006

Citibank Agency & Trust Services, Citibank, N.A.

UNDERTAKING TO EFFECT TENDER OFFER
THE GERMAN TEXT OF THIS UNDERTAKING IS LEGALLY BINDING;
THE ENGLISH TRANSLATION IS FOR CONVENIENCE ONLY

Verpflichtung zu einem Rückkaufsangebot
der Linde Aktiengesellschaft,
Wiesbaden,
Bundesrepublik Deutschland
(***Linde AG***)

zugunsten der Gläubiger der

Qualifizierten Wertpapiere
(wie nachstehend definiert)

Definitionen

Soweit aus dem Zusammenhang nicht etwas anderes hervorgeht, haben die nachfolgenden Begriffe in dieser Verpflichtung zu einem Rückkaufsangebot die folgende Bedeutung:

Ein ***Kontrollwechsel*** gilt als eingetreten, wenn (i) eine Person oder mehrere Personen, die abgestimmt handeln, oder einer oder mehrere Dritte, die im Auftrag einer solchen Person oder Personen handeln, zu irgendeinem Zeitpunkt mittelbar oder unmittelbar (x) mehr als 50 % der Aktien der Linde AG oder (y) eine solche Anzahl von Aktien der Linde AG erworben hat bzw. haben, auf die mehr als 50 % der bei Hauptversammlungen der Linde AG normalerweise stimmberechtigten Stimmrechte entfallen und (ii) diese Akquisition zu einem Entzug oder einer Herabsetzung des Ratings für nicht-nachrangige unbesicherte Verbindlichkeiten der Linde AG auf oder unter Ba1 durch Moody's Investors Services Inc. oder BB+ durch Standard & Poor's Rating Services, a division of the McGraw-Hill Companies Inc. (oder jeweils die entsprechenden dann geltenden Stufen), führt.

Nachrangige Schuldverschreibungen bezeichnet (i) die [bis zu € 1.300.000.000] fest bzw. variabel verzinslichen nachrangigen Schuldverschreibungen 2006 der Linde Finance B.V., mit einer nachrangigen Garantie der Linde AG, sowie (ii) die [bis zu £ 983.620.000] fest bzw. variabel verzinslichen nachrangigen Schuldverschreibungen 2006 der Linde Finance B.V., mit einer nachrangigen Garantie der Linde AG.

Qualifizierte Wertpapiere sind die folgenden Wertpapiere:

(i) € 550.000.000 1,25% Wandelanleihe emittiert von der Linde Finance B.V. von 2004/2009 (ISIN DE000AOBBP11).

(ii) € 400.000.000 nachrangigen Schuldverschreibungen emittiert von der Linde Finance B.V. ohne Fälligkeitstag (ISIN XS0171231060);

Undertaking to effect a Tender Offer
of Linde Aktiengesellschaft,
Wiesbaden,
Federal Republic of Germany
(***Linde AG***)

in favour of the holders of the

Qualifying Securities
(as defined below)

Definitions

Unless the context otherwise requires, the following terms will have the following meanings in this Obligation to make a Tender Offer:

A ***Change of Control*** will be deemed to have occurred if (i) any person or persons acting in concert or any third person or persons acting on behalf of such person(s) at any time acquire(s) directly or indirectly (x) more than 50 per cent of the shares in the capital of Linde AG or (y) such number of shares in the capital of Linde AG carrying more than 50 per cent of the voting rights normally exercisable at general meetings of Linde AG, and (ii) such acquisition results in any withdrawal or downgrade to a rating of or below Ba1 by Moody's Investors Services, Inc. or BB+ by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies Inc. (or their respective equivalents at such time) of Linde AG's senior unsecured credit rating.

Subordinated Bonds means (i) the [up to € 1,300,000,000] Fixed to Floating Rate Subordinated Bonds 2006 issued by Linde Finance B.V. and guaranteed, on a subordinated basis, by Linde AG, and (ii) the [up to £ 983,620,000] Fixed to Floating Rate Subordinated Bonds 2006 issued by Linde Finance B.V. and guaranteed, on a subordinated basis, by Linde AG.

Qualifying Securities means the following securities:

(i) €550,000,000 1.25% Convertible Notes issued by Linde Finance B.V. of 2004 due 2009 (ISIN DE000AOBBP11).

(ii) € 400,000,000 undated subordinated bonds issued by Linde Finance B.V. (ISIN XS0171231060);

(iii) USD 20.000.000 Schuldverschreibungen emittiert von der Linde Finance B.V. (ISIN XS0132778423);

(iv) JPY 2.000.000.000 Schuldverschreibungen emittiert von der Linde Finance B.V. (ISIN XS0134386506);

(v) EUR 636.561.000 Schuldverschreibungen emittiert von der Linde Finance B.V. (ISIN DE0002465952);

(vi) SKK 510.000.000 Schuldverschreibungen emittiert von der Linde Finance B.V. (ISIN XS0141625342);

(vii) EUR 100.000.000 Schuldverschreibungen emittiert von der Linde Finance B.V. (ISIN DE0006858350);

(viii) CZK 500.000.000 Schuldverschreibungen emittiert von der Linde Finance B.V. (ISIN XS0149694381);

(ix) EUR 135.000.000 Schuldverschreibungen emittiert von der Linde Finance B.V. (ISIN DE0008629429);

(x) EUR 5.000.000 Schuldverschreibungen emittiert von der Linde Finance B.V. (ISIN DE0008543976);

(xi) JPY 2.000.000.000 Schuldverschreibungen emittiert von der Linde Finance B.V. (ISIN XS0147214877);

(xii) EUR 30.000.000 Schuldverschreibungen emittiert von der Linde Finance B.V. (ISIN XS0130906539); und

(xiii) EUR 50.000.000 Schuldverschreibungen emittiert von der Linde Finance B.V. (ISIN XS0131249905).

(iii) USD 20,000,000 bonds issued by Linde Finance B.V. (ISIN XS0132778423);

(iv) JPY 2,000,000,000 bonds issued by Linde Finance B.V. (ISIN XS0134386506);

(v) EUR 636,561,000 bonds issued by Linde Finance B.V. (ISIN DE0002465952);

(vi) SKK 510,000,000 bonds issued by Linde Finance B.V. (ISIN XS0141625342);

(vii) EUR 100,000,000 bonds issued by Linde Finance B.V. (ISIN DE0006858350);

(viii) CZK 500,000,000 bonds issued by Linde Finance B.V. (ISIN XS0149694381);

(ix) EUR 135,000,000 bonds issued by Linde Finance B.V. (ISIN DE0008629429);

(x) EUR 5,000,000 bonds issued by Linde Finance B.V. (ISIN DE0008543976);

(xi) JPY 2,000,000,000 bonds issued by Linde Finance B.V. (ISIN XS0147214877);

(xii) EUR 30.000.000 bonds issued by Linde Finance B.V. (ISIN XS0130906539); and

(xiii) EUR 50.000.000 bonds issued by Linde Finance B.V. (ISIN XS0131249905).

Verpflichtung zu einem Rückkaufsangebot

1. Solange Nachrangige Schuldverschreibungen ausstehen, verpflichtet sich die Linde AG hiermit unbedingt und unwiderruflich gegenüber den jeweiligen Inhabern der Qualifizierten Wertpapiere (die ***Wertpapiergläubiger***), den Wertpapiergläubigern ein Angebot auf Rückkauf der Qualifizierten Wertpapiere zu 100% von deren jeweiligem Nennbetrag zuzüglich aller bis zum Rückkaufstag jeweils aufgelaufener Zinsen zu machen, falls

(i) ein Kontrollwechsel eingetreten ist; und

(ii) die Emittentin der Nachrangigen Schuldverschreibungen ihr Kündigungsrecht nach § 6(6) der Anleihebedingungen von zumindest einer der Nachrangigen Schuldverschreibungen ausgeübt hat.

Die Linde AG verpflichtet sich, das Rückkaufsangebot in der Weise zu eröffnen, dass der Rückkauf der ihr angebotenen Qualifizierten Wertpapiere vor einer Rückzahlung der Nachrangigen Wertpapiere infolge einer Kündigung nach § 6(6) der Anleihebedingungen der Nachrangigen Schuldverschreibungen erfolgt.

2. Diese Verpflichtung zu einem Rückkaufsangebot stellt einen Vertrag zugunsten der jeweiligen Wertpapiergläubiger als begünstigte Dritte gemäß § 328 (1) BGB dar, die jedem Wertpapiergläubiger das Recht gibt, Erfüllung der hierin übernommenen Verpflichtungen unmittelbar von der Linde AG zu verlangen und diese Verpflichtungen unmittelbar gegen die Linde AG durchzusetzen.

3. Diese Verpflichtung zu einem Rückkaufsangebot unterliegt ausschließlich dem Recht der Bundesrepublik Deutschland.

4. Zuständig für alle Klagen und sonstigen Verfahren aus oder im Zusammenhang mit dieser Nachrangigen Garantie (die ***Rechtsstreitigkeiten***) ist ausschließlich das Landgericht in Frankfurt am Main.

Obligation to make a Tender Offer

1. For as long as any of the Subordinated Bonds are outstanding, Linde AG hereby unconditionally and irrevocably undertakes to the holders from time to time of the Qualifying Securities that it will make a tender offer to all holders of Qualifying Securities (the ***Securityholders***) pursuant to which Linde AG will offer the Securityholders to repurchase the Senior Securities at 100% of their respective nominal amounts plus any interest accrued until the day of repurchase if

(i) a Change of Control has occurred; and

(ii) the Issuer of the Subordinated Bonds has exercised its call right pursuant to § 6(6) of the terms and conditions of at least one of the Subordinated Bonds.

Linde AG undertakes to extend the public tender offer such as to assure that the repurchase of the Qualifizierten Securities tendered to it will be effected prior to any repayment of the Subordinated Bonds as a result of the exercise of the call right pursuant to § 6(6) of the terms and conditions of the Subordinated Bonds.

2. This Undertaking to make a Tender Offer constitutes a contract in favour of the Securityholders from time to time as third party beneficiaries pursuant to § 328(1) of the German Civil Code giving rise to the right of each such Securityholder to require performance of the obligations assumed hereby directly from Linde AG and to enforce such obligations directly against Linde AG.

3. This Undertaking to make a Tender Offer shall be governed exclusively by the laws of the Federal Republic of Germany.

4. Any action or other legal proceedings (***Proceedings***) arising out of or in connection with this Undertaking to make a Tender Offer shall exclusively be brought in the District Court (*Landgericht*) in Frankfurt am Main.

5. Die Linde AG und Citibank Agency & Trust Services, Citibank, N.A. vereinbaren, dass die Citibank Agency & Trust Services, Citibank, N.A. nicht als Treuhänderin oder in ähnlicher Eigenschaft für die Wertpapiergläubiger handelt. Die Citibank Agency & Trust Services, Citibank, N.A. verpflichtet sich, das Original dieser Verpflichtung zu einem Rückkaufsangebot bis zur Erfüllung sämtlicher Verpflichtungen aus den Nachrangigen Schuldverschreibungen zu halten.

6. Diese Verpflichtung zu einem Rückkaufsangebot ist in deutscher Sprache mit englischer Übersetzung abgefasst. Die deutsche Fassung ist die rechtlich verbindliche Fassung. Die englische Übersetzung ist zur Erleichterung des Verständnisses beigefügt.

Wiesbaden, Juli 2006

Linde Aktiengesellschaft

Wir nehmen die obenstehenden Erklärungen ohne Obligo, Gewährleistung oder Haftung an:

London, Juli 2006

Citibank Agency & Trust Services, Citibank, N.A.

5. Linde AG and Citibank Agency & Trust Services, Citibank, N.A. agree that Citibank Agency & Trust Services, Citibank, N.A. is not acting as trustee or in a similar capacity for the Securityholders. Citibank Agency & Trust Services, Citibank, N.A. undertakes to hold the original copy of this Undertaking to make a Tender Offer in custody until all obligations under the Subordinated Bonds have been fulfilled.

6. This Undertaking to make a Tender Offer is drawn up in the German language and provided with an English language translation. The German version shall be the only legally binding version. The English translation is for convenience only.

Wiesbaden, July 2006

Linde Aktiengesellschaft

We accept the terms of the above Undertaking without recourse, warranty or liability:

London, July 2006

Citibank Agency & Trust Services, Citibank, N.A.

USE OF PROCEEDS

Assuming a total issue volume equivalent to €1,300,000,000, we estimate that the net proceeds from the sale of the Bonds, after payment of our estimated commissions and expenses, will be approximately €1,290,000,000. We intend to use the net proceeds from the sale of the Bonds, together with the net proceeds from a rights issue carried out by the Company, to finance the acquisition of shares of BOC. See "Acquisition Offer to Acquire All Shares of The BOC Group PLC." Our acquisition of BOC is also being financed through credit facilities. Loans totalling £8.9 billion and €2.0 billion have been agreed in connection with the acquisition of all shares of BOC, and it is possible that we will not draw down these credit facilities in an amount up to the net proceeds of the sale of the Bonds and the net proceeds of the rights issue.

If we do not carry out our public offer for the acquisition of all of BOC's shares, we intend to (i) either use the net proceeds to repay Group liabilities, strengthen our capital base and/or finance other acquisitions in our core business or (ii) to call and redeem the Bonds due to a BOC event.

CAPITALIZATION AND INDEBTEDNESS; WORKING CAPITAL

The following tables illustrate our capitalization as of March 31, 2006 on an actual basis, before the completion of the offer for the acquisition of all shares of BOC. These tables should be read in conjunction with our unaudited consolidated interim financial statements as of and for the three months ended March 31, 2006 and the accompanying notes (see ''Financial Information – Unaudited consolidated financial Statements of Linde Aktiengesellschaft as of and for the three months ended March 31, 2006 (IFRS)'').

Capitalization

	March 31, 2006 (prior to completion of the Offering)
	(€ millions) (unaudited)
Long-term financial liabilities	1,980
– Thereof: guaranteed by third parties	0
– Thereof: secured by third parties	0
– Thereof: unsecured	1,980
Short-term financial liabilities	334
– Thereof: guaranteed by third parties	23
– Thereof: secured by third parties	2
– Thereof: unsecured	309
Financial liabilities	2,314
Group equity	
Subscribed capital	307
Capital reserves	2,706
Retained earnings	1,812
Accumulated other comprehensive income (loss)	(270)
Total equity (excluding minority interests)	4,555
Minority interests	52
Capitalization (total)	6,921
Number of Company shares (in millions)	119.9

Net Financial Debt

	March 31, 2006 (prior to completion of the Offering)
	(€ millions) (unaudited)
Cash and cash equivalents and securities	877
Transfer to trust account[1]	(87)
Available cash and cash equivalents and securities	**790**
Short-term capital market liabilities	147
Short-term liabilities to banks	187
Short-term financial debt	**334**
Long-term capital market liabilities	1,924
Long-term liabilities to banks	56
Long-term financial debt	**1,980**
Net financial debt	**1,524**

(1) Resulting from the planned acquisition of Spectra Gases, Inc. Spectra Gases, Inc., is a specialty gas corporation headquartered in Branchburg, New Jersey, United States. In addition to ultrapure specialty gases and chemicals for production, research and analytical applications, it also produces specialty gas mixtures for such users as the semiconductor industry and for laser therapy. The transaction is still subject to approval by the E.U. anti-trust authorities.

Contingent and Indirect Liabilities

Our contingent liabilities, consisting of bill exchange obligations, suretyships and guarantee agreements, did not materially change between December 31, 2005 and March 31, 2006.

With regard to our other financial liabilities, commitments from investments increased from €41 million as of December 31, 2005 to approximately €120 million as of March 31, 2006. Obligations from company acquisitions increased from €126 million as of December 31, 2005 to approximately €12 billion as of March 31, 2006 due to our acquisition offer to acquire all the shares of BOC. The obligations from non-terminable operating leases and other financial obligations did not change materially between December 31, 2005 and March 31, 2006.

As of the date of this Prospectus, the obligations from company acquisitions increased by approximately €60 million from €126 million as of December 31, 2005 due to the purchase of Karbogaz Karbondioksit ve Kurubuz A.S., Istanbul, Turkey, which is subject to antitrust approval.

Statement on Working Capital

According to currently available information, we believe that we will be in the position to meet all of our payment obligations due in the next twelve months.

SELECTED CONSOLIDATED AND FINANCIAL DATA

The following tables provide a summary of our selected consolidated financial and other data as of and for the years ended December 31, 2003, 2004 and 2005 and the three months (unaudited) ended March 31, 2005 and 2006, as well as a summary of the unaudited illustrative financial information (Linde including BOC) contained in this Prospectus the "Illustrative Financial Information (Linde including BOC)". The selected consolidated financial and other data was obtained or derived from our consolidated financial statements prepared in accordance with IFRS and additional unaudited historical data. Due to a number of changes to standards relevant under IFRS and the sale of our Refrigeration business segment in the year ended December 31, 2004, as well as the elimination of scheduled amortization on goodwill, our annual financial statements as of and for the year ended December 31, 2004 were restated and made comparative as part of the preparation of our annual financial statements as of and for the year ended December 31, 2005. In addition, the comparative data from our consolidated interim financial statements as of and for the three months ended March 31, 2006 were restated in compliance with the first-time obligatory application of accounting standards, as well as to reflect the changes as of December 31, 2005. Our EBITA has been calculated based on our net income before taxes on income, net financial result and scheduled amortization of goodwill. As of March 31, 2006, we use EBIT to measure the comparability of our financial statements. For the years ended December 31, 2003 and 2004, EBIT was calculated by deducting goodwill amortization from EBITA. As goodwill may no longer be amortized due to a change in IFRS, with the exception of goodwill impairment losses, EBIT equals EBITA. KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft audited the consolidated financial statements prepared in accordance with IFRS for the financial years ended December 31, 2003, 2004 and 2005. Our consolidated interim financial statements prepared under IFRS for the periods ended March 31, 2005 and March 31, 2006 are unaudited.

The Illustrative Financial Information (Linde including BOC) contained in this Prospectus as of and for the three months ended March 31, 2006 and for the year ended December 31, 2005, has not been audited or subjected to other review. The Illustrative Financial Information (Linde including BOC) includes BOC in addition to the subsidiaries consolidated in our Group. For purposes of the preparation of the Illustrative Financial Information (Linde including BOC) in the income statement for the period from January 1 through December 31, 2005, we assumed the acquisition had taken place as of January 1, 2005. For purposes of the preparation of the Illustrative Financial Information (Linde including BOC) in the illustrative balance sheet as of March 31, 2006 and the illustrative income statement for the period from January 1 through March 31, 2006, we assumed the acquisition had taken place as of January 1, 2006. The Illustrative Financial Information (Linde including BOC) as included in this Prospectus is not pro forma financial information within the meaning of Commission Regulation (EC) 809/2004 of April 29, 2004. At the current stage of the acquisition process, in which we intend to acquire all shares of BOC, BOC as the target company is not permitted to disclose certain financial and other information to us (including under Rule 20 of the City Code on Takeovers and Mergers), or to make it otherwise available to us. Among other requirements, BOC would have to make any such disclosed information public. Accordingly, we are also not entitled to have this information disclosed to us. This information primarily concerns the details of accounting principles (the exercise of certain options) at BOC and information on a number of assets (including intangible assets) of BOC that would be necessary for purchase price allocation. Even if the exchange of information were possible before the acquisition is consummated, the time required to incorporate this information in the financial figures would mean that reliable results would not be available before the acquisition was consummated. (Even after all information is available, IFRS 3 "Business Combinations" allows for a period of up to twelve months for the final purchase price allocation.) Because of the lack of access to BOC's financial information, we are unable to provide pro forma financial information that complies with the requirements of Annex II of Commission Regulation (EC) 809/2004 of April 29, 2004, and with the requirements of the Accounting Practice Statement of the IDW (Institute of German Public Accountants) regarding pro forma financial information. In particular, the consistency of accounting and measurement methods is not guaranteed, nor has a preliminary allocation of the purchase price been taken into account. Instead of pro forma financial information, we have provided Illustrative Financial Information (Linde including BOC) with the aim of providing an indication of the financial condition and results of operations (within certain ranges) of the Group as a whole, after consummation of the acquisition.

The Illustrative Financial Information (Linde including BOC) was prepared purely for illustrative purposes. The Illustrative Financial Information (Linde including BOC) contains uncertainties and assumptions. For this reason, the information presented is not an indicator of what our actual financial condition and results of operations would have been if the structure we assumed in the Illustrative Financial Information (Linde including BOC) had already existed as of January 1, 2005 or as of January 1, 2006. In addition, this information is not intended to be used to forecast our future financial condition or results of operations. Please note that the Illustrative Financial Information (Linde including BOC) is only meaningful when read in conjunction with the companies' relevant historical financial statements.

The selected consolidated financial and operating data reproduced below is only an introduction. You should base your investment decisions on an examination of the entire Prospectus.

Selected data from our consolidated financial statements and selected data from the Illustrative Financial Information (Linde including BOC)

Selected data from our consolidated income statement and selected data from the Illustrative Financial Information (Linde including BOC)

	Consolidated financial information						Illustrative Financial Information (Linde including BOC)	
	Three months ended March 31,		Year ended December 31,				Three months ended March 31,	Year ended December 31,
	2006	2005[1]	2005	2004[2]	2004	2003	2006	2005
	(€ millions)						(€ millions)	
	(unaudited)						(unaudited)	
Sales	2,415	2,118	9,501	8,856	9,421	8,992	3,851	14,780
Cost of sales	1,636	1,447	6,483	6,091	6,539	6,215	–	–
Research and development costs	47	44	174	166	177	172	–	–
Operating profit (EBIT)	225	165	913	774[3]	785[3]	683[3][4]	378	1,559
Net interest	(18)	(24)	(124)	(127)	(129)	(142)	(166)	(740)
Minority interests	(1)	(1)	(9)	(5)	(5)	(1)	(13)	(106)
Net income after minority interests	134	89	501	380	274	108	142	644

(1) Restated.

(2) Restated and comparable.

(3) EBITA in 2003 and 2004.

(4) Before special items in 2003.

Selected data from our consolidated balance sheet and selected data from the Illustrative Financial Information (Linde including BOC)

	Consolidated financial information					Illustrative Financial Information (Linde including BOC)
	As of March 31,	As of December 31,				As of March 31,
	2006	2005	2004[1]	2004	2003	2006
		(€ millions)				(€ millions)
	(unaudited)					(unaudited)
Cash and cash equivalents and securities	877	911	567	567	561	1,613
Current assets (excluding cash and cash equivalents and securities)	3,314	3,049	3,004	3,028	3,334	4,905
Non-current assets	8,450	8,566	8,064	7,996	8,020	22,937
Total assets	12,641	12,526	11,635	11,591	11,915	29,455
Current liabilities	3,986	3,983	3,482	3,482	3,771	6,159
Non-current liabilities	4,048	4,130	4,207	4,028	4,258	16,603
Minority interests	52	49	38	38	35	240
Total equity (excluding minority interests)	4,555	4,364	3,908	4,043	3,851	6,453
Total equity and liabilities	12,641	12,526	11,635	11,591	11,915	29,455

(1) Restated and comparable.

Selected data from our consolidated cash flow statement

	Three months ended March 31,		Year ended December 31,			
	2006	2005[1]	2005	2004[2]	2004	2003
			(€ millions)			
	(unaudited)					
Cash flow from operating activities	214	137	1,435	1,255	1,249	1,281
Cash flow from investing activities	(139)	(167)	(823)	(731)	(744)	(655)
Cash flow from financing activities	(109)	(84)	(283)	(585)	(499)	(425)

(1) Restated.

(2) Restated and comparable.

Selected data from our segment report

	Gas and Engineering					
	Three months ended March 31,		Year ended December 31,			
	2006	2005[1]	2005	2004[2]	2004	2003
	(unaudited)		(€ millions excluding employee figures)			
Sales	1,494	1,333	5,831	5,406	5,406	5,031
EBIT	211	169	783	682[3]	684[3]	634[3][4]
Earnings before taxes on income	200	154	691	575	474	413
Cash flow from operating activities	–	–	1,213	990	990	957
Capital expenditure (excluding financial assets)	–	–	635	511	511	406
Employees (as of December 31 or March 31, as applicable)	22,482	22,057	22,191	21,787	21,787	21,292

(1) Restated.

(2) Restated and comparable.

(3) EBITA in 2003 and 2004.

(4) Before special items in 2003.

	Material Handling					
	Three months ended March 31,		Year ended December 31,			
	2006	2005[1]	2005	2004[2]	2004	2003
	(unaudited)		(€ millions excluding employee figures)			
Sales	922	771	3,628	3,372	3,372	3,063
EBIT	47	26	223	194[3]	191[3]	156[3][4]
Earnings before taxes on income	39	18	191	144	134	45
Cash flow from operating activities	–	–	248	268	268	321
Capital expenditure (excluding financial assets)[5]	–	–	191	176	176	162
Employees (as of December 31 or March 31, as applicable)	19,421	18,848	19,323	18,878	18,878	17,932

(1) Restated.

(2) Restated and comparable.

(3) EBITA in 2003 and 2004.

(4) Before special items in 2003.

(5) Not including leased assets.

	Corporate					
	Three months ended March 31,		Year ended December 31,			
	2006	2005[1]	2005	2004[2]	2004	2003
	(€ millions excluding employee figures)					
	(unaudited)					
Sales	(1)	14	42	78	65	32
EBIT	(33)	(30)	(93)	(102)[3]	(99)[3]	(121)[3][4]
Earnings before taxes on income	(31)	(32)	(93)	(97)	(94)	(174)
Cash flow from operating activities	–	–	(26)	(3)	(3)	(33)
Capital expenditure (excluding financial assets)	–	–	25	31	31	10
Employees (as of December 31 or March 31, as applicable)	501	791	715	718	718	492

(1) Restated.

(2) Restated and comparable.

(3) EBITA in 2003 and 2004.

(4) Before special items in 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our results of operations and financial condition in conjunction with our consolidated financial statements and the related notes thereto, as well as the other financial information contained in this Prospectus. Our audited consolidated financial statements as of and for the three years ended December 31, 2003, 2004 and 2005 are contained in the financial statements section of this Prospectus. These consolidated financial statements were prepared in accordance with the International Financing Reporting Standards (''IFRS'') of the International Accounting Standards Board and contain the audited financial information in accordance with IFRS as of and for the years ended December 31, 2003, 2004 and 2005, as well as comparative figures, respectively, for each previous financial year. Our interim consolidated financial statements as of and for the three months ended March 31, 2006 are contained in the financial statements section of this Prospectus. Our interim financial statements were also prepared in accordance with IFRS, and contain the unaudited financial information in accordance with IFRS as of and for the three months ended March 31, 2006 and comparative figures as of and for the three months ended March 31, 2005. We will continue, in the future, to prepare our consolidated financial statements and consolidated interim financial statements in accordance with IFRS.

The Company's unconsolidated financial statements as of and for the year ended December 31, 2005, which are included in the financial section of this Prospectus, were prepared in accordance with the German Commercial Code (Handelsgesetzbuch – ''HGB'') using the cost-of-sales method applicable. HGB and IFRS differ in certain material respects.

The following discussion of our results of operations and financial condition contains forward-looking statements, which are based on assumptions about the future development of our business. Due to the influence of numerous factors, including the risks described under ''Risk Factors'' and in other parts of this Prospectus, the actual results we achieve may differ substantially from the results anticipated by those forward-looking statements.

Unless otherwise specifically noted, the figures contained in the tables and text below are stated in millions of euro. As a result, those figures have been rounded. Any percentage changes shown in the tables and text below have also been rounded to one decimal place.

Overview

We are an international technology group headed by Linde Aktiengesellschaft, and we believe we are one of the leading companies in both of our business segments, Gas and Engineering and Material Handling.

The activities of our Linde Gas division include the manufacture of cylinder and bulk gases, in particular for industrial applications; our On-Site business, which involves supplying customers with industrial gases from plants that are installed on their premises; and the manufacture of gases for medical applications and the food industry. Our Linde Engineering division focuses on planning and building high-technology turn-key industrial plants, especially in the areas of ethylene generation, air separation, synthesized gas generation and hydrogen production.

Our Material Handling business segment includes a comprehensive product line that consists of the manufacture of a complete range of internal combustion engine forklifts or electric motors and other warehouse equipment sold under the Linde, STILL, and OM Pimespo brands. Our Material Handling business segment also offers a comprehensive range of services from financing to fleet management, making it a complete service provider in all areas of intra-company logistics.

We had worldwide sales of €9,501 million in 2005 (2004 (restated and comparable): €8,856 million; see ''– Comparability of the Figures Contained in Our 2004 and 2005 IFRS Consolidated Financial Statements''), €9,421 million (not restated and not comparable) in 2004 and €8,992 million in 2003). Our EBITA (Earnings Before Interest, Taxes and Amortization; as applicable to us, earnings before the financial result, taxes on income, and the scheduled amortization of goodwill) was €913 million in 2005 (2004 (restated and comparable): €774 million; 2004 (not restated and not comparable): €785 million; 2003: €556 million). Net income after minority interests in 2005 was €501 million (2004 (restated and comparable): €380 million; 2004 (not restated and not comparable): €274 million; 2003: €108 million). Our Group included 274 subsidiaries in Germany and internationally with a total of 42,000 employees as of December 31, 2005.

Comparability of the Figures Contained in Our IFRS Interim Financial Statements as of and for the three Months ending March 31, 2006 and March 31, 2005

In our interim financial statements as of and for the three months ended March 31, 2006, we applied IFRIC 4, ''Determining whether an arrangement contains a lease,'' for the first time, which is required to be applied as of January 1, 2006. The figures for the three months period ended March 31, 2005, as well as the supplementary figures as of and for the year ended December 31, 2005, have been restated accordingly to reflect this change in accounting required under IFRIC 4. Because of the mandatory application of the standard as of January 1, 2006, the periods ending December 31, 2003, 2004 and 2005 as presented in this Prospectus have not been restated. According to IFRIC 4, certain investments in our Linde Gas division, especially certain on-site plants and ECOVAR plants, must be categorized as ''embedded finance leases.'' This requires the plants to be removed from tangible assets, and instead a receivable from financial services is capitalized in the amount of the net investment in the lease of the future minimum lease payments to be paid by the customer. As a result, the sales of our Linde Gas division will be reduced for the duration of the ''embedded leases,'' and only the financial result yielded by the receivables from financial services will be reported. The one-time sales from the completion and commissioning of the facilities have an opposite effect. Facilities under construction that will be categorized as embedded financial leases in the future are reported as inventory and not as part of tangible assets. In addition, the comparative figures have been restated to reflect the change in reporting of pension provisions as of December 31, 2005 (see ''– Comparability of the Figures Contained in our 2004 and 2005 IFRS Consolidated Financial Statements – Pension provisions'').

Comparability of the Figures Contained in Our 2004 and 2005 IFRS Consolidated Financial Statements

The figures contained in our consolidated financial statements as of and for the year ended December 31, 2004, prepared in accordance with IFRS (our ''2004 IFRS Consolidated Financial Statements'') have been restated on the basis of changes in recognition and measurement methods to ensure comparability with the figures contained in our consolidated financial statements as of and for the year ended December 31, 2005, prepared in accordance with IFRS (restated and comparable) (our ''2005 IFRS Consolidated Financial Statements''). The changes in the accounting and measurement methods, as well as the restatements, are described below:

- ***Pension provisions***

  In 2005, IAS 19 was amended in respect of the recognition of actuarial gains and losses in connection with the valuation of pension provisions, allowing the option of recognizing actuarial gains and losses directly in equity, instead of using the ''corridor method'' or recognizing actuarial gains and losses immediately in profit or loss. As of December 31, 2005, we made use of this option and will, in the future, account for pension provisions on the basis of the actual obligation (''Defined Benefit Obligation''), instead of allocating actuarial gains and losses over the remaining service life of the employees if the gains or losses exceed the corridor of 10% of the obligations. The prior year figures in our balance sheet and income statement have been restated in accordance with IAS 19 to take account of the re- valuation of the pension provisions, while the amounts included in the prior year figures which relate to the amortization of the actuarial gains and losses have been added back to functional costs. In accordance with IAS 12, deferred tax assets have been recognized in respect of the increase in the pension provisions and recognized in equity (and not as part of profit or loss) in the same manner as the underlying transaction. Overall, as a result of these changes in the valuation of pension provisions for 2004, there was a €135 million reduction in our equity. Our net income after minority interests for the year 2004 increased €4 million as a result of the changes.

- ***Share option program***

  Our financial information for 2004 was also adjusted as a result of our first-time adoption of IFRS 2 (''Share-based Payment'') during 2005. In accordance with IFRS 2, the total value of share options granted to our management (see ''Description of Share Capital – Management and Employee Participation Plans'') is determined at the grant date using an option price valuation model. The total calculated value of the share options at the grant date is then allocated as a personnel expense over the period in which the company receives the service from the employee in return for the share options. This period will generally be the same as the agreed vesting period. The corresponding personnel expense is booked directly against equity rather than as part of profit or loss. We applied IFRS 2 for the first time during 2005. The comparative figures for 2004 have been restated in accordance with IFRS 2.55. As a result, our net income for 2004 decreased €8 million.

- ***Sale of our Refrigeration business segment***

  To ensure comparability, our financial figures for 2004 were adjusted due to the sale of our Refrigeration business segment, to Carrier Corporation, a United Technologies Corporation group company, as of October 1, 2004. As a result, our net income for 2004 decreased €3 million.

- ***Elimination of scheduled amortization of goodwill***

  To ensure comparability, our financial statements for 2004 were also adjusted to reflect the elimination of scheduled amortization of goodwill pursuant to IFRS 3 and IAS 38. In accordance with IFRS 3 and IAS 38, goodwill is no longer subject to scheduled amortization but instead is assessed for impairment at least annually. We applied the revised standards for the first time during 2005. Accordingly, in adjusting the financial information for 2004, the scheduled amortization of goodwill has been eliminated. This adjustment increased our net income in 2004 by €113 million.

  For further information, see Note 7 to our 2005 IFRS Consolidated Financial Statements.

These restated and comparable figures as disclosed for 2004 have been used in the discussion of our 2004 and 2005 IFRS Consolidated Financial Statements. However, unadjusted figures for 2004 have been used for the discussion of our consolidated financial statements as of and for the years ended December 31, 2003 and 2004 to ensure the comparability of 2003 and 2004. If the unadjusted figures for 2004 have been used elsewhere in tables or a discussion in the text, this has been indicated.

Possible Future Changes in Our Accounting

We are currently contemplating a sale or an initial public offering of our Material Handling business segment in connection with our planned acquisition of BOC. If and when all requirements for accounting for our Material Handling business segment as a ''discontinued operation'' in accordance with IFRS have been met, we will reclassify all relevant assets and liabilities in a separate single line item in our balance sheet. We will also then separate our income statement into two parts, one with respect to continuing operations and the other with respect to the discontinued operation. As assets of a discontinued operation, assets of our Material Handling business segment would no longer be subject to scheduled depreciation or amortization. Rather, impairment losses would be recognized as necessary. See ''– Critical Accounting Policies – Amortization of Goodwill.'' Earnings per share will only be shown in our financial statements with respect to ongoing activities. At the time of the sale or the initial public offering (if more than 50% of the shares are sold on the market), the disposal of the relevant Material Handling assets and liabilities will be recognized in our financial statements.

Key Factors Affecting Our Results of Operations and Financial Condition

The most important factors that could affect our results of operations and financial condition include the following:

External market-based factors

- *Effects of general economic conditions*

  The products that we produce and distribute throughout the world and the related services we offer are used in many different manufacturing industries. As a result, we are subject to the cycles and volatility of the sub-markets in which our business segments operate, and are also indirectly affected by the cycles and the volatilities of the markets supplied by our customers. An overall weak economic environment typically leads to a general downward trend in sales and to narrower margins when selling capital equipment and the associated services. Our Linde Engineering division, with its focus on planning and building industrial plants is, in particular, affected by such trends. In addition to the typical cyclical nature of this project business, there have repeatedly been considerable slumps in general demand, especially for olefin and other industrial plants, which in part were due to structural and competitive developments in individual regions or in the industries that buy them and in part due to a generally weak economic environment. Our Material Handling business segment, with its focus on industrial trucks, is also affected to a great extent by the overall economic environment since the logistics industry is highly dependent on the business cycle. Because our main markets are in Europe, Asia, and the Americas, the economic trend in these regions has the greatest effect on demand for Material Handling's products and services. Due to the different industries in which our customers operate, these effects can vary considerably or occur cumulatively. Such trends may be enhanced by the fact that we and our competitors cannot easily reduce existing production capacity and the related costs, or otherwise easily adjust to decreases in demand.

- *Competition and price pressure*

  Most of the world markets in which we operate are characterized by high technological standards, specific customer requirements, and, in particular in our Linde Gas division, high capital expenditures. These factors, when combined with increasing globalization and greater market transparency, expose us to increased competition in all of our business segments and divisions, which is primarily expressed by increased price pressure.

  We are also exposed to increased price pressure in industries where the products we sell need not be technologically advanced or where lower investments are required. This is true, in particular, for our Material Handling business segment, where customers are willing to compensate us for the advanced technological standards of our products only to a limited extent and we must compete with companies in the low-price segment. In our Linde Engineering division, we are exposed to heavier price pressure, in particular from Asian competitors, when constructing new plants based on simple technology. We counter this competitive pressure and price pressure with programs to increase efficiency, as well as offering innovative products and services. For example, our Material Handling business segment uses a multi-brand strategy to tailor its product and service portfolio to customers' individual needs. Our Linde Engineering division lowers the costs of plant construction by reducing complexity through standardization.

- *Effects of changing commodity and energy prices on our results of operations and cash flow*

  With respect to our procurement, in addition to general price increases, we are in particular dependent on the availability and prices of commodities, energy, and prefabricated and intermediate products. Our Linde Gas division is highly dependent on the price of electricity. Our Material Handling business segment is very dependent on the price of steel. Due to these interrelationships and our dependency on many other commodities, as well as the large quantities of power from various sources, which are required in our production processes, changes in the costs of commodities and energy have a material effect on our production costs. The prices of both commodities and energy are subject to considerable cyclical fluctuations and in the recent past have regularly risen, at times significantly. We have used worldwide purchasing activities, long-term supply contracts, and ongoing optimization of our supplier portfolio to reduce prices and supply risks associated with our procurement. Price adjustment clauses in contracts to which we are a party continue to reduce, where possible, the negative effects of changes in our procurement prices. We use price adjustment clauses, in particular, in the On-Site business of our Linde Gas division, to enable price increases in our Linde Gas division's On-Site business to be passed on to the customer. To a large extent, this results in commensurate increases in sales caused by the price of energy or commodities. For information on other measures, see "– Quantitative and Qualitative Disclosures About Market Risk – Commodity and energy price risks."

- *Effects of changes in interest rates*

  We finance our Group with the cash flow from our operations and also to a large extent with capital market instruments (in particular, bonds and medium term notes in various currencies) and in individual cases with loans from financial institutions. Financing of the acquisition of BOC will significantly increase our liabilities to third parties. Future interest rate and foreign exchange risks, especially those related to funds raised in the capital markets and acquisition financing, are hedged by corresponding interest rate swaps and combined foreign currency interest rate swaps. In addition to direct hedging of capital market liabilities and of financial assets, the aggregate interest rate risk, to the extent possible, is managed at the Group level. Among other instruments, interest rate swaps and interest rate options are used to synthetically convert originally floating rate obligations into fixed-rate obligations. See "Risk Factors – Risks Related to our Business – We require substantial financing and are therefore susceptible to changes in interest rates. Our planned acquisition of BOC will further increase this susceptibility."

- *Effects of currency fluctuations*

  We operate worldwide and therefore generate a considerable portion of our sales in currencies other than the euro. A portion of our expenses are also in currencies other than the euro. In addition, a number of subsidiaries that are included in our scope of consolidation maintain their accounting records in currencies other than the euro. This will be even more the case following the acquisition of BOC. Therefore, our sales and the results of our operations will be affected by fluctuations in the relative values of the relevant currencies, in particular between the euro and the U.S. dollar, British pound, Swedish krona and some eastern European currencies. See "– Quantitative and Qualitative Disclosure About Market Risk – Currency Risks" and "Risk Factors – Risks Related to our Business – Fluctuations in exchange rates can adversely affect our results of operations."

Operational Factors

- *Efficiency improvement programs (GAP and GO)*

  We use product innovation and service optimization measures and projects for continuous improvement of business processes and cost structures to cope with increased competitive pressure in all our business segments and divisions, which has a considerable effect on our market share and earnings. On the cost side, we concentrate on improving the efficiency of our production facilities, taking advantage of economies of scale, utilizing our selling and marketing structures more intensively, and exercising fundamental cost discipline. We launched the GAP (Growth and Performance) program in our Linde Gas division in 2005 to concentrate on ongoing improvements to distribution structures and related organizational processes, further reduce costs, and define and expand new areas for potential growth. The GAP program will be expanded to include the entire Group following our acquisition of BOC. We also created the GO (Growth and Operational Excellence) program in our Material Handling business segment, which includes a series of activities aimed not just at continuous improvement of cost structures, but also at entering additional fields of growth.

- *Innovations*

  Our economic success and competitiveness depend on our ability to keep adapting our current product range to technological progress and customer requirements, as well as setting technological standards in certain areas. As a result, innovations from our research and development ("R&D") activities are a fundamental requirement for our long-term success. This applies to the industrial trucks of our Material Handling business segment, to new or improved applications for the products of our Linde Gas division and to high-technology solutions in our Linde Engineering division. For example, our Linde Gas division depends on an increasing number of innovations for new applications in the special gas sector, in particular for further development of environmentally friendly fuel derived from hydrogen. Our Linde Engineering division has developed numerous innovations in connection with liquefied natural gas (LNG), which has a promising future due to its high energy density, constant combustion value and high level of purity. Ongoing development of the range of products for industrial trucks is very important for our Material Handling business segment.

  The following table shows our research and development costs:

	2005	2004[(1)]	2004	2003
		(€ millions)		
Linde Gas	60	56	56	46
Linde Engineering	18	16	16	16
Material Handling	96	94	94	92
Refrigeration	–	–	11	18
Total	**174**	**166**	**177**	**172**

(1) Figures restated and comparable. See "– Comparability of the Figures Contained in Our 2004 and 2005 IFRS Consolidated Financial Statements."

  We plan to increase our research and development expenditure from €174 million in 2005 to approximately €200 million in 2006. Approximately €110 million of that amount will be for our Material Handling business segment, and the remaining approximately €90 million are intended for our Gas and Engineering business segment, in particular, the expansion of hydrogen technology.

- *Capital investments*

  Our business requires regular new capital investments and continuous capital investments to expand and modernize existing production facilities. This is especially true for our Linde Gas division, which in some cases must undertake considerable initial investments to build new production facilities. Our capital investments totaled €906 million in 2005, which was 9.5% of our consolidated sales. Approximately €277 million of that total was invested in the expansion of our high-growth On-Site business in 2005. New plants are generally not profitable until after a certain start-up phase and only profitable long term if they achieve sufficiently high utilization of their capacity. As a result, it is also important for us to make the best possible use of our capacity in our Material Handling business segment. In 2005, we invested €191 million in specific additional improvements to the production structure of our Material Handling business segment. Against this background, it is also important for our business success that replacement investments are made to upgrade and modernize existing production facilities.

The following table shows the scope of our capital investments, broken down by business segment and division:

	2005	2004[(2)]	2004	2003
		(€ millions)		
Gas and Engineering[(1)]	635	511	511	406
Linde Gas	658	528	528	397
Linde Engineering	23	13	13	24
Material Handling[(3)]	191	176	176	162
Refrigeration	–	–	17	29
Corporate	25	31	31	10
Total	**851**	**718**	**735**	**607**
Financial assets	55	50	50	111
Grand total	**906**	**768**	**785**	**718**

(1) Consolidated to eliminate transactions between the two divisions.

(2) Figures restated and comparable. See "– Comparability of the Figures Contained in Our 2004 and 2005 IFRS Consolidated Financial Statements."

(3) Not including the leased assets of our Material Handling business segment. The leased assets are mainly industrial trucks and warehouse equipment leased to our customers under lease agreements.

For more information, see "– Liquidity and Capital Resources – Capital Expenditures."

Results of Operations

The discussion below compares our results of operations based on the unaudited IFRS interim financial statements as of and for the three-month period ended March 31, 2006 and the audited IFRS consolidated financial statements as of and for the years ended December 31, 2005, 2004 and 2003. The developments for our Linde Gas and Linde Engineering divisions and our Material Handling business segment ("Segment Discussion") are also discussed on the basis of the audited IFRS consolidated financial statements as of and for the years ended December 31, 2005 and 2004. The Segment Discussion also explains the individual changes in our Group's financial figures. Our executive board believes that the best standard for the comparability of financial statements and the measurement of our economic success is our operating profit (EBITA). EBITA is our earnings before net financial result, taxes on income, and the scheduled amortization of goodwill. From March 31, 2006 onward our standard for the comparability of financial statements will be EBIT. In 2003 and 2004, we calculated EBIT from EBITA after subtracting scheduled amortization of goodwill. Because goodwill is no longer subject to scheduled amortization, due to a change in IFRS, EBIT is the same as EBITA, with the exception of goodwill impairment losses. See "– Comparability of the Figures Contained in Our 2004 and 2005 IFRS Consolidated Financial Statements – Elimination of scheduled amortization and of goodwill."

Discussion of Individual Items in the Income Statement

The composition of individual items in our income statement is discussed below:

Sales

Sales comprise the sales of products and services as well as lease and rental income, less discounts and rebates. Revenue from the sales of products is recognized upon transfer of ownership and risks to the customer when the consideration has been agreed by contract or is determinable, and it is probable that the associated receivables will be collected. If the customer is to take delivery of the goods, the relevant sale will not be recognized until the customer has accepted delivery. In the case of long-term service contracts, sales are generally recorded on a straight-line basis over the period of the contract. Revenue from long-term contracts is generally reported in accordance with IAS 18 Revenue and IAS 11 Construction Contracts, based on the stage of completion of the contract (percentage of completion method). Under this method, revenue is recognized only when the outcome of a construction contract can be estimated reliably.

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 materials and manufacturing expenses that are directly attributable to production, but also indirect costs including depreciation of production plant, amortization of certain intangible assets and inventory write-downs. Cost of sales also includes additions to the provisions for warranties and provisions for losses on orders.

Marketing and selling expenses, research and development costs, and administration expenses

Marketing and selling expenses include primarily expenses for our marketing and selling function, in particular expenses for the sales, advertising, and marketing departments and the network of sales representatives and the marketing and selling warehouses. In addition to directly attributable individual marketing and selling expenses, this item also includes indirect overhead for distribution, including depreciation of the tangible and intangible assets used in the marketing and selling function.

Research and development costs comprise not only research costs and non-capitalized development costs, but also amortization of capitalized development costs.

Administration expenses are exclusively costs that cannot be attributed to other functions. They include all costs of materials and personnel costs (including retirement pensions) for the administration and depreciation on the relevant tangible and intangible assets.

Other operating income

Other operating income comprises primarily profit on the disposal of current and non-current assets, ancillary revenue, and the financial result from long-term contracts, income from exchange rate differences from operating activities, and income from the release of provisions.

Other operating expenses

Other operating expenses comprise primarily expenses related to pre-retirement part-time work schemes, losses on the disposal of current and non-current assets, losses from exchange rate differences from operating activities, allowance for doubtful accounts, payment shortfalls and write-downs of other assets.

Financial result

The financial result includes the result of associated companies, other income from investments and net interest expense. Net interest expense includes the interest expense on liabilities, dividends paid by subsidiaries (recognized in profit or loss when they have been resolved), exchange rate gains and losses from financial transactions, interest income on receivables and profit and losses on financial instruments recognized in profit or loss.

Taxes on income

Taxes on income comprise of current tax expenses and income, tax expense and income relating to prior periods, and deferred taxes.

Three Months Ended March 31, 2006 Compared to the Three Months ended March 31, 2005

The table below shows income statement information for the three-month period ended March 31, 2005 and 2006. The figures are taken from the unaudited consolidated interim financial statements as of and for the three-month period ended March 31, 2006, which were prepared in accordance with IFRS and are contained in the financial section of this Prospectus.

	Three months ended March 31, 2006	Three months ended March 31, 2005[1]	Change in %
	(€ millions except per share amounts) (unaudited)		
Sales	**2,415**	**2,118**	**14.0**
Cost of sales	1,636	1,447	13.1
Gross profit on sales	**779**	**671**	**16.1**
Marketing and selling expenses	337	304	10.9
Research and development costs	47	44	6.8
Administration expenses	192	173	11.0
Other operating income	47	41	14.6
Other operating expenses	25	26	(3.8)
Operating profit (EBIT)	**225**	**165**	**36.4**
Interest income	23	42	(45.2)
Interest charges	41	66	(37.9)
Net interest	**(18)**	**(24)**	**25.0**
Income from associates	0	0	0
Other investment income	1	(1)	–
Financial result	**(17)**	**(25)**	**32.0**
Earnings before taxes on income	**208**	**140**	**48.6**
Taxes on income	73	50	46.0
Net income	**135**	**90**	**50.0**
Minority interests	(1)	(1)	0
Net income after minority interests	**134**	**89**	**50.6**
Earnings per share in €	**1.12**	**0.75**	**49.3**
Earnings per share in € (fully diluted)[2]	1.05	0.71	47.9

(1) Restated (see "– Comparability of the Figures Contained in Our IFRS Interim Financial Statements at March 31, 2006 and March 31, 2005."

(2) Reflects dilution due to the Linde Management Incentive Programme and the diluting effect of the convertible bond. See "– Liquidity and Capital Resources – Liabilities – Financial liabilities."

Following is a discussion of the changes in individual items of the income statement. The comparative figures for the three months ended March 31, 2005 have been restated to reflect changes in accounting standards.

Sales

Sales increased 14.0% (11.6% after adjustment for currency fluctuations) to €2,415 million for the three months ended March 31, 2006, compared to €2,118 million for the three months ended March 31, 2005. Sales outside of Germany increased 14.8% to €1,938 million for the three months ended March 31, 2006 compared to €1,688 million for the three months ended March 31, 2005, while sales in Germany increased

10.9% from €430 million for the three months ended March 31, 2005 to €477 million for the three months ended March 31, 2006. The table below shows a breakdown of our sales in the regions where we operate:

	Three months ended March 31, 2006	Three months ended March 31, 2005	Change in %
	(€ millions) (unaudited)		
Sales by location of customer			
Germany	477	430	10.9
Rest of Europe	1,242	1,155	7.5
Americas	444	334	32.9
North America	334	256	30.5
South America	110	78	41.0
Asia	192	125	53.6
Africa/Australia	60	74	(18.9)
Total non-Germany	1,938	1,688	14.8
Total	**2,415**	**2,118**	**14.0**

Our Linde Gas division and our Material Handling business segment contributed to the increase in sales. The following table shows the changes in sales of our segments and divisions (other than Corporate and prior to inter-segment consolidation):

	Three months ended March 31, 2006	Three months ended March 31, 2005	Change in %
	(€ millions) (unaudited)		
Linde Gas	1,198	1,032	16.1
Linde Engineering	316	357	(11.5)
Material Handling	922	771	19.6

Sales by our Linde Gas division increased 16.1% from €1,032 million for the three months ended March 31, 2005 to €1,198 million for the three months ended March 31, 2006. This increase was primarily due to the improvement in business conditions and to a related positive trend for all units of our Linde Gas division. Excluding foreign exchange effects, changes in the price of natural gas, and additions to the scope of consolidation, sales increased 11.7%. Sales in the On-Site business increased 30.2% to €293 million for the three months ended March 31, 2006 primarily due to an increase in demand. The bulk gases business sales increased 15.2% to €326 million for the three months ended March 31, 2006 from €283 million for the three months ended March 31, 2005, while the sales for the cylinder gases business increased 10.7% to €434 million and our Healthcare sub-segment grew 12.4% to €191 million. The main cause of this positive trend for our Linde Gas division was higher sales in Europe, primarily driven by continued strong demand from eastern Europe, with a 11.4% increase to €809 million for the three months ended March 31, 2006 from €726 million for the three months ended March 31, 2005. The trend in the Asia/Pacific region, where sales increased 47.2% for the three months ended March 31, 2006 to €53 million from €36 million for the three months ended March 31, 2005 also contributed to the increase in sales by our Linde Gas division. Sales in North America increased 21.0% (10.8% after adjustment for currency fluctuations) to €242 million for the three months ended March 31, 2006 from €200 million for the three months ended March 31, 2005, and sales in South America increased 34.3% (12.4% after adjustment for currency fluctuations) from €70 million for the three months ended March 31, 2005 to €94 million for the three months ended March 31, 2006. The changes in Asia/Pacific and in North and South America were the result of increased demand.

Sales in our Engineering division decreased 11.5% to €316 million for the three months ended March 31, 2006 from €357 million for the three months ended March 31, 2005. This decrease was primarily due to

slower progress in the completion of individual plant construction projects during the three months ended March 31, 2006 compared to the corresponding period in 2005. This resulted in lower sales for the three months ended March 31, 2006 than for the three months ended March 31, 2005 because we recognize sales on such projects in accordance with the percentage-of-completion method.

Sales in our Material Handling business segment increased 19.6% to €922 million for the three months ended March 31, 2006 compared to €771 million for the three months ended March 31, 2005. This increase was primarily due to the developments in the western European market, where demand for our industrial trucks increased 12% during the three months ended March 31, 2006 compared to the three months ended March 31, 2005. The eastern European region, however, was our fastest growing market. In general, we benefited from positive market conditions.

The increases in our sales were primarily the result of higher volume levels in our Linde Gas division and of an increase in sales in our Material Handling business segment. Price increases had relatively little effect on the increase in sales. Exchange rates did not affect the level of sales by our Material Handling business segment and only partially affected our Linde Gas division, although to a lesser extent than the increases in volume in that division.

Cost of sales

The table below shows the cost of sales of our segments and divisions (other than Corporate, and prior to inter-segment consolidation):

	Three months ended March 31,		Change in %
	2006	2005	
	(€ millions) (unaudited)		
Linde Gas	709	598	18.6
Linde Engineering	258	305	(15.4)
Material Handling	691	584	18.3

Cost of sales increased at approximately the same rate as sales, up 13.1% from €1,447 million for the three months ended March 31, 2005 to €1,636 million for the three months ended March 31, 2006. This increase was due to higher costs of sales in our Linde Gas division and our Material Handling business segment, while the cost of sales decreased in our Linde Engineering division. The cost of sales in our Linde Gas division increased at a slightly faster rate than sales, up 18.6% from €598 million for the three months ended March 31, 2005 to €709 million for the three months ended March 31, 2006. This increase was primarily due to increases in natural gas and electricity prices, which were passed on to our customers without mark-up, giving rise to a deterioration in margins. The cost of sales of our Material Handling business segment increased at approximately the same rate as sales, increasing 18.3% from €584 million for the three months ended March 31, 2005 to €691 million for the three months ended March 31, 2006. The cost of sales of our Linde Engineering division decreased at a rate faster than sales, down 15.4% from €305 million for the three months ended March 31, 2005 to €258 million for the three months ended March 31, 2006 primarily due to the specific projects carried out during the relevant periods.

Marketing and selling expenses, research and development costs and administration expenses

Marketing and selling expenses increased 10.9% from €304 million for the three months ended March 31, 2005 to €337 million for the three months ended March 31, 2006. This increase is primarily due to increased transport costs as a result of volume increases in our Linde Gas division and increased sales in our Material Handling business segment.

Research and development costs remained largely unchanged during the three months ended March 31, 2006 compared to the three months ended March 31, 2005.

Administration expenses increased 11.0% from €173 million for the three months ended March 31, 2005 to €192 million for the three months ended March 31, 2006 due to higher consulting costs and higher personnel costs as a result of an increase in the number of employees and in the level of wages and salaries.

Other operating income

Other operating income increased 14.6% from €41 million for the three months ended March 31, 2005 to €47 million for the three months ended March 31, 2006. This increase was primarily due to profits on the disposal of tangible assets.

Other operating expenses

Other operating expenses remained largely unchanged, increasing from €25 million to €26 million during the three months ended March 31, 2006 compared to the three months ended March 31, 2005.

EBIT

The table below shows the EBIT of our segments and divisions (other than Corporate and prior to inter-segment consolidation):

	Three months ended March 31,		Change in %
	2006	2005	
	(€ millions) (unaudited)		
Linde Gas	192	160	20.0
Linde Engineering	18	16	12.5
Material Handling	47	26	80.8

Our EBIT increased 36.4% from €165 million for the three months ended March 31, 2005 to €225 million for the three months ended March 31, 2006. This increase was primarily due to the increases in all of the above segments. The EBIT of our Linde Gas division increased 20.0% from €160 million for the three months ended March 31, 2005 to €192 million for the three months ended March 31, 2006. This improvement in the earnings of our Linde Gas division is primarily due to the increase in sales, despite a slightly higher rate of increase in the cost of sales, and administration and marketing and selling expenses that increased at a rate less than the rate of increase in sales. Administration expenses increased 10.3% from €87 million for the three months ended March 31, 2005 to €96 million for the three months ended March 31, 2006. Marketing and selling expenses increased 14.1% from €177 million for the three months ended March 31, 2005 to €202 million for the three months ended March 31, 2006.

In our Linde Engineering division, EBIT improved 12.5% from €16 million for the three months ended March 31, 2005 to €18 million for the three months ended March 31, 2006, in spite of the decrease in sales. This was due to the project-related disproportionate decrease in the cost of sales, which decreased faster than sales.

The EBIT of our Material Handling business segment increased 80.8% from €26 million for the three months ended March 31, 2005 to €47 million for the three months ended March 31, 2006. This increase is due both to increased sales and to the GO (Growth and Operational Excellence) program, which has had an overall positive effect on the cost trend for our Material Handling business segment.

Financial result

Our financial result improved 32% from a loss of €25 million for the three months ended March 31, 2005 to a loss of €17 million for the three months ended March 31, 2006. This improvement was primarily due to the improvement in the net interest expense as a result of lower interest expenses on reduced financial liabilities in the three months ended March 31, 2006 compared to the three months ended March 31, 2005.

Taxes on income

Taxes on income increased 46% from €50 million for the three months ended March 31, 2005 to €73 million for the three months ended March 31, 2006. This increase was due to the increase in earnings before taxes on income from €140 million to €208 million.

Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004

Income Statement

The table below shows income statement information of our Group for the years ended December 31, 2004 and 2005. These figures are taken from our 2005 IFRS Audited Consolidated Financial Statements, which are contained in the financial section of this Prospectus.

	For the year ended December 31,		Change in %
	2005	2004[(1)]	
	(€ millions except per share amounts)		
Sales	**9,501**	**8,856**	**7.3**
Cost of sales	6,483	6,091	6.4
Gross profit on sales	**3,018**	**2,765**	**9.2**
Marketing and selling expenses	1,322	1,237	6.9
Research and development costs	174	166	4.8
Administration expenses	712	684	4.1
Other operating income	209	226	(7.5)
Other operating expenses	106	130	(18.5)
Unscheduled amortization of goodwill	–	28	–
Operating profit (EBIT)	**913**	**746**	**22.4**
Interest income	75	84	(10.7)
Interest charges	199	211	(5.7)
Net interest	**(124)**	**(127)**	**(2.4)**
Income from associates	1	3	(66.7)
Other investment income	(1)	–	–
Financial result	**(124)**	**(124)**	**0**
Earnings before taxes on income	**789**	**622**	**26.8**
Taxes on income	279	237	17.7
Net income	**510**	**385**	**32.5**
Minority interests	(9)	(5)	(80.0)
Net income after minority interests	**501**	**380**	**31.8**
Earnings per share in €	**4.19**	**3.19**	**31.3**
Earnings per share in € (fully diluted)[(2)]	**3.96**	**3.09**	**28.2**

(1) Restated and comparable.

(2) Reflects dilution due to the Linde Management Incentive Programme and the diluting effect of the convertible bond. See "– Liquidity and Capital Resources – Liabilities – Financial liabilities."

Following is a discussion of changes in individual items in our income statement. The figures for 2004 are restated and comparable, reflecting changes in accounting standards, the sale of our Refrigeration business segment, and the elimination of scheduled amortization of goodwill.

Sales

Sales increased 7.3% from €8,856 million in 2004 to €9,501 million in 2005. After adjustment for currency fluctuations, the increase was 6.3%. All of our business segments and divisions, especially our Linde Gas division and our Material Handling business segment, contributed to the increase in sales. Sales by our Linde Gas division increased 10.9% (9.0% after adjustment for currency fluctuations) from €4,003 million in 2004 to €4,438 million in 2005. Sales by our Linde Engineering division increased 2.7% (2.7% after adjustment for currency fluctuations) to €1,623 million in 2005 from €1,581 million in 2004. Sales by our Material Handling business segment increased 7.6% (7.1% after adjustment for currency fluctuations) to €3,628 million in 2005 from €3,372 million in 2004. On the whole, we also benefited from a favorable economic environment in 2005.

Sales in Germany increased 4.6% to €1,922 million in 2005 from €1,837 million in 2004, while sales outside of Germany grew 8.0% to €7,579 million in 2005 from €7,019 million in 2004. The following table shows our sales in the regions in which we operate:

	2005	2004	Change in %
	(€ millions)		
Sales by location of customer			
Rest of Europe	4,861	4,867	(0.1)
North America	1,317	1,044	26.1
South America	388	319	21.6
Asia	725	507	43.0
Africa/Australia	288	282	2.1
Sales outside Germany	**7,579**	**7,019**	**8.0**
Germany	1,922	1,837	4.6
Total	**9,501**	**8,856**	**7.3**

Cost of Sales

The following table shows the cost of sales in our segments and divisions (other than Corporate and prior to inter-segment consolidation):

	2005	2004	Change in %
	(€ millions)		
Linde Gas	2,572	2,267	13.5
Linde Engineering	1,389	1,397	(0.6)
Material Handling	2,702	2,527	6.9

Cost of sales increased at a slightly slower rate than sales, increasing 6.4% from €6,091 million in 2004 to €6,483 million in 2005. The disproportionate increase in the cost of sales in relation to sales in our Linde Gas division was offset by the reduction in cost of sales in our Linde Engineering division and the cost of sales increasing at a rate slower than the sales in our Material Handling business segment. The cost of sales of our Linde Gas division increased 13.5% from €2,267 million in 2004 to €2,572 million in 2005 and increased 6.9% in our Material Handling business segment from €2,527 million in 2004 to €2,702 million in 2005. The cost of sales in our Linde Engineering division decreased 0.6% from €1,397 million in 2004 to €1,389 million in 2005.

Marketing and selling expenses, research and development costs, and administration expenses

The following table shows the marketing and selling expenses of our segments and divisions (other than Corporate and prior to inter-segment consolidation):

	2005	2004	Change in %
	(€ millions)		
Linde Gas	759	715	6.2
Linde Engineering	105	80	31.3
Material Handling	430	405	6.2

Marketing and selling expenses increased 6.9% from €1,237 million in 2004 to €1,322 million in 2005. Based on the absolute changes, each of our above segments and divisions contributed to this increase.

The following table shows the research and development costs of our segments and divisions:

	2005	2004	Change in %
	(€ millions)		
Linde Gas	60	56	7.1
Linde Engineering	18	16	12.5
Material Handling	96	94	2.1

Research and development costs increased 4.8% from €166 million in 2004 to €174 million in 2005. This was primarily due to the increase in research and development costs in connection with the further development and optimization of gas applications in our Linde Gas division, up from €56 million in 2004 to €60 million in 2005. The increase in research and development costs in our Linde Engineering division and our Material Handling business segment was the result of new and further development of technologies for hydrogen, olefin, and natural gas liquefaction plants and for improvements to warehouse and forklift equipment. See "Business – Research and Development."

The following table shows the administration expenses of our segments and divisions (other than Corporate, and prior to inter-segment consolidation):

	2005	2004	Change in %
	(€ millions)		
Linde Gas	365	339	7.7
Linde Engineering	36	33	9.1
Material Handling	196	175	12.0

Administration expenses increased 4.1% from €684 million in 2004 to €712 million in 2005. In terms of absolute changes, this increase was primarily due to developments in our Linde Gas division and our Material Handling business segment.

Other operating income

	2005	2004	Change in %
	(€ millions)		
Profit on the disposal of current and non-current assets	26	37	(29.7)
Ancillary revenue	15	18	(16.7)
Financial result from long-term contracts	18	15	20.0
Income from receivables written down	0	1	–
Income from exchange rate differences	52	64	(18.8)
Income from the release of provisions	15	39	(61.5)
Miscellaneous other operating income	83	52	59.6
Total	**209**	**226**	**(7.5)**

Other operating income decreased 7.5% to €209 million in 2005 compared to €226 million in 2004. One reason for the decrease was the decrease in income from the release of provisions from €39 million in 2004 to €15 million in 2005. This decrease was caused by the release of larger amounts from the provision for transaction and disposal costs in 2004 than in 2005. See "– Year Ended December 31, 2004 Compared to the Year Ended December 31, 2003 – Special items in 2003." In addition, profit on the disposal of current and non-current assets decreased from €37 million in 2004 to €26 million in 2005. Moreover, as a result of exchange rate trends in 2005, income from exchange rate differences decreased from €64 million in 2004 to €52 million in 2005. See "– Other operating expenses." These decreases were partially offset by the increase in miscellaneous operating income from €52 million in 2004 to €83 million in 2005 as a result of increases in numerous smaller miscellaneous operating income items, all of which resulted from individual transactions.

Other operating expenses

	2005	2004	Change in %
	(€ millions)		
Expenses related to pre-retirement part-time work schemes	6	7	(14.3)
Loss on disposal of current and non-current assets	7	7	0
Exchange rate differences	63	68	(7.4)
Allowance for doubtful debts, payment shortfalls, write-downs on other assets	21	18	16.7
Miscellaneous operating expenses	9	30	(70.0)
Total	**106**	**130**	**(18.5)**

Other operating expenses decreased 18.5% from €130 million in 2004 to €106 million in 2005. This decrease was primarily due to a decrease in miscellaneous operating expenses from €30 million in 2004 to €9 million in 2005. This decrease was due to changes in numerous small other operating expenses items, all of which were the result of individual transactions. Expenses from exchange rate differences also decreased from €68 million in 2004 to €63 million in 2005 due to exchange rate trends in 2005. See "– Other operating income."

Financial result

The financial result for 2005 was a loss of €124 million, unchanged from the prior year. The decrease in interest and similar income from €84 million in 2004 to €75 million in 2005 was offset by a reduction in interest and similar expenses from €211 in 2004 to €199 million in 2005. One reason for the decrease in interest income was the lower market interest rates in 2005. In addition, higher interest income was received in 2004 due to interest earned on a larger tax refund received in 2004 than in 2005. Interest expenses decreased in 2005 in particular because interest rates were lower in 2005 than in 2004 and we repaid liabilities. Both factors led to lower interest expenses for third party financing.

Taxes on income

Taxes on income increased 17.7% from €237 million in 2004 to €279 million in 2005. Current taxes increased from €203 million to €245 million and deferred taxes increased from €14 million to €28 million, while tax expenses for prior periods dropped from €20 million in 2004 to €6 million in 2005.

The increase in taxes on income in 2005 is primarily due to higher earnings before taxes on income in 2005. The reduction in tax expenses from prior periods was due to higher additional tax payments in 2004 than in 2005.

Our effective income tax rate (ratio of earnings before taxes on income to actual taxes on income) was approximately 35% in 2005 compared to approximately 38% in 2004. The lower effective tax rate in 2005 was due to, among other things a change in the average German trade tax multiplier (*Gewerbesteuerhebesatz*) and to lower tax rates in countries other than Germany.

Personnel costs

Because we use the cost of sales method, personnel costs are not shown as separate items in the income statement. Instead, they are contained in the costs of the various functions (costs of sales, marketing and selling expenses, etc.). They are shown separately here for information purposes:

	2005	2004	Change in %
	(€ millions)		
Wages and salaries	1,627	1,582	2.8
Social security contributions	383	371	3.2
Pensions costs and personnel welfare costs	123	110	11.8
Of which pension costs	122	109	11.9
Total	**2,133**	**2,063**	**3.4**

The 3.4% increase in personnel costs from €2,063 million in 2004 to €2,133 million in 2005 was primarily due to the increase in the average number of employees from 40,855 in 2004 to 42,081 in 2005.

Segment Discussion

The tables below show selected financial information from our business segments and divisions for the years ended December 31, 2005 and 2004.

Year ended December 31, 2005

	Gas and Engineering[1]	Linde Gas	Linde Engineering	Material Handling	Corporate	Group
			(€ millions)			
Segment sales	5,831	4,438	1,623	3,628	42	9,501
Amortization of intangible assets, depreciation of tangible assets and leased assets	(429)	(420)	(17)	(322)	(30)	(781)
EBITA	783	721	89	223	(93)	913
Financial result	(92)	(98)	8	(32)	–	(124)
Earnings before taxes on income	691	623	97	191	(93)	789

[1] The figures shown in this column for our Gas and Engineering business segment are consolidated to eliminate transactions between our Linde Gas and Linde Engineering divisions.

Year ended December 31, 2004

	Gas and Engineering[1]	Linde Gas	Linde Engineering	Material Handling	Corporate	Group
			(€ millions)			
Segment sales	5,406	4,003	1,581	3,372	78	8,856
Amortization of intangible assets, depreciation of tangible assets and leased assets	(423)	(416)	(14)	(296)	(21)	(740)
EBITA	682	639	68	194	(102)	774
Goodwill impairment losses	(8)	(8)	0	(20)	0	(28)
Financial result	(99)	(109)	11	(30)	5	(124)
Earnings before taxes on income	575	522	79	144	(97)	622

(1) The figures shown in this column for our Gas and Engineering business segment are consolidated to eliminate transactions between our Linde Gas and Linde Engineering divisions.

Linde Gas division

Total sales

The following table shows the sales by the individual product segments of our Linde Gas division:

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

Our Linde Gas division had sales of €4,438 million in 2005, compared to €4,003 million in 2004. This represents an increase of 10.9% from 2004 (9.0% after adjustment for currency fluctuations). This increase in sales was primarily due to volume increases as a result of rising demand, and to a lesser extent to increases in prices and foreign currencies, as well as to companies included in the consolidation for the first time, e.g. newly acquired operations.

The increase in sales was primarily due to the positive trends for the On-Site business. The On-Site business again had double-digit growth in sales in 2005, rising 23% to €1,010 million in 2005 from €821 million in 2004. The reasons for this were various new projects, in particular in eastern Europe, such as the startup of new air separation and synthesis plants in the Czech Republic, Romania, and Hungary, and the energy and gas price increases which were passed on to customers with long-term supply contracts.

Sales in our Bulk gases product segment increased 8.4% to €1,215 million compared to €1,121 million in 2004. Sales in our Cylinder gases product segment increased 4.8% from €1,568 million in 2004 to €1,644 million in 2005. The increase in sales in the Bulk gases product segment is primarily due to the expansion of business in eastern Europe and Asia and to a more successful implementation of price increases, including passing on higher energy prices. The increase in our Cylinder gases product segment was primarily due to the robust development in the Americas, primarily the United States, and the focused expansion of the cylinder business in Australia.

Sales in our Healthcare sub-segment increased 12.1% from €634 million in 2004 to €711 million in 2005, due to positive organic growth in the three subdivisions ''Institutional'' (medical gases and equipment for hospitals), ''Respiratory Homecare'' (home care for pulmonary patients) and ''INO Therapeutics'' (treatment of newborns with respiratory failure). The positive trend in Respiratory Homecare was also supported by targeted acquisitions.

In regional terms, sales by our Linde Gas division experienced considerable increases in North America (sales increased 14.3% to €904 million in 2005), South America (sales increased 21.4% to €329 million in 2005) and Asia (where sales have more than doubled to €117 million in 2005). Sales in Europe increased 6.5% from €2,841 million in 2004 to €3,025 million in 2005.

EBITA

The EBITA of our Linde Gas division increased 12.8% to €721 million in 2005 compared to €639 million in 2004. The increase in EBITA was primarily due to the considerable increase in sales, and the disproportionately low increase in administration expenses and marketing and selling expenses compared to sales. The cost of sales increased 13.5% from €2,267 million in 2004 to €2,572 million in 2005. The cost of sales increased at a rate faster than sales, which were up 10.9% from 2004 to 2005, primarily due to higher prices for energy and the gases used in production. Our GAP (Growth and Performance) program launched in 2005 prevented an even higher increase in cost of sales. Our GAP program led to continuous improvement in production and distribution structures and the associated organizational processes, further reducing costs, and defining and expanding into new potential growth areas.

Marketing and selling expenses increased 6.2% from €715 million in 2004 to €759 million in 2005. Administration expenses increased 7.7% from €339 million in 2004 to €365 million in 2005, primarily due to higher personnel costs as a result of salary and wage increases and the hiring of additional employees.

Other operating expenses of our Linde Gas division decreased 57.6% from €59 million in 2004 to €25 million in 2005. This decrease was primarily due to one-time expenditures for non-personnel related costs and severance payments and unscheduled depreciation of fixed and current assets of approximately €16 million in 2004, which did not recur in 2005.

Linde Engineering division

Total sales

Sales by our Linde Engineering division increased 2.7% from €1,581 million in 2004 to €1,623 million in 2005. This increase is primarily due to the completion of contracts in the petrochemical sector and air separation and synthesis gas plants.

We further improved our market position in this division on the basis of our proprietary technology. We also benefited from the end of the investment backlog and the resulting strong improvement in the investment climate, especially due to a positive change in political factors throughout the Middle East. The increased financial strength of individual customers due to the high price of oil and natural gas also led to numerous new high-priced contracts. As a result, incoming orders increased to €2,913 million in 2005 compared to €1,525 million in 2004. Approximately 76% of the incoming orders in our Linde Engineering division were for petrochemical and air separation plants. The backlog of orders in our Linde Engineering division also increased 65% to €3,305 million as of December 31, 2005, compared to €2,003 million as of December 31, 2004.

In regional terms, sales increased in the Middle East region due to the positive order situation for air separation, hydrogen, and ethylene plants, up 57.4% to €170 million in 2005. In the Asia/Pacific region, sales increased 45.4% to €455 million in 2005, mainly as a result of the good project situation for hydrogen and synthesis gas plants. Sales in Europe decreased 23.1% to €744 million in 2005, primarily due to the completion of large natural gas projects in Norway.

EBITA

The EBITA of our Linde Engineering division increased 30.9% from €68 million in 2004 to €89 million in 2005. This increase was primarily due to an increase in sales and a decrease in the cost of sales. The cost of sales decreased 0.6% from €1,397 million in 2004 to €1,389 million in 2005. This decrease in the cost of sales was primarily due to the completion of high-margin contracts, which reduced the ratio of costs to sales. This decrease in cost of sales was partially offset by the disproportionately high increase in marketing and selling expenses, which increased 31.3% from €80 million in 2004 to €105 million in 2005. The increase in marketing and selling expenses was due to higher expenses in connection with preparing proposals for new projects. Administration expenses increased 9.1% from €33 million in 2004 to €36 million in 2005.

Material Handling segment

Total sales

Sales by our Material Handling business segment increased 7.6% from €3,372 million in 2004 to €3,628 million in 2005. This increase in sales was caused by positive trends for all three brands and was primarily the result of increased unit sales under the STILL and OM Pimespo brands. The percentage increase in the Linde brand's sales was greater than the increase in the number of units it sold, primarily due to enhanced growth in the hydraulics product segment and the after-sales business. Both Hydraulics and the after-sales business are included in sales but not in the numbers of units sold.

This trend is shown in the table below:

	Linde			**STILL**			**OM Pimespo**		
	2005	**2004**	**Change in %**	**2005**	**2004**	**Change in %**	**2005**	**2004**	**Change in %**
	(€ millions)			**(€ millions)**			**(€ millions)**		
Sales[(1)]	2,346	2,153	9.0	1,197	1,115	7.4	252	239	5.4
Sales (in units)[(1)]	71,562	69,337	3.2	36,850	34,593	6.5	16,765	15,646	7.2

(1) Consolidated within brand names.

The increase in sales and the number of units sold under the Linde brand was primarily due to new, more efficient products in the warehouse equipment product segment. New developments for the STILL brand in the area of electric trucks, which are more powerful yet use less energy, and new developments in electric low-level lift trucks led to the increases in sales and the number of units sold. The increase in sales and the number of units sold under the OM Pimespo brand was the result of improved market conditions in southern Europe and the entry into the Chinese market.

In regional terms, the positive trend for sales was primarily due to significant growth in the eastern European market. Sales in Europe as a whole increased 6.3% from €2,970 million in 2004 to €3,157 million in 2005. In 2005, sales in Europe accounted for 87% of all sales in our Material Handling business segment.

EBITA

The EBITA of our Material Handling business segment increased 14.9% from €194 million in 2004 to €223 million in 2005. This increase was primarily due to the increase in sales in 2005 compared to 2004 and our efforts to improve efficiency and profitability in the areas of research and development, production, logistics, and purchasing, including the Trim.100 program and the GO (Growth and Operational Excellence) follow-up program. The GO program is aimed both at ongoing improvement of cost structures and at developing additional areas of growth (in particular with the OM Pimespo brand in China). As a result, the cost of sales of our Material Handling business segment and its marketing and selling expenses increased at a rate slower than that of its sales. The cost of sales increased 6.9% from €2,527 million in 2004 to €2,702 million in 2005. Marketing and selling expenses increased 6.2% to €430 million in 2005, while development costs increased 2.1% to €96 million in 2005. In contrast, administrative expenses increased faster than sales, up 12.0% from €175 million in 2004 to €196 million in 2005. This increase was primarily due to the increase in the amortization of capitalized ERP software, which we began to use in 2005.

Corporate segment

Our Corporate segment includes all business transactions that cannot clearly be attributed to our Linde Gas or Linde Engineering divisions or our Material Handling business segment. In addition, consolidation effects are also reported in this segment.

Total sales

Total sales of our Corporate segment decreased 46.2% from €78 million in 2004 to €42 million in 2005. This decrease is primarily due to the loss of sales from divisions of MATRA-Werke GmbH which were sold in 2005.

MATRA-Werke GmbH is a distribution company that concentrates on specialty tools, shop presses and specialty machines.

EBITA

The EBITA of our Corporate segment improved 8.8% from a loss of €102 million in 2004 to a loss of €93 million in 2005. This improvement was primarily due to cost savings at our Group's head office.

Year Ended December 31, 2004 Compared to the Year Ended December 31, 2003

The table below shows our income statement information for the years ended December 31, 2003 and 2004. The figures are taken from our audited consolidated financial statements as of and for the years ended December 31, 2003 and 2004, which were prepared in accordance with IFRS and are contained in the financial section of this Prospectus.

Income Statement

	For the year ended December 31,		Change in %
	2004[(1)]	2003	
	(€ millions)		
Sales	9,421	8,992	4.8
Cost of sales	6,539	6,215	5.2
Gross profit on sales	**2,882**	**2,777**	**3.8**
Marketing and selling expenses	1,314	1,297	1.3
Research and development costs	177	172	2.9
Administration expenses	723	722	0.1
Other operating income	251	251	0
Other operating expenses	134	154	(13.0)
EBITA (before special items)	**785**	**683**	**14.9**
Special items	0	(127)	–
EBITA (after special items)	**785**	**556**	**41.2**
Amortization of goodwill	141	138	2.2
Operating profit (EBIT)	**644**	**418**	**54.1**
Interest income	85	74	14.9
Interest charges	214	216	(0.9)
Net interest	**(129)**	**(142)**	**(9.2)**
Income from associates	3	6	(50.0)
Other investment income	0	5	–
Financial result	**(126)**	**(131)**	**(3.8)**
Earnings before taxes on income	**518**	**287**	**80.5**
Taxes on income	239	178	34.3
Earnings after taxes on income	**279**	**109**	**156.0**
Minority interests	(5)	(1)	(400.0)
Net income after minority interests	**274**	**108**	**153.7**
Earnings per share in €	**2.30**	**0.91**	**152.7**
Earnings per share in € (fully diluted)[(2)]	**2.24**	**0.91**	**146.2**

(1) These figures for 2004 have not been restated. See "– Comparability of the Figures Contained in Our 2004 and 2005 IFRS Consolidated Financial Statements."

(2) Reflects dilution due to the Linde Management Incentive Programme and the diluting effect of the convertible bond. See "– Liquidity and Capital Resources – Liabilities – Financial liabilities."

Sales

Our sales increased 4.8% (6.3% after adjustment for currency fluctuations) to €9,421 million in 2004 compared to €8,992 million in 2003. Excluding the Refrigeration division, which was sold to Carrier Corporation at the end of the third quarter of 2004, sales were €8,856 million in 2004 compared to €8,165 million in 2003. This corresponds to an 8.5% increase in sales (10.1% after adjustment for currency fluctuations). The increase was primarily due to the improved economic environment in many of our main markets, which benefited all segments.

The following table shows the distribution of sales among our individual business segments and divisions (other than Corporate and prior to inter-segment consolidation):

	2004	2003	Change in %
	(€ millions)		
Gas and Engineering[1]	5,406	5,031	7.5
Linde Gas	4,003	3,843	4.2
Linde Engineering	1,581	1,270	24.5
Material Handling	3,372	3,063	10.1
Refrigeration[2]	578	866	(33.3)

(1) Consolidated to eliminate transactions between the two divisions.

(2) The Refrigeration business segment was sold as of October 1, 2004. Therefore its sales are shown only up to that date.

While sales in Germany decreased 2.4% to €2,012 million in 2004 compared to €2,061 in 2003, sales outside of Germany increased 6.9% to €7,409 million in 2004 from €6,931 in 2003. The table below shows our sales in the regions in which we operate:

	2004	2003	Change in %
	(€ millions)		
Sales by location of customer			
Rest of Europe	5,217	4,808	8.5
North America	1,045	1,087	(3.9)
South America	332	302	9.9
Asia	528	556	(5.0)
Africa/Australia	287	178	61.2
Sales outside Germany	**7,409**	**6,931**	**6.9**
Germany	2,012	2,061	(2.4)
Total	**9,421**	**8,992**	**4.8**

Cost of sales

Cost of sales increased at approximately the same rate as sales, rising 5.2% from €6,215 in 2003 to €6,539 million in 2004. These costs may be allocated to our segments and divisions (other than Corporate, and prior to inter-segment consolidation) as follows:

	2004	2003	Change in %
	(€ millions)		
Linde Gas	2,267	2,197	3.2
Linde Engineering	1,397	1,108	26.1
Material Handling	2,531	2,293	10.4
Refrigeration	457	677	(32.5)

The increase in cost of sales was primarily due to the increase in our Linde Engineering division, which increased 26.1% to €1,397 million in 2004, and our Material Handling business segment, which increased 10.4% to €2,531 million in 2004. These increases were partially offset by a 32.5% decrease in cost of sales in the Refrigeration business segment from €677 million in 2003 to €457 million in 2004. This decrease in the Refrigeration business segment is due to the removal of the business segment from the scope of consolidation as of October 1, 2004, the date as of which we sold the segment.

Marketing and selling expenses, research and development costs, and administration expenses

Marketing and selling expenses increased 1.3% from €1,297 million in 2003 to €1,314 million in 2004. Research and development costs increased 2.9% in 2004, and administration expenses increased 0.1% in 2004. The tables below show the marketing and selling expenses, research and development costs, and administration expenses of our segments and divisions (other than Corporate and prior to inter-segment consolidation):

Marketing and selling expenses

	2004	2003	Change in %
	(€ millions)		
Linde Gas	715	695	2.9
Linde Engineering	80	96	(16.7)
Material Handling	405	379	6.9
Refrigeration	75	101	(25.7)

The increase in marketing and selling expenses was due to the increase in such expenses in our Linde Gas division and, in particular, our Material Handling business segment. This increase was partially offset by the decrease in the marketing and selling expenses from our Refrigeration business segment, which was sold as of October 1, 2004, and our Linde Engineering division.

Research and development costs

	2004	2003	Change in %
	(€ millions)		
Linde Gas	56	46	21.7
Linde Engineering	16	16	0
Material Handling	94	92	2.2
Refrigeration	11	18	(38.9)

The increase in our research and development costs was primarily due to a 21.7% increase in such expenses in our Linde Gas division. This increase was primarily due to research in connection with new applications for medical gases. This increase was partially offset by a 38.9% decrease in research and development costs in our Refrigeration business segment due to its sale as of October 1, 2004.

Administration expenses (other than Corporate and prior to inter-segment consolidation)

	2004	2003	Change in %
	(€ millions)		
Linde Gas	337	358	(5.9)
Linde Engineering	33	33	0
Material Handling	173	151	14.6
Refrigeration	47	61	(23.0)

Our administration expenses remained largely unchanged at the Group level, primarily because the absolute increase in such expenses in our Material Handling business segment was almost fully offset by the decrease in such expenses in our Refrigeration business segment, which was included only for the first nine months of 2004, and the decrease in such expenses in our Linde Gas division.

Other operating income

	2004	2003	Change in %
	(€ millions)		
Profit on disposal of current and non-current assets	39	38	2.6
Ancillary revenue	19	21	(9.5)
Financial result from long-term contracts	15	12	25.0
Income from receivables written down	1	1	0
Exchange rate differences	66	73	(9.6)
Income from release of provisions	41	39	5.1
Miscellaneous operating income	70	67	4.5
Total	**251**	**251**	**0**

Other operating income remained constant at €251 million in 2003 and 2004. Only income from exchange rate differences decreased from €73 million in 2003 to €66 million in 2004, which was attributable to exchange rate fluctuations. See "– Other operating expenses." The decrease in income from exchange rate differences was offset by small increases in a number of other operating income items.

Other operating expenses

	2004	2003	Change in %
	(€ millions)		
Expenses related to pre-retirement part-time work schemes	7	12	(41.7)
Loss on disposal of current and non-current assets	7	7	0
Exchange rate differences	70	81	(13.6)
Allowance for doubtful debts, payment shortfalls, write-downs on other current assets	19	16	18.8
Miscellaneous operating expenses	31	38	(18.4)
Total	**134**	**154**	**(13.0)**

Other operating expenses decreased 13.0% from €154 million in 2003 to €134 million in 2004. The decrease was primarily due to the decrease in exchange rate differences expenses to €70 million in 2004 compared to €81 million in 2003. This decrease was due to changes in the relevant exchange rates. See "– Other operating income." In addition, miscellaneous operating expenses decreased from €38 million in 2003 to €31 million in 2004 due to various changes in numerous individual items.

Special items in 2003

The special items totaling €127 million in 2003 are described in detail below:

- Additional spending on restructuring totaled €35 million in 2003 to support and expand some parts of the "TRIM.100" and "Fit for Future" optimization programs that were being implemented at that time. That spending on restructuring primarily included the reduction in personnel as a result of optimizing production processes and pooling of administration functions, of which €10 million was attributable to our Linde Gas division, €5 million to our Material Handling business segment, and €20 million to our Corporate segment.

- The prefabrication of components whose manufacturing does not require special know-how was outsourced as part of the "TRIM.100" optimization program implemented in 2003. Pooling the component plants as a "Center of Components" streamlined all operational functions from development to production. As a result, we recognized unscheduled depreciation in the amount of €35 million for the capacity adjustment.

- Provisions for transaction and disposal costs in the amount of €50 million were made in 2003 in connection with the sale of the Refrigeration business segment (see "– Comparability of the Figures Contained in Our 2004 and 2005 IFRS Consolidated Financial Statements – Sale of our Refrigeration Business Segment") and with our sale of non-core businesses.
- We made provisions in the amount of €20 million for the cost of restructuring forklift operations in Australia, which was primarily due to a re-evaluation of the contract portfolio and reorganization of our marketing and selling departments as a whole.
- In 2003, we transferred fund assets to a third party in order to finance externally a portion of the pension obligations of our German group companies in accordance with IAS 19, "Employee Benefits." As a result of the well performing capital markets in 2003 through the date of transfer, we reversed in 2003 €13 million of the unscheduled amortization of €29 million that we recorded in 2002.

Financial result

Our financial result improved 3.8% from a loss of €131 million in 2003 to a loss of €126 million in 2004. This improvement was primarily due to an improvement in net interest expense from a loss of €142 million in 2003 to a loss of €129 million in 2004. This improvement, in turn, was primarily due to an increase in interest income from €74 million in 2003 to €85 million in 2004, in particular due to rising market interest rates, as well as the decrease in interest expenses due to the repayment of capital market debt. The improvement in net interest expense was partially offset by increases in expenses and decreases in income in other financial items.

Taxes on income

Taxes on income increased 34.3% from €178 million in 2003 to €239 million in 2004. Current taxes increased from €172 million in 2003 to €207 million in 2004, and deferred taxes increased from €6 million in 2003 to €32 million in 2004. The increase in taxes on income is primarily due to higher earnings before taxes on income in 2004 than in 2003.

The effective income tax rate (ratio of earnings before taxes on income to actual taxes on income) was approximately 46% in 2004 and approximately 62% in 2003. The decrease in the effective income tax rate in 2004 was primarily due to a change in the German corporate income tax rate in 2004, income tax rate differences in certain countries outside of Germany and higher tax-free earnings in 2004.

Personnel costs

Because we use the cost-of-sales method, personnel costs are not shown as separate items in the income statement. Instead, they are contained in the costs of the various functions (costs of sales, marketing and selling expenses, etc.). They are shown separately here for information purposes:

	2004	**2003**	**Change in %**
		(€ millions)	
Wages and salaries	1,734	1,735	(0.1)
Social security contributions	405	392	3.3
Pension costs and personnel welfare costs	127	146	(13.0)
Of which for pension costs	126	142	(11.3)
Total	**2,266**	**2,273**	**(0.3)**

Personnel costs remained nearly constant at €2,266 million in 2004 compared to €2,273 million in 2003. The overall increase in wages and salaries, including social security contributions, was more than offset by the decrease in personnel costs resulting from the sale of our Refrigeration business segment as of October 1, 2004.

Segment discussion

The tables below show selected financial information from our business segments and divisions as of and for the years ended December 31, 2004 and 2003.

Year ended December 31, 2004

	Gas and Engineering[1]	Linde Gas	Linde Engineering	Material Handling	Refrigeration	Corporate	Group
				(€ millions)			
Segment sales	5,406	4,003	1,581	3,372	578	65	9,421
Amortization of intangible assets, (excluding goodwill amortization) depreciation of tangible assets and leased assets	(423)	(416)	(14)	(296)	(15)	(22)	(756)
EBITA	684	640	69	191	9	(99)	785
Financial result	(99)	(109)	11	(30)	(2)	5	(126)
Amortization of goodwill	(111)	(106)	(5)	(27)	(3)	0	(141)
Earnings before taxes on income	474	425	75	134	4	(94)	518

(1) The figures shown in this column for our Gas and Engineering business segment are consolidated to eliminate transactions between our Linde Gas and Linde Engineering divisions.

Year ended December 31, 2003

	Gas and Engineering[1]	Linde Gas	Linde Engineering	Material Handling	Refrigeration	Corporate	Group
				(€ millions)			
Segment sales	5,031	3,843	1,270	3,063	866	32	8,992
Amortization of intangible assets, (excluding goodwill amortization) depreciation of tangible assets and leased assets	(430)	(416)	(20)	(308)	(24)	(11)	(773)
EBITA (before special items)	634	598	46	156	14	(121)	683
Special items	(10)	(10)	0	(60)	0	(57)	(127)
EBITA (after special items)	624	588	46	96	14	(178)	556
Financial result	(106)	(118)	12	(28)	(1)	4	(131)
Amortization of goodwill	(105)	(101)	(4)	(23)	(10)	0	(138)
Earnings before taxes on income	413	369	54	45	3	(174)	287

(1) The figures shown in this column for our Gas and Engineering business segment are consolidated to eliminate transactions between our Linde Gas and Linde Engineering divisions.

Linde Gas division

Total sales

Sales of our Linde Gas division increased 4.2% (6.9% after adjusting for currency fluctuations) to €4,003 million in 2004 from €3,843 million in 2003. This increase was primarily due to the 7.1% increase to €1,121 million in sales in our bulk gas business, the 6.3% increase to €821 million in our On-Site business, and the 10.3% increase in our Healthcare sub-segment.

The following table shows the sales of the individual product segments of our Linde Gas division:

	2004	2003	Change in %
	(€ millions)		
Bulk gases	1,121	1,047	7.1
Cylinder gases	1,568	1,555	0.8
On-site	821	772	6.3
Healthcare	634	575	10.3
Total (consolidated)	**4,003**	**3,843**	**4.2**

The increase in sales of our bulk gas business was primarily due to the positive market trend, in particular in eastern Europe and South America, where sales in both regions increased approximately 20%.

The increase in sales of our On-Site business was primarily due to increased sales in Asia and Europe, in particular as a result of the startup of new on-site facilities to supply companies with hydrogen, carbon monoxide and air gases.

The increase in sales of our Healthcare sub-segment was primarily due to a 20.8% increase to €145 million in sales by our Homecare sub-segment. The increase in sales in this sub-segment was further strengthened by the integration of acquired companies.

The increase in sales was primarily due to volume increases in our Linde Gas division. Price increases had relatively little effect on the increase in sales.

In regional terms in 2004, sales in Europe increased 4.6% to €2,841 million, sales in South America increased 13.4% to €271 million, and sales in the Asia/Pacific region increased 44.3% to €101 million. Sales in North America decreased 3.2% to €791 million in 2004 as a result of exchange rate fluctuations.

EBITA

The EBITA of our Linde Gas division increased 7.0% from €598 million in 2003 (before special items) to €640 million in 2004. This increase in EBITA is primarily due to the fact that sales increased while the cost of sales and marketing and selling expenses increased at a slower rate than sales, and administration expenses decreased. The cost of sales of our Linde Gas division increased 3.2% from €2,197 million in 2003 to €2,267 million in 2004, marketing and selling expenses increased 2.9% to €715 million in 2004, and administration expenses decreased 5.9% to €337 million in 2004. The overall costs of our Linde Gas division did not increase as fast as sales, primarily due to the "Fit for Future" efficiency program and the resulting €70 million in cost savings.

Other operating income of our Linde Gas division increased 20.3% from €59 million in 2003 to €71 million in 2004. This increase was primarily due to the €15 million gain recognized on our sale of an interest in GCE Gas Control Equipment AB Malmö ("GCE Gas Control"). Other operating expenses, however, were affected by one-time expenses for severance payments and unscheduled amortization and depreciation of approximately €16 million which more than offset the one-time gain on the sale of GCE Gas Control.

Linde Engineering division

Total sales

Sales of our Linde Engineering division increased 24.5% (26.1% after adjustment for currency fluctuations) to €1,581 million in 2004 from €1,270 million in 2003. This increase was primarily due to the completion of numerous large contracts, including the construction of a natural gas liquefaction plant in Norway and several air separation plants.

Price increases and the effects of exchange rates had relatively little influence on the increase in sales.

Incoming orders at €1,525 million in 2004 were 3.5% above the prior year's level of €1,474 million. This increase was primarily due to a high order volume for the construction of ethylene plants.

In regional terms, sales increased 65.5% in Europe (not including Germany) from €516 million in 2003 to €854 million in 2004, and 297.2% in Africa, from €36 million in 2003 to €143 million in 2004, primarily due to the completion of an olefin plant in South Africa.

EBITA

The EBITA of our Linde Engineering division increased 50.0% from €46 million in 2003 to €69 million in 2004. This increase was primarily due to an increase in sales. Cost of sales increased at approximately the same rate as sales while marketing and selling expenses decreased considerably.

The cost of sales increased 26.1% from €1,108 million in 2003 to €1,397 million in 2004. Marketing and selling expenses of our Linde Engineering division decreased 16.7% to €80 million in 2004 due to fewer allowances for specific bad debts.

A 22.0% decrease in other operating income of our Linde Engineering division from €91 million in 2003 to €71 million in 2004 partially offset this positive trend in EBITA. This decrease was primarily due to a decrease in income from the release of provisions in this division.

Material Handling business segment

Total sales

Sales of our Material Handling business segment were €3,372 million in 2004, up 10.1% (10.4% after adjustment for currency fluctuations) from sales of €3,063 million in 2003. This increase was due to increasing sales for each of our three brands Linde, STILL, and OM Pimespo and was primarily the result of increases in the number of units sold. Price increases and exchange rate differences did not exert a significant effect on the increase in sales.

The following table shows the sales for each of our three brands:

	Linde			**STILL**			**OM Pimespo**		
	2004	**2003**	**Change in %**	**2004**	**2003**	**Change in %**	**2004**	**2003**	**Change in %**
	(€ millions)			**(€ millions)**			**(€ millions)**		
Sales[(1)]	2,153	1,911	12.7	1,115	1,029	8.4	239	231	3.5
Sales (in units)[(1)]	69,337	63,385	9.4	34,593	33,074	4.6	15,646	13,574	15.3

(1) Consolidated within brand names.

The increases in unit sales for all three brands were primarily due to a positive general market trend caused by increased demand for industrial trucks. The service business related to the forklift and warehouse equipment fleets also expanded.

In regional terms, the main contributor to the increase in sales was the European market, where sales increased 10.2% from €2,695 million in 2003 to €2,970 million in 2004, with faster growth in eastern Europe. In particular, we benefited from our good sales, marketing and service structure in the eastern Europe region.

EBITA

The EBITA of our Material Handling business segment increased 22.4% from €156 million (before special items) in 2003 to €191 million in 2004. This increase was primarily due to the fact that sales and cost of sales increased at approximately the same rate, marketing and selling expenses grew more slowly than sales, and other operating expenses decreased considerably. This increase was partially offset by administration expenses that grew faster than sales.

The cost of sales increased 10.4% from €2,293 million in 2003 to €2,531 million in 2004. Marketing and selling expenses increased 6.9% from €379 million in 2003 to €405 million in 2004. In particular, the optimization of organizational processes and cost structures as part of the "TRIM.100" program contributed to this positive cost trend in our Material Handling business segment.

Other operating expenses decreased 38.8% from €49 million in 2003 to €30 million in 2004, primarily due to lower expenses for pre-retirement part-time work schemes and a decrease in expenses due to exchange rate differences.

The 14.6% increase in administration expenses in our Material Handling business segment to €173 million in 2004 was primarily due to higher personnel costs from an increase in the number of employees.

Corporate segment

Total sales

Sales by the Corporate segment increased 103.1% from €32 million in 2003 to €65 million in 2004. This increase was due to the allocation of Linde Ladenbau GmbH & Co. KG to the Corporate segment. This company originally belonged to the Refrigeration business segment, which was sold as of October 1, 2004.

EBITA

The EBITA of the Corporate segment improved by 18.2% from a loss of €121 million in 2003 (before special items) to a loss of €99 million in 2004. This improvement in EBITA was primarily due to a €20 million increase in income from the partial release of provisions from the previous year created in connection with the sale of the Refrigeration business segment and the sale of non-core activities.

Liquidity and Capital Resources

Summary

We finance our Group with the cash flow from our operating activities, which was €1,435 million in 2005, with capital market instruments (in particular bonds and a convertible bond) and in some cases with short, medium and long-term loans from financial institutions.

In our opinion, our capital (equity and debt) is, with the exception of the BOC acquisition (see "– Liabilities"), sufficient to meet our capital requirements for the next twelve months. We will finance the acquisition of BOC primarily by drawing on a syndicated loan of £8,900 million and €2,000 million.

Our cash flow is heavily influenced by the cash flow from operating activities. This in turn is primarily dependent on the proceeds from the sale of products and services in our Linde Gas division and our Material Handling business segment. The cash flow from the operating activities of our Linde Engineering division is primarily influenced by advance payments on orders received from customers.

Group cash flow statements

The table below shows extracts from our cash flow statements for the years ended December 31, 2003, 2004 and 2005, each prepared in accordance with IFRS. These figures are derived from our 2004 and 2005 IFRS Consolidated Financial Statements. Our 2004 IFRS Consolidated Financial Statements contain both audited financial figures prepared in accordance with IFRS as of and for the year ended December 31, 2004, and comparative figures as of and for the year ended December 31, 2003. The table below also shows an excerpt from our cash flow statements for the three months ended March 31, 2005 and 2006. These figures, prepared in accordance with IFRS, are derived from our unaudited consolidated interim financial statements as of and for the three months ended March 31, 2006 (prepared in accordance with IFRS), which also contain comparative figures as of and for the three months ended March 31, 2005. All of the figures contained in the table below are adjusted for the effects of consolidation entries and exchange rate differences. As a result, these figures cannot be individually derived from the balance sheets contained in our 2003, 2004 or 2005

IFRS Consolidated Financial Statements or our unaudited consolidated interim financial statements as of and for the three months ended March 31, 2006 (prepared in accordance with IFRS), since in some cases the figures contained in such statements are not adjusted for those effects.

	Three months ended March 31,		Year ended December 31,			
	2006	2005[1]	2005	2004[2]	2004	2003
			(€ millions) (unaudited)			
Cash flow from operating activities	214	137	1,435	1,255	1,249	1,281
Cash flow from investing activities	(139)	(167)	(823)	(731)	(744)	(655)
Cash flow from financing activities	(109)	(84)	(283)	(585)	(499)	(425)
Effect of net changes in cash and cash equivalents	**(34)**	**(114)**	**329**	**(61)**	**6**	**201**
Opening balance of cash and cash equivalents	906	564	564	557	557	364
Transfer to trust account[3]	(87)	0	–	–	–	–
Effect of changes in cash and cash equivalent from changes in Group structure	1	1	2	73	6	1
Effect of changes in cash and cash equivalent from currency translation	(2)	4	11	(5)	(5)	(9)
Closing balance of cash and cash equivalents	784	455	906	564	564	557

(1) Restated.

(2) Restated and comparable.

(3) Arising from proposed acquisition of Spectra Gases Inc. Spectra Gases, Inc., is a specialty gas corporation headquartered in Branchburg, New Jersey, United States. In addition to ultrapure specialty gases and chemicals for production, research and analytical applications, it also produces specialty gas mixtures for such users as the semiconductor industry and for laser therapy. The transaction is subject to approval by the E.U. anti-trust authorities.

The table below shows the cash flows of our Linde Gas and Linde Engineering divisions and our Material Handling business segment. These figures are derived from the segment information in our 2004 and 2005 IFRS Consolidated Financial Statements, and have been adjusted for the effects of consolidation entries and exchange rate differences.

	Linde Gas Year ended December 31,		Linde Engineering Year ended December 31,		Material Handling Year ended December 31,	
	2005	2004[1]	2005	2004[1]	2005	2004[1]
	(€ millions)		(€ millions)		(€ millions)	
Cash flow from operating activities	940	779	318	241	248	268
Cash flow from investing activities	(655)	(610)	(22)	(1)	(178)	(164)
Free cash flow	285	169	296	240	70	104

(1) Restated and comparable.

Three Months Ended March 31, 2006 compared to the Three Months Ended March 31, 2005

Cash flow from operating activities

Cash inflow from operating activities increased 56.2% for the three months ended March 31, 2005 from €137 million to €214 million for the three months ended March 31, 2006. This increase was primarily due to higher net income for the three months ended March 31, 2006 compared to the three months ended March 31, 2005, as well as to the positive status of current projects in our Linde Engineering division and the corresponding increase in the advance payments in connection with orders received from customers.

Cash flow from investing activities

Cash outflow from investing activities decreased 16.8% from €167 million for the three months ended March 31, 2005 to €139 million for the three months ended March 31, 2006. This decrease was due to lower investments in financial assets and in consolidated companies, which were down from €29 million during the three months ended March 31, 2005 to €2 million during the three months ended March 31, 2006. The decrease in cash outflow was also due to higher proceeds on the disposal of fixed assets and consolidated companies, which in total increased from €12 million for the three months ended March 31, 2005 to €31 million for the three months ended March 31, 2006, as well as the repayment of receivables from financing services. This increase was primarily due to the disposal of consolidated companies during the three months ended March 31, 2006. The decrease in cash outflow was partially offset by the increased investment in tangible and intangible assets from €150 million during the three months ended March 31, 2005 to €168 million during the three months ended March 31, 2006, which was primarily due to higher investments in our Linde Gas division.

Cash flow from financing activities

The cash outflow from financing activities increased 29.8% from €84 million during the three months ended March 31, 2005 to €109 million during the three months ended March 31, 2006. This increase was primarily due to the increased repayment of financial liabilities during the three months ended March 31, 2006 compared to the three months ended March 31, 2005. We made net loan repayments of €84 million during the three months ended March 31, 2005, compared to net repayments of €109 million during the three months ended March 31, 2006. This increase was due to a greater number of loans becoming due for repayment during the three months ended March 31, 2006 than during the corresponding period in 2005.

Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004

Cash flow from operating activities

The cash inflow from operating activities increased 14.3% to €1,435 million in 2005 from €1,255 million in 2004. This increase was primarily due to higher net income in 2005 compared to 2004 and to an increase in trade payables to €227 million in 2005 from €91 million in 2004. This increase in trade payables was due to a greater number of incoming orders in our Linde Engineering division in 2005 and a corresponding increase in advance payments received from customers in connection with such orders. The increase in the cash inflow from operating activities was partially offset by an increase in inventory (especially in our Material Handling business segment), which led to a cash outflow of €52 million, and by a €209 million increase in our leased assets. The increase in leased assets was primarily due to a larger addition to leased industrial trucks and warehouse equipment in 2005 compared to 2004. The industrial trucks are leased or rented to customers of our Material Handling business segment.

Cash flow from investing activities

The cash outflow from investing activities increased €92 million, or 12.6%, to €823 million in 2005. This increase was primarily due to an increase in investments in tangible and intangible assets from €716 million in 2004 to €836 million in 2005, in particular to expand the operating business of our Linde Gas division and for expenditures on plant replacements. There was also a cash inflow in 2004 from the disposal of the Refrigeration business segment totaling €134 million. There was no comparable cash inflow from the proceeds on the disposal of subsidiaries in 2005. The increase in the cash outflow from investing activity was partially offset by lower expenditures for the acquisition of subsidiaries in the amount of €8 million in 2005 compared to €94 million in 2004. In addition, there were no additions to securities held as current assets in 2005, while €84 million were invested in such securities in 2004. The reason for the €84 million investment in securities in 2004 was to provide for external financing of pension obligations for former employees of the Refrigeration business segment who remained in our Group. These securities were transferred to a trustee.

Cash flow from financing activities

The cash outflow from financing activities decreased from €585 million in 2004 to €283 million in 2005. This decrease was primarily due to lower cash outflows used for the repayment of loans. A total of €445 million was used for the repayment of loans in 2004 compared to €134 million in 2005. The decrease in repayments in 2005 was primarily due to fewer financial liabilities becoming due for repayment in 2005 than in 2004. Unscheduled loan repayments were also lower in 2005 than in 2004.

Year Ended December 31, 2004 Compared to the Year Ended December 31, 2003

Cash flow from operating activities

In spite of the increase in net income from €108 million in 2003 to €274 million in 2004, the cash inflow from operating activities decreased 2.5% from €1,281 million in 2003 to €1,249 million in 2004. This decrease was primarily due to special non-cash items totaling €127 million charged to net income in 2003. See "– Special items in 2003." In addition, the decrease was also due to a decrease in trade payables in 2004 compared to 2003 as a result of a weaker increase in advance payments received from customers of our Linde Engineering division. The decrease in the cash inflow from operating activities was partially offset by the increase in provisions, especially provisions for taxes. The negative effect on cash flow from the increase in trade receivables, especially in our Gas and Engineering business segment, was almost completely offset by the reduction in inventories.

Cash flow from investing activities

The cash outflow from investing activities increased from €655 million in 2003 to €744 million in 2004. This increase was due to higher investment volumes in tangible and intangible assets, up from €601 million in 2003 to €734 million in 2004. The investments were made in particular to expand the operating business of our Linde Gas division. Purchase price payments for acquisitions of consolidated subsidiaries (in particular for the acquisition of Singapore Syngas Pte. Ltd., Singapore) were also higher in 2004 than in 2003. This increase in the cash outflow from investing activities was partially offset by lower investments in financial assets in 2004 than in 2003. The lower investments in 2004 compared to 2003 were primarily due to an investment in 2003 to increase our share in Komatsu Forklift Co. Ltd. Proceeds in the amount of €134 million from the disposal of our Refrigeration business segment in 2004 also partially offset the increase in cash outflow from investing activities.

Cash flow from financing activities

The cash outflow from financing activities increased from €425 million in 2003 to €499 million in 2004. This increase was primarily due to greater cash outflows for the repayment of loans in 2004 than in 2003. A net total of €359 million was used to repay loans in 2004 compared to €299 million net in 2003. The net repayment is composed of the cash inflow from the issuance of a convertible bond in the amount of €550 million and from the cash outflow from scheduled loan repayments and the repurchase of capital market liabilities in the aggregate amount of €452 million.

Capital expenditures

The table below shows our capital expenditures in accordance with IFRS during the years ended December 31, 2005, 2004 and 2003. The figures shown here are derived from our 2004 and 2005 IFRS Consolidated Financial Statements. Our 2004 IFRS Consolidated Financial Statements contain both our audited financial figures in accordance with IFRS as of and for the year ended December 31, 2004 and comparative figures as of and for the year ended December 31, 2003.

	As of December 31,		
	2005	2004	2003
	(€ millions)		
Intangible assets	129	131	123
Tangible assets	715	597	470
Leased assets[1]	7	7	14
Capital expenditures for tangible and intangible assets	**851**	**735**	**607**
Capital expenditures for financial assets	55	50	111
Total	**906**	**785**	**718**

[1] Not including the leased assets of our Material Handling business segment. The leased assets are mainly industrial trucks and warehouse equipment leased to our customers under lease agreements.

For information on capital expenditures, see "Key Factors Affecting Our Results of Operations and Financial Condition – Factors From Our Operational Business – Capital investments" and for information on individual capital expenditure projects see "Business – Investments."

Liabilities

Financing of the acquisition of BOC

Our offer to acquire the entire share capital in BOC (see "Acquisition Offer to Acquire all the Shares of The BOC Group plc") specifies 1,600 pence in cash to be paid per BOC ordinary share or a total price of approximately £7,968 million for all outstanding shares of BOC. The financing necessary for the acquisition will be provided under a loan agreement ("loan agreement for the acquisition of BOC") that we entered into on March 3, 2006 with the lead banks Commerzbank Aktiengesellschaft, Deutsche Bank AG, Dresdner Bank Aktiengesellschaft, Morgan Stanley Bank International Limited and The Royal Bank of Scotland plc for a total of £8,900 million and €2,000 million and which was syndicated on May 3, 2006 with a total of 50 banks. The portion of the loan that is denominated in euro is a revolving credit facility intended for general business purposes, which will replace an existing revolving credit facility. The portion denominated in British pounds is divided into three tranches, the largest of which is £5,500 million and is to be repaid no later than 30 months after March 3, 2006, while the other two tranches of £1,400 million and £2,000 million are to be repaid on the date which is three-and-a-half and five years, respectively, after March 3, 2006. We intend to repay the £5,500 million tranche, which is due for repayment no later than in 30 months, if and to the extent it is drawn on, from a combination of the proceeds from the issuance of hybrid securities and other issuances of securities on the capital markets, as well as proceeds from the disposal of individual operations and income from current business activities. We have made no commitment to make any regular repayments prior to maturity.

The facilities made available under the loan agreement are not secured, but the loan agreement is subject to covenants that will affect our flexibility in structuring our operations. For example, until we return to a Standard & Poor's Rating Services BBB+ rating for our senior unsecured obligations and a Moody's Investors Service, Inc., A3 rating, we may not exceed a specified ratio of consolidated net financial debt to consolidated EBITDA and may not fall below a specified ratio of consolidated EBITDA to total net interest charge. The loan agreement specifies that the first ratio, known as "dynamic indebtedness," must decrease over the term of the agreement. The second ratio, which measures "interest coverage," may decrease by half in 2007 and the first half of 2008 compared to the ratio specified for the second half of 2006, but it must then increase again. In addition, certain covenants that apply for the entire term of the loan agreement will limit the ability of the Company and certain consolidated companies to use their assets as security, dispose of assets, assume additional financial liabilities, make loans to unconsolidated companies, and provide guarantees for the financial liabilities of unconsolidated companies. Every violation of the covenants that have been entered into under the loan agreement (in some cases after expiration of the time granted to remedy the violation) provides the lenders a contractual right to call the loan prior to maturity. See "Acquisition Offer to Acquire all the Shares of The BOC Group plc – Financing of the Acquisition Offer."

Financial liabilities

The tables below show our financial liabilities in accordance with IFRS as of December 31, 2005 and 2004.

Financial liabilities in accordance with IFRS

	As of December 31,							
	2005				2004			
	Total	Due in more than 5 years	Due in 1 to 5 years	Due within 1 year	Total	Due in more than 5 years	Due in 1 to 5 years	Due within 1 year
			(€ millions)				(€ millions)	
Liabilities to financial institutions	276	2	64	210	213	0	45	168
Liabilities from financial services	511	22	316	173	523	23	326	174
Subordinated bond	396	396	0	0	396	396	0	0
Convertible bond	500	0	500	0	487	0	487	0
Other bonds	1,244	0	1,035	209	1,439	0	1,302	137
Total	**2,927**	**420**	**1,915**	**592**	**3,058**	**419**	**2,160**	**479**

Liabilities from financial services consist primarily of obligations under "finance leases" arising from sale and leaseback transactions to refinance lease agreements with customers. They also include guarantees of residual values given in the course of sales of leased equipment to leasing companies, where such guaranteed residual values exceed 10% of the fair value of the leased equipment. We have also recognized further obligations relating to the financing of the leased property. These leased assets are recognized in the balance sheet due to the character of the lease agreement.

The long-term financial liabilities are primarily a subordinated bond issued in June 2003 for a total of €400 million. It has no final maturity date, although we have a right to call the bond beginning July 4, 2013. If the right to call the bond is not exercised on this date, the increased coupon will accrue interest at a variable rate (3 month EURIBOR +3⅜%). The right to call the bond will then be available every quarter on the due date for interest payment. The coupon payment may be suspended as soon as Linde Aktiengesellschaft fails to pay a dividend. Coupon payments may be suspended for a maximum period of five years. If Linde Aktiengesellschaft resumes the coupon payments, those payments which have not previously been disbursed will continue to be due until paid.

In May 2004, our wholly-owned Dutch subsidiary Linde Finance B. V. issued convertible bonds with a nominal value of €550 million excluding subscription rights for shareholders. Subject to adjustments to the conversion ratio, the bond is convertible into shares in the registered share capital in the notional amount of up to €24.93 million through the issuance of 9,737,615 shares. The convertible bond matures in 2009 and is not redeemable within the first three years, *i.e.*, through May 2007. After that period has lapsed, we can redeem the bond if the price of our shares exceeds €67.778. When the bond is due, the bond issuer is entitled to choose whether to settle the obligation in shares in the Company or cash.

The other bonds were issued by Linde Finance B.V. within the framework of our Debt Issuance Program (DIP). The DIP is an umbrella agreement for the issue of financial instruments on the capital market.

In 2005, the due dates of the liabilities to financial institutions and liabilities from bonds issued are broken down as follows: liabilities of €419 million were due within one year, liabilities of €1,599 million were due in one to five years, and liabilities of €398 million were due in more than five years.

We also received a commitment from an international group of underwriting banks for a syndicated credit facility totaling €1,800 million, which is available to us during the next seven years. As of December 31, 2005, we had not utilized this credit facility and the full amount was still available. When the loan agreement for the acquisition of BOC is drawn on, this syndicated credit facility will be replaced by the "revolving facility" in the loan agreement for the acquisition of BOC. We had other unused credit facilities totaling €690 million as of December 31, 2005.

Other liabilities

The table below shows our other liabilities as of December 31, 2005 and 2004, in accordance with IFRS.

Other liabilities in accordance with IFRS

	As of December 31,					
	2005			2004		
	Total	Non-current(1)	Current(2)	Total	Non-current(1)	Current(2)
		(€ millions)			(€ millions)	
Deferred tax liabilities	340	340	–	294	294	–
Provisions for pensions and similar obligations	1,122	1,122	–	1,019	1,019	–
Other provisions and provisions for insurance contracts	1,476	168	1,308	1,284	177	1,107
Trade payables	1,471	4	1,467	1,200	6	1,194
Advance payments received from customers	74	19	55	86	5	81
Taxes	151	14	137	195	15	180
Social security	50	0	50	47	0	47
Liabilities due to affiliated companies	8	0	8	12	0	12
Liabilities due to related companies	1	0	1	4	0	4
Sundry liabilities(3)	289	59	230	287	36	251
Deferred income	193	69	124	203	76	127
Liabilities directly related to non-current assets held for sale(4)	11	–	11	0	–	–
Total	**5,186**	**1,795**	**3,391**	**4,631**	**1,628**	**3,003**

(1) Non-current means a residual term of over one year.

(2) Current means a residual term of up to one year.

(3) Sundry liabilities includes, among other items, liabilities from derivatives and financial instruments with negative fair values.

(4) This item is related to the classification of Linde Ladenbau GmbH & Co. KG of Bad Hersfeld as being held for sale.

Contingent liabilities and other financial commitments

The table below shows our other financial commitments, in accordance with IFRS, as of December 31, 2005 and 2004.

Contingent liabilities and other financial commitments in accordance with IFRS

	As of December 31,	
	2005	2004
	(€ millions)	
Bills endorsed and discounted	21	25
Guarantees	81	70
Warranties	66	14
Capital expenditure commitment	41	84
Obligations under non-cancelable operating leases	539	476
of which due within one year	145	135
of which due in one to five years	291	266
of which due in more than five years	103	75
Obligations arising from the purchase of companies	126	–
Other	74	73
Total	**948**	**742**

Additional Information From the Unconsolidated Annual Financial Statements of Linde Aktiengesellschaft (In Accordance with HGB)

The unconsolidated annual financial statements of the Company as of and for the year ended December 31, 2005 were prepared in accordance with the requirements of HGB and the supplementary provisions of the German Stock Corporation Act (*Aktiengesetz*). According to such financial statements, Linde Aktiengesellschaft's equity increased from €3,628 million at December 31, 2004 to €3,785 million at December 31, 2005. Total liabilities also increased from €2,765 million at December 31, 2004 to €3,026 million at December 31, 2005. Net income increased from €149 million in 2004 to €286 million in 2005. A total of €118 million from net income was transferred to revenue reserves in 2005. For more information on the Company's unconsolidated annual financial statements, see the Company's unconsolidated annual financial statements as of and for the year ended December 31, 2005.

Quantitative and Qualitative Disclosures about Market Risk

As a global company, we are exposed in the course of our business operations to various market risks, which are inextricably linked with entrepreneurial activities. Some of these risks are described in greater detail in ''Risk Factors.'' We seek to address these risks by applying a comprehensive risk management system, which forms an integral part of our business processes and is a major element in our corporate decision-making. The objective of the system is to identify potential risks arising from our activities at an early stage and to monitor these risks and reduce them by introducing appropriate control measures. The main components of our risk management system are the planning system, internal reporting procedures and an extensive risk reporting process.

The main areas of risk that may have a material effect on our business performance, results of operations and financial condition are described below. In this connection, the individual measures that are taken to identify, monitor, and reduce the primary market risks are also discussed. For more detailed information, see Note 36 to our 2005 IFRS Consolidated Financial Statements.

Commodity and energy price risks

The availability and the prices of commodities, energy, and prefabricated and intermediate products represent a potential risk for us on the purchasing side. We use worldwide purchasing activities, long-term supply contracts, and ongoing optimization of our supplier portfolio to reduce these price and supply risks. To hedge against price change risks, we use a small number of electricity derivatives. We continue to use contracts with price adjustment clauses to reduce the negative effects of changes in supply prices. Individual performance and quality are important criteria for us when choosing suppliers.

Currency risks

We operate worldwide and therefore generate a considerable portion of our sales in currencies other than the euro; a portion of our expenses are also in currencies other than the euro. In addition, several subsidiaries that are included in our scope of consolidation maintain their accounts in currencies other than the euro. Therefore, the results of our operations is affected by fluctuations in the relative values of the applicable currencies, in particular between the euro and the U.S. dollar, British pound, Swedish krona and some eastern European currencies. Those fluctuations are especially relevant when assets or liabilities of companies that are part of our Group are denominated in currencies other than the euro, because they must be shown in our balance sheet at the current exchange rate (translation risk). We did not hedge translation risks in 2005. Our Group treasury guidelines state that the individual business units must monitor transaction risks themselves and enter into appropriate hedging transactions with our Group treasury, provided that no country-specific restrictions or other reasons exist as to why this cannot happen. Hedging decisions are made according to the risk strategies of our treasury committee. We use forward exchange contracts, currency swaps and simple currency options. In the project business of our Linde Engineering division, foreign currency risks are reduced as much as possible by natural hedges, for example, by purchasing supplies and services in the currency of the contract. Any foreign currency amounts exceeding these figures are immediately and fully hedged when they arise. We use forward exchange contracts to hedge foreign currency risks that occur in connection with internal financing. For further details, see ''Risk Factors – Risks Related to our Business – Fluctuations in exchange rates may adversely affect our results of operations.''

Critical Accounting Policies

Our results of operations and financial condition are closely linked to the accounting policies applied, the assumptions made, and the estimates that form the basis for our consolidated financial statements. The critical accounting policies, the assessments that are made when preparing and applying these policies, and the dependency of the reported results on changes in the accounting policies, assumptions, and assessments, are factors that must be considered in connection with our consolidated financial statements.

Amortization of goodwill

The growth of our Group as a result of acquisitions, due in particular to the acquisition of AGA Group in 1999, has increased the amount of goodwill. As of December 31, 2005, the carrying amount of goodwill was €2,823 million, constituting 23% of our balance sheet total. The total figure for goodwill includes the goodwill arising from the acquisition of the AGA Group at a net book value of €2,495 million. Goodwill will increase considerably as a result of the acquisition of BOC. The reason for this increase is that after the acquisition we will recognize a significant portion of the difference between the purchase price paid for BOC and the value of the assets of BOC as goodwill, and that difference is estimated to be between €4.6 billion to €6.2 billion.

In accordance with IFRS 3, ''Business Combinations,'' in conjunction with IAS 38, ''Intangible Assets,'' and IAS 36, ''Impairment of Assets,'' an annual impairment test of goodwill is performed once a year, or more often if events occur or circumstances change that would indicate the carrying value of these assets might be impaired. To comply with the provisions of IAS 36 and to determine possible impairments of these assets, the fair value of the cash generating units determined under IAS 36 is compared to the cash generating units' carrying value. The fair value of each cash-generating unit is determined using estimated future cash flows for the unit discounted by a weighted average cost of capital specific to that unit. Estimated cash flows are based on our budgets for 2006 to 2008, and projections for the following years which are based on an expected growth rate. The growth rate is based on estimates by management and historic growth rates.

If the fair value of the cash generating unit is less than its carrying value, a second step is performed which compares the fair value of the unit's goodwill to the carrying value of its goodwill. If the fair value of the goodwill is less than its carrying value, the difference is recorded as an impairment loss.

A prolonged economic downturn in our business segments could adversely affect the estimated future cash flows from certain countries or cash generating units. In addition, future changes in a unit's macro-economic environment could affect the discount rate. This could result in additional impairment losses charged to goodwill, which could materially and adversely affect our future operating results. See "Risk Factors – Risks Related to Our Acquisition Offer to Shareholders of BOC – Since the purchase price of BOC will be far in excess of the value of BOC's net assets, our planned acquisition of BOC will result in the generation of a significant amount of goodwill, which will be subject to periodic impairment tests."

Measurement of pension obligations

We have committed to our employees in many different countries to provide retirement pension benefits, in which countries retirement insurance systems differ. The amount of the pension obligations under these insurance systems is calculated using actuarial methods to determine the actuarial present value of the defined benefit obligation. The actuarial present value of the pension obligations and additional obligations from the acquisition of BOC is reduced by the fair value of 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 generally disclosed in the applicable balance sheet of the subsidiaries or the Company in accordance with IAS 19, "Employee Benefits." According to IAS 19.58, an asset may arise in the applicable balance sheet of the subsidiary or the Company where a defined benefit plan has been overfunded only if we, under our obligations as employer, have the right to receive a refund of the contributions in cash or to reduce future contributions. If the assets do not cover the obligations, the net obligations after deducting any past service costs are recognized under provisions for pensions or as an asset in the applicable balance sheet of the subsidiary or the Company. Increases or decreases in the present value of the defined benefit obligations or the fair value of the plan assets may give rise to actuarial gains and losses. Actuarial gains and losses are immediately recognized in equity, which means that the provision for pensions is always reported at the actuarial present value of the obligations (defined benefit obligation). The defined benefit obligations totaled €2,208 million as of December 31, 2005, and plan assets were €1,088 million. A total of negative €212 million (2004: negative €139 million), after deduction of deferred taxes, was recognized directly in equity as of December 31, 2005.

Due to the long-term obligations to employees and the natural uncertainties about the future in reference to existing obligations, estimates must frequently be made for the parameters used to measure the pension obligations. For example, actuarial parameters, such as the discount rate, expected return on assets, wage and salary trends and inflation rates are estimated on the basis of the conditions in the various countries as of the balance sheet date. With regard to the sensitivity of pension obligations to the actuarial parameters, it has been determined that a 0.5% increase or decrease in the discount rate would result in a reduction or increase in pension obligations of €142 million or €160 million, respectively.

A negative change in the macro-economic environment could under certain circumstances have a negative effect on the discount rate for the pension obligations, thereby increasing the obligation that must be disclosed. Other macro-economic factors could also affect the other actuarial assumptions and under certain circumstances could lead to a considerable increase in the obligation and as a result to a future financial charge to fulfill those obligations.

Assessment of the recoverability of deferred tax assets

Deferred tax assets and liabilities are accounted for in accordance with IAS 12, "Income Taxes," under the asset and liability method in respect of all temporary differences between the carrying amount of assets and liabilities under IFRS and the corresponding tax base used in the computation of taxable profit, and in respect of all consolidation adjustments affecting net income. Deferred tax assets also include anticipated reductions in tax, where it is probable that taxable profits will be available in future years, against which unused tax loss carry-forwards may be offset. Management must determine the recoverability of deferred tax assets based on the tax results of future periods and the current tax laws enacted in the individual countries.

The actual tax situation and future tax laws in the individual countries may differ from the estimate at the time of recognition of deferred tax assets. Any resulting valuation allowance charge to deferred tax assets could have a material influence on our earnings. A total of €245 million (2004: €191 million) in deferred tax assets was shown in the balance sheet as of December 31, 2005.

BUSINESS

Overview

We are an international technology group headed by Linde Aktiengesellschaft, and we believe we hold a leading position through our two business segments, Gas and Engineering, and Material Handling.

Our Gas and Engineering business segment includes all of our activities that are related to industrial and medical gases and to plant engineering. The activities of our Linde Gas division include the production and delivery of cylinder and bulk gases, primarily for industrial applications (including applications in the food industry), an "On-Site" business which supplies customers with industrial gases from plants that are installed on their own premises, and the production of gases for medical applications. In our Linde Engineering division, we concentrate on designing and building technologically advanced plants in, among other areas, ethylene production, air separation, syngas production and hydrogen production.

Our Material Handling business segment manufactures a comprehensive line of products under the brand names Linde, STILL and OM Pimespo, consisting of internal combustion engine forklifts, electric forklift trucks, and other storage and material handling equipment. We also offer a comprehensive line of services from financing to fleet management and are therefore a single-source provider for all services of intra-company logistics.

We have announced jointly with BOC our agreement to acquire all issued and outstanding shares of BOC under the terms of a friendly acquisition offer. Implementation of our acquisition offer is subject to approval by U.S. anti-trust authorities, or the waiver of such approval requirement. If the approval is not received or waived by October 31, 2006, or any later date that we and BOC may agree upon with the consent of the U.K. Takeover Panel, then the acquisition offer will not be carried out.

In the future, we intend to concentrate our operations on our industrial gases and plant engineering businesses. As part of our strategy to acquire BOC, we are considering selling or taking public our Material Handling business segment in order to partially reduce the financial debt we would incur as a result of the BOC acquisition.

We believe that we hold leading market positions in both of our business segments. In our Gas and Engineering business segment, we believe that we are one of the international leaders in the sale of industrial gases. We also believe that we occupy a worldwide leading position in the development of environmentally friendly hydrogen technology. The Medical Gases division of our Gas and Engineering business segment, which has shown strong growth in the past, continues to expand. We have comprehensive process technological know-how in the planning, design and construction of turnkey industrial plants and have enjoyed success worldwide in particular in the construction of hydrogen, air separation and olefin plants. In our Material Handling business segment, we believe that we are among the world's largest manufacturers of industrial trucks.

We are pursuing a profit-oriented growth strategy. This strategy is based on the targeted expansion of our international business to include trend-setting products and services. We are not only concentrating on our core markets in Germany and Europe, but are also seeking to enhance our position in high-growth markets in Asia, the United States and Eastern Europe.

In 2005, we had worldwide sales of €9.501 billion (2004: €8.856 billion (restated and comparable); 2003: €8,992 billion). Our operating profit (EBITA) in 2005 was €913 million (2004: €774 million (restated and comparable); 2003: €683 million, each before special items). As of December 31, 2005, our Group consisted of approximately 270 affiliated companies worldwide, and employed a total of more than 42,000 individuals.

The table below gives an overview of our sales, broken down by business segment and division over the last three financial years and for the three months ended March 31, 2006 (with comparative figures for the three months ended March 31, 2005):

	Three months ended March 31,		Year ended December 31,			
	2006	2005[1]	2005	2004[2]	2004	2003
			(€ millions) (unaudited)			
Gas and Engineering[3]	1,494	1,333	5,831	5,406	5,406	5,031
Gas	1,198	1,032	4,438	4,003	4,003	3,843
Engineering	316	357	1,623	1,581	1,581	1,270
Material Handling	922	771	3,628	3,372	3,372	3,063
Refrigeration	–	–	–	–	578	866
Corporate	(1)	14	42	78	65	32
Total	**2,415**	**2,118**	**9,501**	**8,856**	**9,421**	**8,992**

(1) Restated.

(2) Restated and comparable.

(3) Consolidated to eliminate transactions between the two divisions.

For further information, see ''Management's Discussion and Analysis of Financial Condition and Results of Operations.''

Company History and Organization Structure

In 1879, Carl von Linde formed *Gesellschaft für Linde's Eismaschinen* as a German stock corporation (*Aktiengesellschaft*) and thereby established a new industrial sector, the refrigeration industry. In 1895, Carl von Linde became the first to succeed in the liquefaction of atmospheric air and shortly thereafter invented a process, known as the rectification process, for separating air into its different components, thus producing pure oxygen. Over the next one hundred years, we expanded our activities to include the manufacture of industrial trucks, plant engineering and construction. In 2000, we acquired the Swedish gas company AGA, thereby becoming one of the largest gas suppliers in the world. Our Refrigeration business segment was spun off and sold in 2004. Since that time, we have maintained our Linde Gas and Linde Engineering operating divisions and our Linde Material Handling business segment as well as the administrative division of our corporate headquarters.

Strengths

We believe that we will continue to grow in the future due to our competitive strengths, which are described below:

- Leading market position in attractive markets

  We hold a leading market position in a number of attractive markets. In our two business segments, Gas and Engineering and Material Handling, we generate by far the largest portion of our sales in markets in which, based on our own estimates, we are one of the leading companies in terms of revenue. We are also the market leader in business areas, countries and products that are of particular strategic relevance.

  Through the planned acquisition of BOC, we also expect to achieve a leading position in terms of market share in industrial gas manufacturing in the growth regions of Africa and the Asia/Pacific countries, to become one of the two largest companies in the industry in Europe and South America, and to achieve a leading position in North America. Worldwide, we would expect the BOC acquisition to render us a leader in terms of sales among producers of industrial gases. In the past, the attractiveness of the industrial gas market in those countries where we operate has been based on growth rates that were two to two-and-one-half times the growth of the respective local gross domestic product (GDP).

- Global presence in growing markets

  Our On-Site business, i.e., the supply of industrial gases from plants that are installed on the customer's own site, is one of the most important growth areas worldwide for our Linde Gas division. We continue to expand our position in this growing market in Eastern Europe and China among other regions, and with the acquisition of BOC we expect to become the second largest company, in terms of revenues, in this industry worldwide. In 2005, we increased our sales of bulk and cylinder gases as a result, among other projects, of having built the first special gases plant for the electronics industry in China. We expect that the BOC acquisition would expand our presence in our bulk and cylinder gases sub-segments from approximately 40 to approximately 70 countries, making us the world market leader in bulk gases and providing us with a leading position in cylinder gases.

  We are already the leading industrial gases company in Eastern Europe, one of the three fastest-growing regional markets along with Asia and South America. We expect that the acquisition of BOC would provide us with a leading position in Asia and South America as well.

  In terms of global reach and strong know-how, we also cover the most important markets in terms of revenue growth rate (e.g., hydrogen and special gases).

- Broad product line

  A broad product line enables us to meet the extensive needs of our customers. We offer a wide selection of products in the field of industrial gases, which includes bulk and cylinder gases, medical gases, noble gases (e.g., helium) and the production of liquid hydrogen. These products support a large number of applications in a wide range of market segments, such as the processing, food, steel, chemicals and petrochemicals industries.

  We are also one of the few companies that can offer customers in the gases sector engineering and construction services for air separation and hydrogen plants as single source. Our Linde Engineering division is also one of the world's leading suppliers in the growth segments of olefin plants (for the production of the basic petrochemical products ethylene and propylene) and natural gas liquefaction plants.

  Through our Material Handling business segment, we maintain a strong presence in the manufacturing of industrial trucks and are able to offer customers specific solutions in all segments (Premium, Intralogistics and Value Segment) through our three brands, Linde, STILL and OM Pimespo. The introduction of innovative products in this business segment in the past years has further improved our leading position worldwide and has made us the market leader in Europe.

Group Strategy

The core elements of our strategy include the following:

- Profitable growth and increased earning power

  We intend to continue increasing our earning power in the medium term, in spite of the expected impact of the BOC acquisition, including temporary increases in depreciation and amortization which would result from the identification and recognition of hidden reserves as part of the purchase price allocation process, as well as an overall decrease in our financial result. Accordingly, we are pursuing a strategy of sustainable, profit-oriented growth and continuous increase in the value of the Company. On the cost side, we are concentrating primarily on increasing efficiency in our production facilities, taking advantage of economies of scale, utilizing our sales and distribution structures more efficiently, and strictly enforcing cost reducing measures. In this context, the performance programs initiated in all business segments will continue to be implemented ("GAP – Growth and

Performance" in our Linde Gas division and "GO – Growth and Operational Excellence" in our Material Handling business segment). After the BOC acquisition, we plan to expand the GAP program across the combined company. Sustainable profitable growth will be based on revenue-increasing measures and rigorous investment management focusing on portfolio aspects and capital costs whenever investment decisions are made.

- Achievement of synergy effects from the merger with BOC

  We expect that beginning in 2009, the BOC acquisition will generate cost synergies of up to €250 million per year. The synergy effects are to be achieved primarily by optimizing procurement management and increasing purchase volumes, reducing selling and administrative expenses and optimizing supply chain management, including production and distribution and achieving savings in research and development. Sales synergies are also expected from increasing sales volumes in various geographic regions, cross-selling (e.g., in the Healthcare sub-segment) and offering an expanded global line of products and services to our customers. Furthermore, customers worldwide would benefit from our strong market presence with management, production, sales and engineering in each local region. The transfer of know-how already established within our Group will be intensified between the individual sites and regions, and will be expanded to the new combined company.

- Deleveraging and potential concentration on our Gas and Engineering business segment

  The BOC acquisition will significantly increase our net financial debt (non-current and current financial debt less cash and cash equivalents). However, we intend to counteract this effect after the acquisition by taking measures to reduce our financial liabilities such as engaging in divestitures. In particular, we are considering the disposal of our Material Handling business segment by sale or by taking it public, which would enable us to concentrate more effectively on our Gas and Engineering business segment ("pure play").

Business Segments

Gas and Engineering

Our Gas and Engineering business segment consists of our Linde Gas and Linde Engineering divisions. Our Linde Gas division produces and sells a number of industrial gases for applications in industry and trades, and for environmental protection and research and development. It also produces and sells gases having medical applications. Our Linde Engineering division focuses on developing, designing and constructing plants and equipment for process technology projects, including plants for the production of hydrogen, oxygen and olefins and for the processing of natural gas.

Linde Gas division

Overview

Our Linde Gas division produces and sells both industrial gases such as oxygen, nitrogen, argon and hydrogen, as well as helium, special gases and gas mixtures which are used, for example, in the semiconductor and electronics industry and in the pharmaceuticals industry. These gases are distributed primarily in gas form in cylinders (cylinder gas) and in cryogenic liquefied form (bulk gas). We also supply large customers from plants that we construct directly on or near these customers' premises (On-Site). Our Linde Gas division also manufactures and sells gases and equipment for medical applications (Healthcare, Linde Gas Therapeutics).

The table below provides an overview of sales by our Linde Gas division, broken down into the sub-segments Bulk, Cylinder, On-Site and Healthcare, over the last three financial years, as well as for the three months ended March 31, 2006 (with comparative figures for the three months ended March 31, 2005):

	Three months ended March 31,		Year ended December 31,		
	2006	2005[1]	2005	2004	2003
			(€ millions) (unaudited)		
Bulk	326	283	1,215	1,121	1,047
Cylinder	434	392	1,644	1,568	1,555
On-Site	293	225	1,010	821	772
Healthcare	191	170	771	634	575
Total (consolidated)	**1,198**	**1,032**	**4,438**	**4,003**	**3,843**

(1) Restated.

The table below presents an overview of our Linde Gas division sales by region in percent during our last three financial years:

	Year ended December 31,		
	2005	2004	2003
		(%)	
Germany	20.8	22.1	22.3
Rest of Europe	47.4	48.8	48.4
North America	20.4	19.8	21.3
South America	7.4	6.8	6.2
Asia	2.6	1.4	0.8
Australia/Africa	1.4	1.1	1.0
Total	**100.0**	**100.0**	**100.0**

As of December 31, 2005, our Linde Gas division had 17,783 employees worldwide. In the financial year 2005, this division generated revenues of €4,438 million and accounted for approximately 47% of our consolidated sales (2004 (restated and comparative): 45%; 2003: 43%).

Strategy

The objective of our Linde Gas division is to become a worldwide leader in the industrial and medical gases sectors. While we aim for sustainable, organic and profitable growth in the markets where we are already established, we also plan to enter additional growth markets worldwide in the industrial and medical gases sector. As a result of the BOC acquisition, we expect the product portfolios of both companies to complement one another and to expand their geographical and regional coverage. After the acquisition, we would be represented in approximately 70 countries. What we believe to be our leading market position would be expanded in our main products, bulk gases and cylinder gases, as well as in particular in our On-Site business. In the gases sector, we intend to stabilize our market position in Eastern Europe and to expand selectively in the Asia/Pacific region and Latin America. Additional opportunities for growth will be exploited in our Healthcare sub-segment. In the growth markets for special gases (including gases for the electronics industry) and hydrogen, we plan to further expand our expertise in order to play a leading role in the market for these future-oriented products. In addition, we intend to enter into new business segments and to continuously focus on the specific requirements in our different market segments. A further important part of our Linde Gas division strategy is to increase efficiency through our GAP program (Growth and Performance).

Industrial Gases and Healthcare Sub-Segment

Areas of application

Industrial gases today have a wide range of industrial applications and can be used to optimize processes and manufacture new materials. The most important customer sectors by industry are the steel, metalworking, semiconductor and electronics, chemical, health care and food and beverages industries.

- One important area of application for industrial gases is the metalworking industry. Our CORGON®, CRONIGON® and VARIGON® product lines offer process-specific gas mixtures to optimize welding processes and welding results.

- The chemical industry is also a major consumer of industrial gases, as various industrial gases play an important role in chemical and technological processes. Depending on the individual synthesis process, for example, hydrogen, carbon dioxide, carbon monoxide or mixtures of synthesis gases may be required. In addition to their function as synthesis components, industrial gases are important in a wide range of production processes, e.g., for cooling and inerting, within the chemical industry.

- In the metal and glass industries, air is enriched with oxygen or replaced by pure oxygen to accelerate the melting process and thus increase the capacity of melting furnaces, reduce emissions and conserve energy.

- In the fast-growing field of electronics, gases of extremely high purity are required throughout the production process. For these applications, we have developed the HiQ® system, which produces gases of extremely high purity (up to 9.0=99.9999999% purity as a peak value).

- Our medical gases have been used in healthcare applications for more than 100 years. Areas of application include gases as medications to alleviate respiratory distress, in anesthesia, for pain therapy and for the calibration of instruments. Our Healthcare sub-segment has become increasingly important, especially in recent decades. Growth has resulted on the one hand from gases and their use for medical applications, specifically inhaled nitric oxide (INO) which is used primarily in lung function disorders, and on the other hand from medical equipment, artificial nutrition and infusions as well as respiratory homecare, mostly for people who are suffering from chronic diseases of the respiratory tract or other illnesses such as asthma or migraine, and who can be treated with oxygen therapies at home. In our Institutional subdivision, in addition to supplying medical gases and the corresponding equipment to hospitals, we sell pharmaceutical gas therapies and continue to develop these products. From emergency medical services to anesthesia, surgery, intensive care and neonatology, medical gases such as oxygen, Aer Medicalis, medical nitrous oxide and medical carbonic acid are being used in a growing number of applications. The products of our Institutional subdivision are also used in diagnostics.

- Industrial gases also have a wide range of applications in the food industry. For example, nitrogen and carbon dioxide are used to increase shelf life in the packing and storage of liquid and solid foods. These gases protect the products from reactions with atmospheric oxygen, thereby preserving the product quality over a longer period. In cryogenic liquefied form, industrial gases can also be used for cooling and freezing of food.

- In the textile industry, the basic technology for carbon dioxide textile cleaning has become an environmentally acceptable alternative to the use of chlorinated hydrocarbon perchlorethylene (PER). The carbon dioxide cleaning system marketed by us under the trade name ‘‘Fred Butler’’ is economical, cuts electricity costs by one-third and requires absolutely no water or town gas. Of the carbon dioxide used by our system, 98% is recycled and can be reused. We plan gradually to roll out this innovative method and technology in our key European markets through a franchise system.

Products and Production

Products

Our product line includes both atmospheric and non-atmospheric gases.

Atmospheric gases include oxygen, nitrogen and the noble gases argon, krypton, neon and xenon. These gases are contained in normal air and produced by separating air into its constituent elements. Using the cryogenic process developed by Carl von Linde in 1902, the water vapor, particulates and carbon dioxide are removed from the air, and then the air is compressed and cooled to extremely low temperatures (–193 Celsius) and liquefied. It is then separated by a thermal separation process (rectification) into its constituent elements by vaporizing the air in a multi-stage, continuous distillation process and taking advantage of the constituent gases of air having different boiling points. We also use other physical processes for the separation and purification of atmospheric gases, namely through a membrane (e.g., for the production of nitrogen) or through systems using molecular filters (e.g., for the production of oxygen and nitrogen).

The line of non-atmospheric gases includes acetylene, helium, carbon monoxide, carbon dioxide, hydrocarbons, hydrogen and syngas (a mixture of hydrogen and carbon monoxide). These gases, which are either not present in the air or are present only in very small amounts, are produced from naturally occurring raw materials, and are manufactured synthetically or formed as a byproduct during other chemical processes. We produce the majority of our non-atmospheric gases, for example acetylene, carbon dioxide and hydrogen, in chemical plants. We also produce a smaller proportion of our gases from natural deposits, such as carbon dioxide which we extract from Europe's largest source of natural carbon dioxide in Répcelak, Hungary.

If necessary, the purified gases produced by the various processes are combined to create highly precise gas mixtures as specified by customer orders or industry standards. The plants we use to produce our gases are designed and built by our Linde Engineering division.

To expand our offerings of industrial gases, we offer our customers complete solutions for their gas applications. Our product line includes, in particular, systems for central gas supply, in which the customer's individual points of consumption are supplied through a pipeline network from a central gas reservoir. Points that can be supplied in this manner include cylinder racks, pipeline and bleeder valves, pressure relief valves, dosing equipment and mixing systems. We develop, build and test equipment and devices built to customer specifications in our technology centers. As part of this process, we also work closely with specialized manufacturers. We offer consulting services (such as in the selection of the optimum form of supply and customer-oriented solutions to applications problems, such as for example the optimization of production methods and processes), as well as comprehensive services such as the installation and maintenance of gas plants, cylinder logistics, remote monitoring of tanks and cylinders, disposal and recycling of gases and employee training programs. In cooperation with our Linde Engineering division, plants can be constructed at the customer's premises and upon completion used to supply industrial gases on site.

Our Healthcare sub-segment produces and sells medical gases and the corresponding equipment for clinics (Institutional subdivision), for homecare for chronically ill patients (Respiratory Homecare subdivision) and for treatment of newborns with lung function disorders (INO Therapeutics subdivision).

Production

Linde operates gas production plants at a total of 139 sites in 34 countries and 28 of those sites are in Germany. The gases produced are bottled in steel cylinders in more than 350 gas bottling plants on all five continents. We distribute our industrial gases in three formats: cylinders, tanks and from on-site plants. The method of distribution depends to a large extent on the quantity of gas required by the customer. For customers with a relatively low demand, delivery in gas cylinders suffices, while tank, on-site or pipeline delivery are generally only appropriate for customers who require large or very large quantities of gas.

As transport of gases in cylinders and tank cars is expensive, this delivery method can only be used economically over long distances in rare cases. We therefore limit our delivery radius to approximately 200 km or 300 km around the respective production or bottling plant. Different gas suppliers sometimes assist each other in an effort to overcome high transport costs by contractually arranging to purchase specified quantities of gases from each other.

- Cylinder gas

  In our cylinder gas segment, the gas supplier delivers gas to the customer in special pressurized containers (usually steel cylinders), which are the property of the gas supplier. These gas cylinders are filled at a pressure of up to 300 bar. The customer pays for the product plus a leasing charge for use of the gas cylinder. We produce gas that is supplied in tens of millions of gas cylinders throughout Europe. Supply contracts for cylinder gas deliveries generally run for up to one year, which means that the customers can change gas suppliers relatively easily. To provide major customers with an overview of the number of cylinders they have leased at any given time, we offer our Cylinder Guardian Kit (CGK), which can be used to track all movements of the leased cylinders. All the data from the shipment and receipt of the cylinders, including the current inventory until the cylinders are returned, can be recorded and analyzed.

  We have a network of several thousand independent distribution partners, which enables us to offer our customers an area-wide supply of gases as well as expert service. The distribution partners generally handle retail distribution of the gases for our account. For this activity, the individual distribution partner is paid a commission per cylinder. We divide our distribution partners into three categories: Gas Points, Gas Partners, and Gas & More Centers. Gas Points offer our customers a country-wide supply of industrial gases. Gas Partners offer the customer professional consulting and other services (such as express delivery and connection services) in addition to gas delivery, along with a limited number of accessories including welding tools. Gas Partners sell our gases and must meet defined quality criteria. We systematically conduct quality audits of our Gas Partners. The third group of gas distributors, the "Gas & More Centers," offer, in addition to our full line of products, highly qualified service and an extensive selection of hardware, especially in the area of welding equipment.

  We are expanding our direct distribution channels in our cylinder gas segment. In addition to serving 35,000 customers directly with a distribution presence in nearly all European countries, we are currently establishing and expanding our customer call centers ("telesales"). More webshops are also being set up, by which customers can meet all their product requirements (including orders, payments, invoice tracking and distribution of gases within their own companies) on the Internet.

- Bulk gas

  For larger gas requirements (more than approximately 18,000 m^3 per year), we generally supply the customers with gases that are cryogenically liquefied and then transported in tank trucks and stored in tanks at customer locations. The advantage of this method of gas supply is that the costs for storage and transport of gases are lower than for delivery in cylinders. The tanks are installed on the customer's property and are owned by the gas supplier. Tank leases are generally for terms of up to three years.

  In addition to on-site tanks, we also offer our customers additional plants and services, such as vaporizer plants, pipelines and all installation, maintenance, inspection and testing services, including electronic remote monitoring of the gas level in the tank, as well as training of customer operations personnel.

- On-Site supply

  For large customers (whose requirements exceed approximately 10 million m^3 per year), supply through tank trucks is generally not economical. In these cases, we offer to supply industrial gases from plants that are installed and operated by us but built and located on the customer's own property, through our On-Site business. An alternative to On-Site supply, in special cases, is a connection to an existing local pipeline network of that type which is installed in industrial centers such as Leuna, Germany. Because of the relatively high investment costs, the term of the corresponding supply contract is based on the useful life of the on-site plant, which is generally 15 years. These customers' contracts also generally stipulate a guaranteed minimum consumption volume. The plants necessary for gas production are generally designed and built by our Linde Engineering division and operated by our Linde Gas division.

Through our ECOVAR® supply concept, we offer a combination of on-site production plants and liquefied gas reserve tanks for medium-size customers whose gas consumption is greater than approximately 90,000 m^3 per year. The customer's basic requirements are met by the on-site production, while peak demand above that level is covered by the tank. The same solution can be used to meet demand during periods when the gas production plant is out of operation.

On-site customers come from different sectors, but most are in the chemical, petrochemical and metallurgical industries.

Market and competition

Market

Among gases that are used industrially, there is a distinction between fuel and heating gases (such as methane, propane and butane) on the one hand, and industrial gases on the other hand. In the context of our Linde Gas division, we do most of our business in industrial gases, including both atmospheric gases (gases derived from the constituent elements of air) and a wide range of specialty gases and gas mixtures.

Because gases are stored and transported either in gas form under high pressure or in liquefied form at extremely low temperatures, transport over long distances is technically complex and/or very cost-intensive. For these reasons, gases are generally produced locally at plants which gas producers build in close proximity to their customers. Consequently, local market breakdowns and competitive conditions can differ significantly from one location to another.

In 2005, the total worldwide market for industrial gases was valued at approximately $49 billion (Source: Spiritus, Gasworld March 2006, Issue 11). The table below shows the breakdown of the market for industrial gases by region over the past four years:

	2005	2004	2003	2002
North America	33%	32%	33%	34%
Western Europe	29%	30%	29%	27%
Northern Pacific	19%	19%	21%	22%
South America	5%	5%	4%	4%
Southern Pacific	5%	5%	4%	4%
Eastern Europe	4%	4%	4%	4%
Rest of World	5%	5%	5%	5%
Total ($ billions)	**49.2**	**44.5**	**40.8**	**36.7**

Source: *Spiritus Consulting, Industrial Gases Business Performance Analyses 2002, 2003, 2004, 2005* (figures for 2005 are estimates) (gas and services only and based on subsidiary undertakings only).

Because industrial gases are required in the production of a wide range of industrial goods, the customers for industrial gases come from many different industrial sectors. The table below presents an overview of sales by market segment.

	2005-2009 (Projection)	2005		2004		2003		2002[1]	
	(average) annual growth in %)	($ millions)	(Share in %)	($ millions)	(Share in %)	($ millions)	(Share in %)	($ millions)	(Share in %)
Manufacturing	6.5	14,766	30.0	13,730	30.8	12,735	31.0	11,657	32
Chemical industry	9.3	9,517	19.4	8,295	18.6	7,130	17.5	5,920	16
Steel	6.8	6,893	14.0	5,944	13.5	5,515	13.5	4,970	14
Health care	8.0	6,365	12.9	5,746	13.0	5,455	13.5	4,868	13
Electronics	8.0	3,485	7.1	3,364	7.6	2,895	7.0	2,702	7
Foods	6.0	3,382	6.9	3,026	6.8	2,780	7.0	2,498	7
Glass	5.3	883	1.8	762	1.7	680	1.5	633	2
Paper and cellulose	6.2	514	1.0	487	1.1	460	1.0	427	1
Other	3.2	3,352	6.8	3,166	7.1	3,145	8.0	3,050	8
Total	**7**	**49,157**	**100**	**44,518**	**100**	**40,795**	**100**	**36,724**	**100**

(1) Figures for 2002 include, in part, sales of welding equipment.

Source: *Spiritus Consulting, Industrial Gases Business Performance Analyses 2002, 2003, 2004, 2005* (figures for 2005 are estimates) (gas and services only and based on subsidiary undertakings only).

Market trends

Industrial gases are supply products the demand for which follows economic trends in individual industrial sectors; such trends, however, can change as new products and processes or replacement processes are introduced. For instance, stricter environmental requirements can create new demand for industrial gases, such as hydrogen which is required in low-sulfur fuel production in refineries.

In addition, because gas production facilities must be located in close proximity to the respective consumers, increased growth in the manufacturing industries in emerging countries such as Eastern Europe and Asia is expected to be accompanied by corresponding growth in the gas market. There is also a relationship between the gas applications required and the maturity of the respective markets; that is, the more developed an industrial environment is, the more sophisticated the gas applications, processes and methods of supply required are.

According to projections by Spiritus Consulting, annual growth of approximately 7% can be expected through 2009, essentially from new applications, improved product quality and increased productivity (Source: *Spiritus Consulting, Report 2004*, p. 1).

Competition

The market for industrial gases is shared among a few large international gas companies and a large number of smaller local companies.

The table below illustrates sales growth in recent years, including all companies with worldwide sales of more than $1 billion. These figures do not include sales of hardware or companies' activities outside industrial gases industry.

	2005		2004		2003		2002	
	($ millions)	(in %)	($ millions)	(in %)	($ millions)	(in %)	($ millions)	(in %)
Air Liquide	9,664	19.7	8,768	19.7	7,172	17.6	5,442	15.5
Praxair	6,497	13.4	5,590	12.5	4,715	11.6	4,064	11.7
Linde	5,426	11.0	4,796	10.8	4,171	10.2	3,218	9.2
Air Products	5,114	10.4	4,651	10.4	3,912	9.6	3,084	8.8
BOC	4,528	9.0	4,367	9.8	4,029	9.9	3,668	10.5
TNSC	2,194	4.4	1,494	3.4	1,071	2.6	969	2.8
MG	1,000	–	1,238	2.8	1,682	4.1	1,281	3.6
Air Gas[1]	1,385	3.0	1,127	2.5	935	2.3	918	2.6
Other	14,347	29.2	12,528	28.1	13,108	32.1	12,497	35.6
Total	**49,157**[2]	**100.0**	**44,559**	**100.0**	**40,795**	**100.0**	**35,141**	**100.0**

(1) Air Gas does business in the United States only.

(2) Since the sales of MG calculated exactly for purposes of this table could not be included due to sales of less than $1 billion, this figure is not the exact sum of the preceding individual sales figures for 2005.

Source: *Spiritus Consulting, Industrial Gases Business Performance Analyses 2002, 2003, 2004, 2005* (figures for 2005 are estimates) (gas and services only and based on subsidiary undertakings only).

The range of gases offered is largely the same for all the major international companies. There are, however, significant differences among the companies in terms of the services they offer, their gas supply and application equipment, and their strategic focus on geographical and/or industrial markets or customer segments.

The table below illustrates the trend of geographic distribution of the revenues of the competitors listed above.

	North America			South America			Western Europe			Eastern Europe		
	2004	2003	2002	2004	2003	2002	2004	2003	2002	2004	2003	2002
Air Liquide	22%	23%	26%	3%	3%	3%	49%	48%	48%	1%	1%	1%
Praxair	61%	62%	65%	13%	12%	13%	17%	17%	14%	0%	0%	1%
Linde	20%	22%	23%	7%	6%	6%	61%	61%	60%	10%	10%	10%
Air Products	47%	45%	47%	4%	2%	2%	34%	35%[1]	30%	2%	n/a[2]	1%
BOC	27%	29%	32%	4%	3%	4%	23%	22%	21%	2%	2%	2%
TNSC	16%	15%	17%	0%	0%	0%	0%	1%	0%	0%	0%	0%
MG	– %	0%	21%	– %	1%	2%	– %	49%	55%	– %	43%	14%
Air Gas	100%	100%	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%

(1) Western and Eastern Europe.

(2) See "Western Europe" column.

	Northern Pacific			Southern Pacific			Rest of World		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
Air Liquide	15%	15%	11%	6%	6%	7%	4%	4%	4%
Praxair	6%	5%	4%	1%	1%	1%	2%	3%	2%
Linde	0%	0%	0%	2%	1%	1%	0%	0%	0%
Air Products	10%	17%[3]	15%	3%	n/a[4]	3%	0%	1%[5]	2%[6]
BOC	16%	17%	16%	19%	18%	17%	9%	9%	8%
TNSC	82%	82%	80%	2%	2%	3%	0%	0%	0%
MG	– %	7%	4%	– %	1%	4%	– %	0%	0%
Air Gas	0%	0%	0%	0%	0%	0%	0%	0%	0%

(3) Asia/Australia/Japan.

(4) See "Northern Pacific" column.

(5) Africa.

(6) Africa/Middle East/India.

Source: *Spiritus Consulting, Industrial Gases Business Performance Analyses 2002, 2003, 2004* (gas and services only and based on subsidiary undertakings only). For Linde: Figures adjusted on the basis of internal information.

The breakdown of sales among the top competitors in the individual market segments in 2004 is shown in the following table (Messer Griesheim was divided and sold in individual parts in 2004 (in Europe, to Air Liquide, among others) and therefore this company is not included in this table):

	Air Liquide	Praxair	Linde	Air Products	BOC	TNSC	Air Gas
Processing industry	26%	24%	32%	15%	30%	27%	55%
Chemical industry	21%	24%	19%	30%	17%	10%	7%
Metallurgy	10%	16%	15%	11%	16%	16%	4%
Healthcare	18%	13%	15%	12%	6%	9%	11%
Electronics	9%	5%	2%	21%	8%	29%	2%
Food	6%	8%	8%	4%	11%	4%	5%
Glass	2%	2%	1%	2%	1%	1%	1%
Paper and cellulose	1%	1%	1%	0%	1%	0%	1%
Other	7%	7%	7%	5%	10%	4%	14%

Source: *Spiritus Consulting, Industrial Gases Business Performance Analyses 2004* (gas and services only and based on subsidiary undertakings only).

In our Healthcare sub-segment, the nature of competition varies according to our individual segments:

- INO Therapeutics: As we have patent protection for the application of INO in the United States, we are currently the sole supplier of INO in the United States. Our direct competitors outside the United States are gas suppliers who supply nitric oxide without certification as a medical product. Another type of competition consists of alternative medicines that are not supplied by gas companies but may have similar properties.

- Respiratory Homecare/Institutional: We believe that sales of the major gas companies (Linde, Air Liquide, Praxair, Air Products, BOC and Airgas) account for less than one-quarter of the total market for our Homecare and Institutional subdivisions. The majority of this market is served by a few large U.S. companies and a large number of smaller companies.

Linde Engineering division

Overview

Our Linde Engineering division designs and builds turnkey industrial process plants. We focus our plant and equipment engineering efforts on technically advanced installations, in particular in the field of the production of olefins, air gases, hydrogen and synthesis gases and the processing of natural gas. Our Linde Engineering division has erected more than 4,000 plants in some 100 countries and holds more than 1,200 process patents and patent applications.

Our Linde Engineering division designs and builds plants for both third party use and for use by our Linde Gas division. The plants constructed for our own use accounted for approximately 14% of the total revenue of our Linde Engineering division in 2005 (2004: 11%; 2003: 6%). We see a significant competitive advantage in the close ties between these two divisions. By building plants for our own use, we have the opportunity to demonstrate and utilize our system's expertise in both our control of the industrial gas production process and the construction, startup, operation and maintenance of the equipment itself. We believe that this systems expertise will be increasingly in demand from our customers.

Integral components of our Linde Engineering division business include engineering services such as feasibility studies, basic and detail engineering, and consulting and financing services. The manufacture of equipment components rounds off the product line offered.

We believe that we are a technology leader in all the areas of activity described above, and have a particularly strong market position in air separation plants, ethylene plants and hydrogen plants. We believe that hydrogen plants have a great potential for future growth.

Since March 2002, we have been working with BOC in the engineering area on the basis of a joint venture to design and construct industrial plants and facilities.

The table below presents an overview of the sales of our Linde Engineering division (including sales to our Linde Gas division) during the last three financial years and for the three months ended March 31, 2006 (with comparative figures for the three months ended March 31, 2005). The fluctuations in sales are a function of market cycles and the current status of orders being handled at the time:

	Three months ended March 31,		**Year ended December 31,**		
	2006	**2005**	**2005**	**2004**	**2003**
			(€ millions) (unaudited)		
Petrochemical plants	66	65	410	280	297
Natural gas plants	60	127	268	636	394
Hydrogen and synthesis gas plants	62	34	258	149	156
Air separation plants	78	97	466	327	241
Pharmaceutical and environmental installations	15	12	96	74	77
Miscellaneous	35	22	125	115	105
Total	**316**	**357**	**1,623**	**1,581**	**1,270**

The table below provides an overview in percent of our Linde Engineering division sales during the past three financial years, broken down by region and percent:

	2005	**2004**	**2003**
		(in %)	
Asia	27.6	19.7	28.6
Germany	10.9	7.2	14.1
North America	17.5	8.8	12.7
Australia/Africa	6.8	9.2	2.9
South America	2.2	1.1	1.1
Rest of Europe	35.0	54.0	40.6
Total	**100.0**	**100.0**	**100.0**

As of December 31, 3005, our Linde Engineering division had a total of approximately 4,400 employees worldwide, including 3,300 engineers (who represent approximately 75% of all active employees of our Linde Engineering division). The sales of this division to third parties were €1,396 million in 2005, and accounted for approximately 15% of our Group's consolidated sales (2004: 16%; 2003: 13%).

Strategy

The goal of our Linde Engineering division is to continue to play a leading role in the world market as a global engineering company with an international presence in each of its core segments, offering competitive and innovative products. This means being the leader in the relevant markets in terms of numbers of new orders, while maintaining cost efficiency and technology leadership. To that end, we are expanding this business in the emerging regions of Asia, Latin America and Eastern Europe, with particular focus on China, India, countries in the Middle East, Brazil, Mexico and the countries of the former Soviet Union. An additional objective of the acquisition of BOC, with which our Linde Engineering division has already been working on the basis of a joint venture, is to take advantage of opportunities for synergies. The division's plans include an expansion of our capabilities for the execution of large turnkey projects and, in addition to the development of new technologies and innovative products, the continued development of our service business.

To reduce costs and ensure the quality of performance, our Linde Engineering Division intends to continue to improve our project execution and worldwide purchasing and administrative processes, as well as to promote and expand the know-how of our personnel. The cooperation with our Linde Gas division is to be intensified through the air separation and hydrogen segment and the synthesis plants, with a focus on maximizing synergies. In the next few years, we plan to utilize opportunities for internal and external growth increasingly to expand and enhance the current product portfolio. The division's focus is on the market for chemical plants, as well as the rapidly growing energy market. In these cases, we plan to continue to expand our already wide-ranging know-how in the areas of hydrogen and synthesis plants as well as natural gas liquefaction plants. Our Linde Engineering division aims to enhance its profitability relative to its competitors through ongoing efficiency measures.

Products and Production

Products

Among its other activities, our Linde Engineering division acts as a general contractor on major projects for the construction of turnkey industrial plants, its own added value being generated primarily through new technology development, engineering services and project management.

Our focus is on:

- Petrochemical plants, with a clear emphasis on plants for the production of the basic petrochemical products ethylene and propylene and the polymers that can be obtained from them, which account for more than 50% of the consumption of ethylene and propylene. In this segment, we have so far constructed more than 45 major plants for the production of ethylene and propylene and approximately 20 polymer plants worldwide. We believe that our Linde Engineering division is thus among the world's leading providers in the field. In ethane crackers in particular, we have been able to build on our leadership position with numerous orders from the Middle East. We received orders from both Saudi Arabia and South Africa for the major alpha olefin basic products, which, among other uses, are added to modern plastics (polyethylene) to improve their quality.
- Air separation plants, in which we also believe that we are a technology leader. We have built a total of more than 2,800 air separation plants in 80 countries, with 600 plants having been built in the past 20 years.
- Syngas plants, with a focus on plants for the production and purification of hydrogen and carbon monoxide. In the past 20 years, we have built more than 700 plants and parts of plants in this product segment.
- Cryotechnics, with a focus on hydrogen and helium liquefaction plants for the gas industry and for basic research. We believe that our Swiss subsidiary Linde Kryotechnik AG plays a leading role in this sector on the world market.
- Plants for the liquefaction of natural gas, for which we have developed several processes. We can therefore offer customers a custom-designed efficient solution for plants of any size. Since 1972, we have built more than 15 natural gas liquefaction plants, the largest of which is currently being erected in Hammerfest, Norway (capacity 4.3 million tons annually). This plant employs the LNG Baseload Process, which we developed jointly with the Norwegian company Statoil and is being used for the first time in this plant. Upon commencement of commercial operations in mid-2007, we will also have a reference project in the mega-plants sector in addition to the lower capacity LNG plants that have already been successfully introduced to the market.

Due to our extensive process know-how and a large portfolio of patents, we have the advantage of being able to build plants that largely use our own process technologies. When this was not the case in the past we have been able to provide the required technology and process know-how demands otherwise from third parties.

Production

To ensure the quality of our plants and equipment, we manufacture selected core components ourselves. Our Group's largest production facilities are in Schalchen, Germany, located approximately 100 km east of Munich. Some 730 engineers and skilled craftsmen develop and fabricate components and complete modules for use in process plants (e.g., ethylene, syngas, LNG and air separation plants). The annual production capacity is approximately 1.3 million hours. The 200,000 m^2 site is home to 22 manufacturing buildings with a total production area of 63,000 m^2. We produce equipment components in diameters of up to 6 meters, lengths of up to 45 meters and a total weight of up to 170 tons. We have two additional German production sites, in Munich and Horgau (near Augsburg) as well as production plants in Aldershot (Great Britain), Tulsa (Oklahoma, United States), Atlanta (Georgia, United States) and Dalian (China). By producing selected core components itself, our Linde Engineering division retains important know-how within our Group and is therefore able to reduce our dependence on external component suppliers in the area of highly sensitive equipment components. We purchase other components and the materials and procure specific engineering and construction services on a worldwide basis (global sourcing).

Market and Competition

Market

The overall market for large industrial plants consists essentially of power plants, foundries and rolling mills, electrotechnical equipment, chemical plants, air separation plants, plants for the liquefaction and refining of natural gas, and hydrogen and syngas plants. To our knowledge, there is no single, comprehensive source that reliably describes the overall market and its sub-markets or the competitive situation in the market breakdown presented below. Unless indicated otherwise, all the statements below concerning the market and competition are therefore based on our own estimates, some of which have in turn been derived from a variety of sources. It is possible that the actual market conditions and competition may differ from the situation described below, or that other market participants may come up with different estimates of the market and competitive conditions.

Our Linde Engineering division does business exclusively in the sub-sectors involving the construction of chemical plants, air separation plants, natural gas liquefaction and refining and hydrogen and syngas plants. We believe that the size of the world market in the segments where we are present is approximately €15 billion. Within chemical plants, our Linde Engineering division focuses its activities on the construction of large petrochemical plants for the production of ethylene and propylene and their polymers.

The information on the market and competitive situation presented below focuses on those areas in which our Linde Engineering division does business.

Market Trend

Large-scale Petrochemical Plants

The market for petrochemical plants depends essentially on the growth in demand for the products ethylene and propylene. We estimate that worldwide demand for ethylene has grown in the past at a constant annual rate of approximately 4%, while the demand for propylene has grown by 5 to 6% annually. We expect a very constant growth rate of 4 to 4.5% for ethylene and propylene over the next few years. In spite of the constant growth of basic petrochemical products such as ethylene and propylene, earnings in the sector of large-scale petrochemical plants are subject to cyclical fluctuations over a period of about seven years. These cycles in the petrochemical industry have an effect on investment activity, which generally always increases, with some delay, after a period of good earnings. A weakening of the current very intensive investment activity should be attenuated or postponed by strong earnings and strategic expansion of capacity in the Middle East. On account of investments that had been postponed in 2003 and 2004, the year 2005 was extraordinarily good for builders of large-scale petrochemical plants. New orders totaling more than €8 billion reflect the strong demand from regions that are rich in raw materials (e.g., Saudi Arabia and Iran), as well as regions with above-average economic growth such as China. But new capacities in the field of petrochemical plants are also being constructed or planned in Europe, such as the expansion by our Linde Engineering division of BASF AG's ethylene plant in Antwerp, Belgium, and the project for a new INEOS plant in Wilhelmshaven, Germany, which is currently in the planning stage. In addition to plant engineering activity, the modernization and expansion of existing plants in Europe and, to an increasing extent, in other regions is also becoming an important component of the business. On average, European ethylene plants are more than 25 years old, and many plants are in need of modernization and adaptations to meet new emissions standards.

For the period from 2006 to 2008, we expect the number of new orders in the field of olefin plants and polymer plants to remain high as a result of stable market growth and the shift of production to the Middle East. (Source: Verband Deutscher Maschinen- und Anlagenbau e.V., Arbeitsgemeinschaft Großanlagenbau, 2005 Management Report). Demand should also be sustained by the construction of new capacities in Russia and in the Central Asian republics. According to forecasts by our Linde Engineering division, a decline in the current boom is not expected until 2009 or 2010, when numerous new plants will begin operations. Around that time, we can probably also expect a decline in numbers of new orders for plant and equipment engineering and construction. Based on our experience, it is during such periods that existing plants are modernized and expanded, which can to some extent compensate for the decline in the new plant business. Our Linde Engineering division also has the ability to fill orders with or without partner companies. This allows us to stabilize the level of new orders by reducing the involvement of our partners when the market volume declines cyclically. We believe that the Middle East and Asia as well as the successor states of the Soviet Union will be the most important markets for petrochemical projects in the coming years.

Air Separation Plants

The market for air separation plants for the production of oxygen, nitrogen, argon and noble gases is experiencing dynamic growth, and, we believe, has been growing in recent years at an annual rate of between 3 and 5%. We estimate that the volume of orders in 2005 for the total market was approximately €1.8 billion. A significant part of this market volume relates to orders from emerging Asian countries. In 2005, these countries accounted for approximately 40% of the total market, followed by orders from countries in the Middle East, which accounted for approximately 25% of the market, and orders from North and South America, which accounted for a market share of approximately 18%.

In the power generation and petrochemical sectors, as well as in the oil industry, new application processes that require very large quantities of oxygen are expected to contribute to continued growth in the demand for particularly large air separation plants. We believe we are well positioned in this segment of the market. For example, we built the largest air separation plant in the Middle East for Saudi Basic Industries Corporation (SABIC) and received an order for the construction of three further air separation plants. In the growth markets of Central and South America, Linde was also awarded a major contract to build the largest air separation plant in the world in Cantarell for PEMEX (Petroleos Mexicanos), the state-owned Mexican petroleum company.

Natural Gas Liquefaction and Refining

We estimate that, the market for liquefied natural gas has grown in recent years at an annual rate of approximately 8% and is therefore a business that has a particularly promising future. Natural gas is a relatively clean, non-polluting and economical energy source, from extraction through processing to consumption, and we believe that natural gas will eventually replace crude oil in many sectors of the economy in the long term. In 2005, orders for liquefied natural gas plants totaling more than €2.6 billion were awarded worldwide. The market for natural gas refining is significantly smaller but no less attractive. We estimate that the worldwide market volume in 2005 for Natural Gas Liquids (NGL) and Liquefied

Petroleum Gas (LPG) was approximately €1.3 billion. Therefore, the total market volume in this sub-sector in 2005 was more than €3.9 billion.

For 2006, we expect the volume of orders for NGL plants to increase to almost €4 billion. In this regard, the regions that are the most attractive are those with gas fields that cannot be exploited through pipelines for political and/or economic reasons. These regions include the countries of outer Northern Europe and Australia, the Middle East, the West Coast of Africa and the East Coast of South America. For LPG plants, a market volume of €1.8 billion is projected for 2006.

Hydrogen and Syngas Plants

The demand for hydrogen is a major driver for the demand for hydrogen and syngas plants. We estimate that the worldwide demand for hydrogen has continued to increase in 2005, particularly as a result of more stringent legal requirements for the purity of fuels from which sulfur is removed by means of hydrogen. The demand for hydrogen on the part of gas companies is also expected to grow by approximately 7% per year, thereby contributing to the positive growth of the market for hydrogen plants.

We estimate that, while in past years, the North and South American markets accounted for 30% of the market and represented the leading region, in the future the focus is expected to shift to regions with above-average economic growth such as the Far East. New applications for syngas plants will also result from the adoption of new methods such as Gas-to-Liquid (GTL) and Coal-to-Liquid (CTL).

Competition

Competition in the sub-sectors described above is characterized on the one hand by a few large international companies, and on the other hand by a large number of small companies, some of which do business in the hydrogen and syngas sub-sectors only regionally.

Our Linde Engineering division's competitors include the major international equipment manufacturers, although the comparability is limited, because as a rule these competitors' operations relate to only a subset of our operations, and some of them work only with individual customer segments or in regional markets. Accordingly, we compete with a wide range of different market participants. In the field of petrochemical plants, the major competitors are Technip, ABB Lummus, Halliburton KBR and Shaw Stone Webster. In the field of natural gas liquefaction and refining plants, the major competitors are Chiyoda, Bechtel, JGC, Halliburton KBR, Technip, Snamprogetti and Foster Wheeler. In the field of hydrogen and syngas plants, the market is shared primarily among our Linde Engineering division, Technip, Haldor Topsoe, GEA and Uhde. The principal competitors in the air separation plant sub-sector are Air Liquide, Air Products and Praxair, as well as a few Chinese companies in the Asian market.

In our experience, the most important factors in winning an order for a plant are technology, references, quality, delivery time, project management, service and price. The purchase price is becoming increasingly important compared to the other factors, in particular in sectors that are characterized by relatively low complexity. To further increase the return on investment, we will concentrate on the construction of technically complex and advanced plants (e.g., MEGA air separation plants), while simultaneously optimizing the costs of labor and manufacturing.

In the market for petrochemical plants, we have our own ethylene technology and can build turnkey petrochemical plants of all sizes. In recent years, we have benefited from the strong growth of the market. Based on our own estimates, our current share of the olefin plant capacities installed around the world is approximately 20%. We believe that our market share in new plants, averaged over the past seven years, is more than 30%. In the next few years, we expect our market share to increase on account of our own strong market position and our numerous large reference projects. It should be noted, however, that a number of the planned plants are to be built in politically unstable regions and countries (e.g., in the Near East). These political factors can significantly increase the risk of fluctuations in the level of new orders and lead to cancellations.

In 2005, we received new orders worth almost €900 million in the air separation plants sector, which corresponds to a market share of almost 50%. We are therefore the market leader in this field and also view ourselves as the technology leader.

In the competitive future market for plants for natural gas liquefaction and refining, we received new orders worth €231 million in 2005, which corresponds to a market share of approximately 6%. With the projected successful completion of the Hammerfest project in late 2006 as a reference project, however, we should be able to capture an above-average share of the growth of the natural gas liquefaction market.

In the market for hydrogen and syngas plants, we received new orders worth €240 million in 2005, which represents an estimated market share of 17% compared to 14% in the previous year. We believe that we have therefore succeeded in further expanding our leadership position in the dynamic market for hydrogen and syngas plants. In spite of a very competitive environment, we expect to continue our strong growth in this sub-sector on the basis of our strong market position and long-standing experience.

Material Handling

Overview

Our Material Handling business segment manufactures and sells industrial trucks under the independent brands Linde, STILL and OM Pimespo, which enables us to offer an extensive line of products. With our Material Handling business segment, we are, in terms of revenues, among the world's largest manufacturers of industrial trucks.

With innovative vehicles and services, in addition to technically advanced solutions, the Linde brand name stands for a greater return on the customer's investment and comprehensive service. We believe that the STILL brand is the leading supplier for internal logistics process management systems and with its new line of electric forklift trucks supports an efficient flow of goods and supplies within the customer's operations. The OM Pimespo line of products includes forklift trucks and material handling and storage equipment at an economical price-performance ratio and completes the offerings of these associated brands.

In addition, we are currently partner to a partnership in the field of development and sales with Komatsu Forklift Co., Ltd., the Japanese manufacturer of industrial trucks. In the context of this cooperation, Komatsu's industrial trucks are produced in Europe by us, and our industrial trucks are produced in Japan by Komatsu. Our Material Handling business segment also offers an extensive line of services, from financing through to fleet management.

The table below provides an overview of our sales in our Material Handling business segment for the past three financial years and for the three months ended March 31, 2006 (with comparative figures for the three months ended March 31, 2005):

	Three months ended March 31,		Year ended December 31,		
	2006	**2005**	**2005**	**2004**	**2003**
			(€ millions)		
	(unaudited)				
Industrial Trucks	883	738	3,481	3,239	2,947
New equipment	489	401	1,952	1,841	1,685
Used equipment	45	36	173	171	147
Leasing and Service	349	301	1,356	1,227	1,115
Hydraulic Systems	39	33	147	133	116
Total (consolidated)	**922**	**771**	**3,628**	**3,372**	**3,063**
Linde	610	496	2,346	2,153	1,911
STILL	288	254	1,197	1,115	1,029
OM Pimespo	67	54	252	239	231

As of December 31, 2005, our Material Handling business segment had 19,323 employees worldwide. In 2005, this business segment's sales of €3,628 million accounted for approximately 38% of our Group's consolidated sales (2004: 38%; 2003: 34%).

Strategy

In connection with the BOC acquisition and its financing, as well as the planned focus on the gas business, we are currently exploring the options of selling the Material Handling business segment or taking it public. In preparation for a potential sale, restructuring measures are currently being implemented, the goal of which is to bundle the entire business segment under a new holding company. Until these options are realized, we plan to continue to identify innovative new product segments and offerings for our Material Handling business segment and to follow up with prompt market introductions. A three-brand strategy will be pursued, whereby the brands Linde, STILL and OM Pimespo will offer different products that are designed to meet different customer needs. We are planning the introduction of a large number of innovative products in all three brands, and these products are currently in advanced stages of development. We intend to defend our market leadership in Europe and to increase sales in large and growing markets such as China, Eastern Europe and North America. A further increase in product quality with lower development costs and times, increased efficiency in the sales process, a reduction in working capital requirements and a focus on specific customer needs, before and after the sale of the products, should produce further improvement in the performance of this business segment. The GO (Growth and Operational Excellence) Program is another important component of the strategic measures.

Products and Production

Products

Through our Material Handling business segment, we offer our customers a comprehensive line of industrial trucks for the most varied applications in the materials handling area. In addition to industrial forklift trucks (front loaders), the product line also includes side and cross loaders, container lifts, retractable mast trucks and high shelf stackers. Our Material Handling business segment also offers warehouse logistics equipment such as horizontal and vertical order pickers, high-lift and low-lift trucks, tractors and platform trucks, driverless transport systems and industrial trucks with explosion protected construction. In addition to standard models, products are also manufactured to meet specific customer requirements.

Among industrial trucks, a distinction can be made between two groups on the basis of their construction and potential applications:

- *Counterbalanced forklifts,* which pick up and transport the load in a cantilevered position and require a counterweight to compensate for the tipping moment. On account of their design and larger wheels, these trucks are a universal transport equipment and can be used both indoors and outdoors.
- *Warehouse trucks,* which are industrial trucks that transport the load inside their wheelbase and are therefore not equipped with counterweights. These trucks include reach trucks, high-lift and low-lift trucks, vertical and horizontal order pickers and high shelf stackers. On account of their small wheels, these trucks can be used only on flat surfaces and are therefore designed for indoor operation.

While warehouse trucks are propelled exclusively by electric motors, counterbalanced forklift trucks can be powered either by electric motors or internal combustion engines.

Our Material Handling business segment also develops and sells hydraulic drive components which are sold to third parties, although they are also used in our own products. These components include axial piston pumps and motors, hydrostatic and mechanical transmissions, hydraulic and electronic control systems as well as load-sensing valves. The trucks that are powered by internal combustion engines and sold under the Linde brand are generally equipped with hydrostatic drive trains, while hybrid drives are used for the forklift trucks sold under the STILL brand, in which the electric energy to drive the axles is generated by means of an internal combustion engine. Hydrodynamic torque converters are used in the forklift trucks sold under the OM Pimespo brand.

In addition to the development and production of industrial trucks and hydraulic components, our Material Handling business segment's activities include leasing and other services.

Leasing and other forms of financing. Some of our Material Handling business segment's customers do not purchase their industrial trucks themselves, but lease or rent them. The customer pays the costs for financing and service for the industrial truck, and in exchange expects not only the greatest possible availability of the equipment but also the most accurate projection of the costs expected over the life of the contract. In this context, we agree with our customers on periods during which we are responsible at our own expense for ensuring that the industrial trucks operate properly. The contracts are generally for terms of between two and seven years. See "Risk Factors – Risks Related to our Business – A decrease in the value of used industrial trucks could expose us to risks in connection with long-term rental and leasing contracts."

Services. Due to the increasing complexity of material handling, related services are becoming more important. To achieve optimum results, it is important to select the right equipment for the right application. Accordingly, we provide our customers with pre-sale support.

For this purpose, the companies in our Material Handling business segment have developed software to optimize calculations for the use and value of industrial trucks. Using this software, customers can identify the industrial trucks that are most appropriate for its purposes from the vehicles sold by the respective group, either to optimize an existing fleet of industrial trucks or as an initial purchase.

Warehouse design and simulation software also assists customers in the design of entire warehouse projects and makes it possible to perform logistics analyses. Using this software, customers can predict the expected operating and warehouse costs with a high degree of precision. The corresponding analyses include all aspects of a warehouse project, including the determination of the fleet of vehicles on the basis of a group-specific offer covering model selection, equipment specifications, number, performance data, energy consumption and operating costs.

The brands offer additional support to their customers in the management of existing fleets of industrial trucks, using an internally developed fleet management system. This system allows customers to track all down times and the resulting costs. The system is also capable of storing all recurring faults that occur on a vehicle within a defined period.

Replacement parts business. An additional focus of our Material Handling business segment is replacement parts for industrial trucks, in which Linde can take advantage of the fact that an estimated 980,000 industrial trucks manufactured by us are in use worldwide. The spare parts business is characterized by earnings that are less cyclical than the new vehicles business, because the demand for replacement parts is relatively constant.

Production

Our Group produces industrial trucks at twelve sites worldwide. Nine of these sites are in Europe, one is in China, one is in the United States, and one is in Brazil. In line with our three-brand strategy, the production plants are each operated by one of the three brands, Linde, STILL or OM Pimespo, and manufacture exclusively industrial trucks of the respective brand as well as other Group products. There is also a series of production plants in which components are manufactured (supplier plants). The production sites are distributed among the three brands as described below.

In Germany, we produce industrial trucks under the Linde brand in Aschaffenburg. Outside Germany, we produce industrial trucks at five sites (three in Europe (France, England and Wales), one in China and one in the United States). STILL produces industrial trucks under the Linde brand at Hamburg and Reutlingen in Germany, and at two sites outside Germany (France and Brazil). OM Pimespo has production sites for industrial trucks in Bari and Luzzara (Italy).

We attach great importance to the quality of our products and, therefore, we manufacture the majority of the important components of our industrial trucks ourselves (such as the hydraulic components and drive trains) for all of our business units. For this purpose, we operate a total of five of our own plants for the production of components. In 1994, we initiated a joint venture for the production of electric motors with Jungheinrich AG, which resulted in significant cost savings.

Market and Competition

Market

The industrial truck industry provides solutions for the efficient control of logistics processes across a wide variety of industries. This task includes the overall organization, implementation and optimization of internal material flows in companies in the industry, commerce and in public institutions using industrial systems such as forklift trucks and warehouse equipment as well as services.

To our knowledge, there is no single, complete source of information that describes the market in the industrial truck industry in the breakdown presented below, which includes an identification of our competitors. Unless otherwise indicated, all the statements made below on markets and competition are therefore based on our own estimates, some of which were in turn derived from other sources. It is possible that the actual market or competitive conditions may differ from the situation described below, or that other market participants may view the market and competitive conditions differently.

We believe the worldwide market for industrial trucks in 2005 generated new equipment revenues estimated at €11.6 billion, and is distributed relatively evenly and almost completely among the regions Europe, Asia and America:

	2005	2004	2003	2002
		(€ billions)		
Europe	3.7	3.6	3.2	3.2
Asia	3.8	3.6	2.9	2.6
America	3.5	3.3	2.7	2.5
Rest of world	0.6	0.5	0.4	0.3
Total	**11.6**	**11.0**	**9.2**	**8.6**

Europe is the largest regional market for industrial trucks in terms of the number of units sold. In 2005, sales in Europe totaled €3.704 billion, which represented approximately 31.8% of the total market. New orders in Europe last year were for 299,669 units (increase of 3.9%). Recent years have seen above-average growth in Europe in the warehouse equipment segment in particular. Warehouse equipment currently accounts for more than 50% of the total European market in units (Source: New orders based on industry association statistics).

In terms of unit sales, Asia is the second-largest market in the world for industrial trucks. We estimate that sales in Asia amounted to approximately €3.842 billion in 2005. We believe, therefore, that Asia accounted for 33.0% of the world market. Orders were received for 199,114 units (increase of 7.4%). The most important segment in Asia are the ‘‘V-lift’’ trucks (Forklift trucks powered by diesel and gas) equipped with internal combustion engines, which represented 64% of the market in terms of unit sales (Source: new orders based on industry association statistics).

We believe that in 2005, approximately €3.539 billion was spent in the industrial truck industry in the United States. The U.S. share of the total market is therefore 30.4%. During the same period, 221,285 units were ordered, which represents an increase of 7.2% from the previous year. Here, too, the most important segment was internal combustion engine forklifts, which accounted for approximately 50% of the orders (Source: new orders based on industry association statistics). Broken down by segment, worldwide sales of internal combustion engine forklifts of 327,498 units in 2005 (increase of 6.4%) represented the largest market segment. After warehouse trucks with 290,763 units (increase of 7.5%), the electric forklift trucks equipped with electric motors were the smallest market last year with new orders for 133,062 units (increase of 4.2%). The total market for industrial trucks in 2005 was therefore 751,323 units (increase of 6.4%).

World market	2005		2004		2003		2002		2001	
Internal combustion engine forklifts	327,498	43.6%	307,903	43.6%	252,933	42.0%	225,419	39.9%	217,776	38.8%
Electric forklift trucks	133,062	17.7%	127,695	18.1%	111,592	18.5%	109,195	19.4%	111,176	19.8%
Warehouse trucks	290,763	38.7%	270,453	38.3%	237,801	39.5%	229,954	40.7%	232,430	41.4%
Total	751,323	100.0%	706,051	100.0%	602,326	100.0%	564,568	100.0%	561,382	100.0%

Source: New orders according to industry association statistics.

Europe	2005		2004		2003		2002		2001	
Internal combustion engine forklifts	74,445	24.8%	73,471	25.5%	63,489	24.4%	61,883	24.6%	66,187	25.2%
Electric forklifts	61,260	20.5%	60,122	20.8%	55,150	21.2%	55,536	22.0%	58,997	22.5%
Warehouse trucks	163,964	54.7%	154,785	53.7%	141,813	54.4%	134,661	53.4%	137,168	52.3%
Total	299,669	100.0%	288,378	100.0%	260,452	100.0%	252,080	100.0%	262,352	100.0%

Source: New orders according to industry association statistics.

In terms of new orders, Germany had a share of approximately 20% in 2005 and is the largest single market for industrial trucks in Europe. Also in 2005, a total of 58,818 new units (+ 3.9%) were sold in this market (Source: New orders according to industry association statistics), and we estimate that total sales amounted to approximately €695 million (2004: €680 million). Sales in Germany, like in other Central European countries, increased only moderately.

Germany	2005		2004		2003		2002		2001	
Internal combustion engine forklifts	13,027	22.1%	12,939	22.8%	11,259	21.0%	11,645	22.4%	13,706	22.9%
Electric forklifts	12,207	20.8%	11,896	21.0%	10,681	19.9%	10,277	19.7%	11,910	19.9%
Warehouse trucks	33,584	57.1%	31,800	56.2%	31,644	59.1%	30,102	57.9%	34,240	57.2%
Total	58,818	100.0%	56,635	100.0%	53,584	100.0%	52,024	100.0%	59,856	100.0%

Source: New orders according to industry association statistics.

Broken down by segment, in 2005 warehouse trucks formed the largest segment with new orders for 33,584 units (increase of 5.6%). This segment has a share of more than 50% in the German market. Internal combustion engine forklifts comprise the next largest segment with new orders for 13,027 units (increase of 0.7%), followed by electric forklift trucks with sales of 12,207 units (increase of 2.6%) (Source: New orders based on industry association statistics).

Market Trend

We expect significant growth in the worldwide market for industrial trucks in the current financial year. Growth could well be above average, as in previous years, in Asia, especially in China, and in the United States. However, the pace of expansion will probably decrease slightly during the year. The growth rates in the United States will be somewhat lower than in the previous year, although they should still be higher than in Europe. We expect only moderate growth in the core Western European markets (in particular Germany, France, Italy, Great Britain and Spain), although a further increase in demand for industrial trucks is expected in Germany as a result of increasing domestic demand. We once again expect above-average growth in Eastern Europe.

The growth in the worldwide market will probably affect all segments, where the conventional forklift trucks are likely to benefit to a greater extent than the group of specialized warehouse trucks.

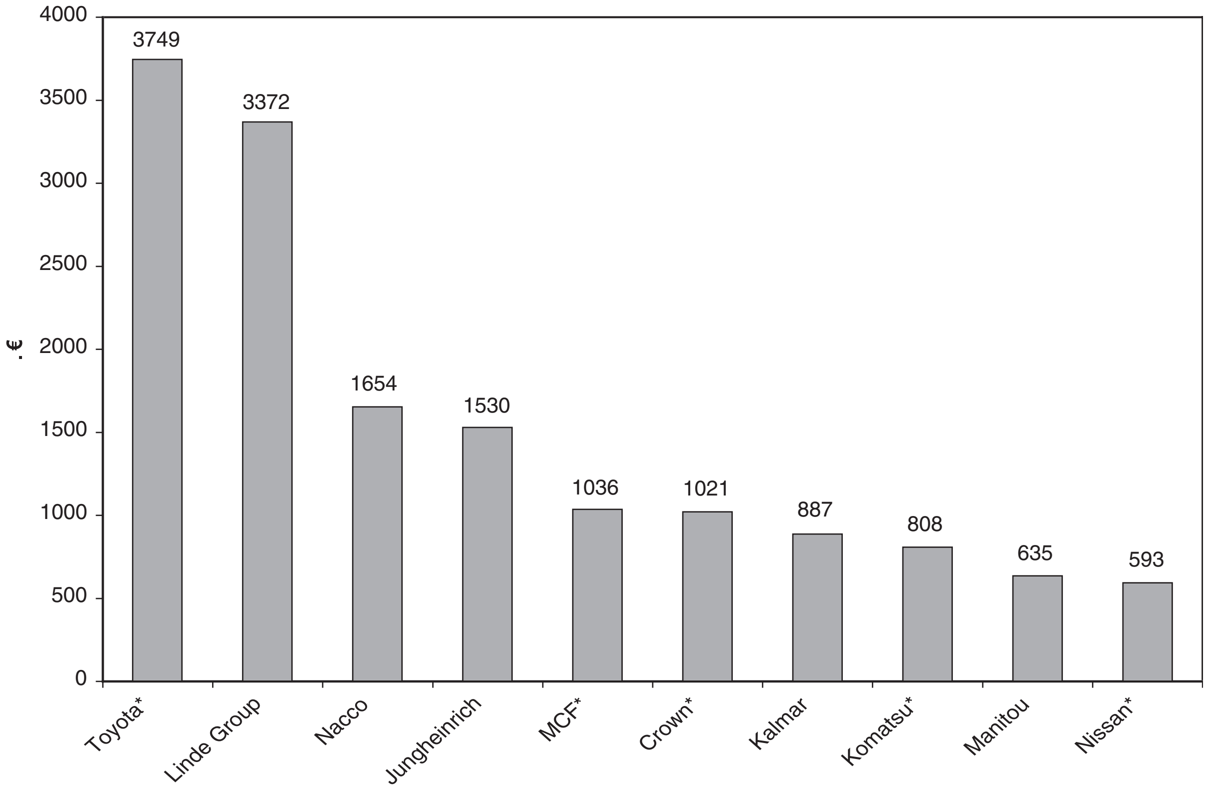
We believe that the sector trend toward increased business in financing services and other services will continue in the coming years.

Competition

The market for industrial trucks is characterized by competition among a few large manufacturers and a series of smaller, mostly regional suppliers. In the recent past, there has been a consolidation process in the industry, as a result of which only about 15 of the 60 larger suppliers from the 1970s are still present in the market. With our three brands Linde, STILL and OM Pimespo, we estimate that we are one of the two leading international manufacturers.

In 2005, we had total sales of €3.628 billion (2004: €3.372 billion) with the three brands in our Material Handling business segment. According to a comparison in *Logistik Journal* in September 2005, we are the world's second largest manufacturer of industrial trucks in terms of industrial truck segment revenues for 2004. The world market leader since 2001 has been Toyota, with segment sales of €3.749 billion (Financial year: April 1, 2004, to March 31, 2005). At a considerable distance are the competitors Nacco (Brands: Hyster and Yale) with segment sales of €1.654 billion and Jungheinrich with sales of €1.530 billion.

Top 10 Manufacturers of Industrial Trucks in 2004



* Financial year: April 1 to March 31

Source: *Logistik Journal,* September 2005.

In regional terms, Toyota and Nacco are Nos. 1 and 2 respectively in the U.S. market for industrial trucks. Toyota also occupies the leading position in its home market, Asia, but we are the market leader in Europe.

Procurement

As a manufacturing technology group, we incur a significant share of our expenses making purchases in a variety of markets. To keep our purchasing processes as efficient as possible, we verify and compare the contracts and agreements with individual suppliers and service-providers (including power supply) in all of our business segments so that we can negotiate the most favorable conditions for new contracts and the extension of existing contractual relationships. We have also established a central travel and fleet management that bundles the vehicle and travel expenses of our Group worldwide. In the area of Information Technology, we centralize our worldwide demand for hardware and software as well as for consulting and telecommunications services and negotiate corresponding long-term agreements with international suppliers.

These programs are designed to achieve savings and simultaneously ensure qualified supplies delivered under long-term contracts.

In our Linde Gas division, we systematically analyze the opportunities and risks that arise as a result of changes in the domestic and international purchasing markets, especially for Eastern Europe and Asia. We use a centralized procurement organization in Höllriegelskreuth (near Munich), Germany, to monitor the procurement of all important material groups such as energy, technical modules for On-Site plants and for our cylinder business, as well as components for the Healthcare segment and for IT Systems.

Purchasing electric power is of central importance to us. The cost of electric power in 2005 was around 8% of revenues of our Linde Gas division. As an energy-intensive company, we regularly monitor trends in the international energy markets and participate in opportunities that arise as a result of the deregulation that is occurring in many countries.

The purpose of implementing central purchasing standards and procedures together with a strict on-line approval process is to achieve the most transparent purchasing processes possible. In addition to conventional purchases by means of individual negotiations with suppliers, we are making increasing use of the opportunities provided by e-commerce in the form of on-line requests for proposals (RFPs) and on-line auctions. In 2005, our Linde Gas division participated in a total of more than 100 auctions and issued more than 400 requests for proposals in 26 countries.

In our Linde Engineering division, approximately 60% of our revenues are generated by the purchase of equipment and services such as installation and construction contracts. To optimize costs, we have, for years, consistently relied on a combination of long-term supply relationships and our ability to identify efficient new suppliers in global markets. We pay special attention to China as a procurement market, and have already extensively used suppliers there for local projects.

We have developed special purchasing strategies for our extremely varied portfolio of purchasing requirements for our Linde Engineering division. Under this strategy, the individual suppliers are selected on the basis of an in-depth review of the costs and the expenses involved in order processing, transport costs, installation and potential warranty costs. When selecting contractors, we also consider not only their competitive strengths, financial stability and quality awareness, but also their compliance with social responsibility and environmental standards.

In our Material Handling business segment, the capabilities of potential suppliers are verified by a comprehensive audit of suppliers and by continuing performance measurements. Since 2005, the identification of suitable suppliers in low-wage countries has intensified significantly. An organizational unit in our Material Handling business segment systematically investigates potential purchasing markets, visits potential suppliers and monitors their own purchasing procedures.

Because of the sharp rise in steel prices, especially in 2005, and because we do not expect a significant drop in medium-term steel prices, in spite of a short-term drop, we seek to obtain the longest possible price commitments from our suppliers in the steel sector.

Investments

The tables below show the investments made during the years ended December 31, 2005, 2004 and 2003 and the three months ended March 31, 2006 (with comparative figures for the three months ended March 31, 2005), broken down by type of investment, business segment, division and geographic distribution:

	Three months ended March 31,		Year ended December 31,			
	2006	2005	2005	2004[1]	2004	2003
	(€ millions) (unaudited)					
Intangible assets	26	21	129	126	131	123
Tangible fixed assets	123	127	715	585	597	470
Leased assets[2]	14	4	7	7	7	14
Total (excluding financial assets)	**163**	**152**	**851**	**718**	**735**	**607**
Financial assets	1	27	55	50	50	111
Total (including financial assets)	**164**	**179**	**906**	**768**	**785**	**718**

(1) Restated and comparable.

(2) Excluding our Material Handling business segment.

	Three months ended March 31,		Year ended December 31,			
	2006	2005	2005	2004[1]	2004	2003
	(€ millions) (unaudited)					
Gas and Engineering[2]	109	111	635	511	511	406
Linde Gas	105	121	658	528	528	397
Linde Engineering	3	2	23	13	13	24
Material Handling[3]	41	38	191	176	176	162
Refrigeration	–	–	–	–	17	29
Corporate	13	3	25	31	31	10
Total (excluding financial assets)	**163**	**152**	**851**	**718**	**735**	**607**

(1) Restated and comparable

(2) Consolidated to eliminate transactions between our two divisions.

(3) Not including leased assets.

	Three months ended March 31,		Year ended December 31,			
	2006	2005	2005	2004[1]	2004	2003
	(€ millions) (unaudited)					
Germany	62	58	284	236	244	213
Rest of Europe	72	71	381	375	383	298
North America	12	8	69	51	52	53
South America	12	13	81	29	29	28
Asia	3	1	25	21	21	12
Australia/Africa	2	1	11	6	6	3
Total (excluding financial assets)	**163**	**152**	**851**	**718**	**735**	**607**

(1) Restated and comparable.

During the years ended December 31, 2005, 2004 and 2003 and the three months ended March 31, 2006, the focus of investments in our Linde Gas division was on:

- the expansion of our On-Site business,
- the strengthening of our cylinder and bulk gas business by expanding sales activities in Eastern Europe as well as the construction of liquefaction and bottling plants,
- the expansion of the noble gas business through the construction of a number of helium bottling plants and air separation plants to produce noble gases and the formation of a joint venture to give Linde its own helium source in Algeria,
- the expansion of the hydrogen business in the context of the On-Site growth strategy and cooperation in various hydrogen initiatives such as the "Clean Energy Partnership," the "Opel Fuel Cell Marathon" and the "European Hydrogen Highway,"
- the improvement of IT systems, and
- the replacement of distribution resources.

Set forth below are the most important On-Site projects since 2003 (investment volumes of more than €20 million) during the periods indicated in the tables:

Region	Country/Project	Period	Amount (€ millions)
Western/Northern Europe . . .	Germany: HYCO Bayer Material Science AG	2004–2006	54
	Germany: ASU 6 Salzgitter	2003–2005	21
	Finland: ASU Avesta Polarit	2003–2005	48
Eastern Europe	Romania: ASU Oltchim SA	2003–2005	25
	Czech Republic: ASU Sokolowska Uhelena	2003–2006	69
	Hungary: ASU & HYCO BorsodChem RT	2003–2006	60
Asia	China: ASU Haicang	2003–2004	24
South America	Chile: HYCO ENAP	2004–2006	64

The most important current and future investments relate to the projects listed below (having investment volumes of more than €20 million):

Region	Country/Project	Period	Amount (€ millions)
Western/Northern Europe . . .	Germany: H2 Liquefaction Plant Leuna	2005–2007	23
	Germany: ASU 8 Leuna	2005–2007	28
	Netherlands: ASU	2006–2008	75
	Finland: CO(2)-Plant	2005–2007	30
Eastern Europe	Russia: ASU Maksi Group	2005–2007	28
Asia	China: ASU	2005–2008	32
	China: HYCO Bayer AG Caojing	2006–2009	70
North America	United States: ASU SeverCorr	2005–2007	29
South America	Venezuela: ASU Piragua	2006–2008	26

During the years ended December 31, 2005, 2004 and 2003 and the three months ended March 31, 2006, the focus of investments by our Linde Engineering division was on the expansion of international sales activities and the creation of an international service network in the engineering and production segments. Parts of our manufacturing facilities in Höllriegelskreuth, Germany, and Schalchen, Germany were modernized and a production line for helium containers in the Göteborg plant was constructed.

Current investments by our Linde Engineering division relate to the expansion of manufacturing capacities in China with the construction of a new plant in Dalian for construction of ASU plants with an investment volume of approximately €15 million in 2005 and 2006.

The investments of our Material Handling business segment can be broken down as follows for the years ended December 31, 2005, 2004 and 2003:

Type of investment	Year ended December 31, 2005	2004	2003
	(€ millions)		
Replacement	20	26	21
Rationalization	50	49	36
Capacity expansion	29	19	13
Research and development	7	9	3
Other projects*	32	24	43
Capitalized development costs	53	49	46

* in 2003 contains goodwill in the amount of €15 million which was not associated with any specific type of investment.

Most of the investments in this business segment were for rationalization measures in the production plants, cost reduction measures, production launches for new products, the development of new products and the expansion of the sales and customer service organization. An additional focus was on the introduction of SAP R/3 in several locations.

In the STILL group of companies in Hamburg, we expanded and modernized the existing hydraulic cylinder fabrication operation for the entire Material Handling business segment. In the foundry in our Aschaffenburg plant, we restructured the fabrication processes more rationally with new equipment and optimized processes. The axle and drive train fabrication in the Czech Republic was further expanded. In the Ballenstedt site, the capacity for the fabrication of valve blocks was expanded on the basis of lamination technology.

In the current year, the focus of investments, as in the past, has been on rationalization measures, equipment replacement and capacity expansions. Capitalized development costs are expected to be on the same level as in prior years.

We generally finance investments in all our business segments and divisions with free cash flow, but in certain cases, we finance projects with borrowed capital.

Research and Development

In research and development, we concentrate on the customer-oriented development of new, and further improvement of existing, products, processes, manufacturing technologies and services. In addition to the decentralized development departments at the most important production sites, we bundle our know-how centrally in the research and development department in a group-wide knowledge platform. These research synergies are utilized to develop innovative products such as the fuel cell forklift truck, which integrates know-how from different industries. The basis for the individual development projects is provided by regular market analysis as well as by the requirements of individual customers. In the context of the limited research activities conducted, several of our Group companies participate in selected research projects.

A few of our most important research and development activities in the past three financial years and in the three months ended March 31, 2006 are listed below:

- Linde Gas division: Investigation of potential new applications for medical gases and the further development of hydrogen technology
- Linde Engineering division: Further development of important technologies for air separation plants
- Material Handling business segment: Development of innovative forklift trucks

Research and Development Expenses

The table below shows the amounts spent for research and development in the financial years 2005, 2004 and 2003 as well as in the three months ended March 31, 2006 (with comparative figures for the three months ended March 31, 2005), broken down by business segment or division:

	Three months ended March 31,		Year ended December 31,			
	2006	2005	2005	2004[(1)]	2004	2003
			(€ millions) (unaudited)			
Linde Gas	17	14	60	56	56	46
Linde Engineering	5	5	18	16	16	16
Material Handling	25	25	96	94	94	92
Refrigeration	–	–	–	–	11	18
Total	**47**	**44**	**174**	**166**	**177**	**172**

(1) Restated and comparable.

In 2005, we filed initial patent applications for a total of 298 inventions (2004: 216 – 199 excluding Refrigeration; 2003: 201 – 183 excluding Refrigeration). As of December 31, 2005, the Group's patent portfolio therefore consisted of 2,230 patents (as of December 31, 2004: 2,020 (excluding Refrigeration); as of December 31, 2003: 1,892 (including Refrigeration)).

As of December 31, 2005, the research and development department had a total of 1,316 employees (as of December 31, 2004: 1,257; as of December 31, 2003: 1,242 (each excluding Refrigeration)), of which 319 employees were working in our Linde Gas division, 98 in our Linde Engineering division and 899 in our Material Handling business segment. In Germany, a total of 829 employees work in our research and development department.

Intellectual Property

We use our patents primarily to protect our own developments against unauthorized copying, to achieve or maintain an exclusive position in the market and to protect our own technologies against infringement claims by third parties. We generally file our patent applications in Germany first and then extend the protection for projected important inventions to major markets in Europe as well as to the United States, Japan and China. A significant number of the inventions described in these patents and patent applications are used by us in our current product line. However, in our opinion, the success of our business does not depend entirely on any single patent or patent application within our portfolio.

As of December 31, 2005, we held approximately 2,300 trademarks worldwide. Our trademarks identify the origin of our products and processes and also stand for the high quality of the products and services provided by our Group.

In individual cases, we obtain licenses for the results of outside research and develop marketable products from those results and market the resulting products. We generally market our own developments ourselves and very seldom issue licenses to third parties. As a result, we believe that we are not dependent in our current business operations to a significant extent on licenses by or to third parties.

Fixed Assets and Real-Estate Holdings

We own most of the real estate on which our plants and offices are located. The majority of the real estate leased from third parties is used for our sales offices. We also hold long-term leases on real estate in countries in which ownership of the property in question is impossible because of local legislation. Small extensions to existing areas are leased as necessary.

As of December 31, 2005, we owned a total of approximately 10.8 million $m^{(2)}$ of real estate, approximately 4.3 million $m^{(2)}$ of which was in Germany. We believe that of the total real estate holdings approximately 8% is not operationally necessary. We consider reserve property that has been earmarked for later expansion to be operationally necessary. Of the 10.8 million $m^{(2)}$, approximately 0.02 million $m^{(2)}$ is real estate that is used exclusively for residential purposes (total residential area approximately 7,000 $m^{(2)}$) and 10.78 million $m^{(2)}$ is property on which commercial plants and buildings have been erected. In the medium term, we plan to sell the real estate that is not operationally necessary. Except for encumbrances of less than €50 million in favor of pension funds, the Company's real estate is free of material encumbrances. For environmental matters that might affect the use of our property, see ''– Regulation and Regulatory Environment – Contamination.''

The net book value of technical equipment and machinery as of December 31, 2005, was €1,914 million (December 31, 2004: €1,765 million). This technical equipment and machinery belongs primarily to significant production facilities in the Material Handing business segment and the Linde Gas division. Additionally, the net book value of other equipment, furniture, fixtures, and office equipment as of December 31, 2005, amounted to €901 million (December 31, 2004: €837 million).

Environmental and Quality Management

The systematic integration of quality and environmental protection management as well as product and occupational safety in all aspects of our operations is, in our opinion, a basic requirement for safe, non-polluting and economical products and services. A continuous improvement process of these management systems is designed to eliminate, to the maximum extent possible, hazards to people and the environment. Innovative technologies and products that protect and preserve natural resources are a focus of our research and development activity.

Our Linde Group regularly conducts audits to identify potential improvements in quality and health, safety and environmental (HSE) management, and to verify compliance with laws and standards by the individual national companies. We focus primarily on audits on occupational safety, health and environmental protection.

Insurance

We have purchased what we consider to be standard industrial liability insurance (including environmental liability coverage), as well as property insurance and other types of insurance coverage that we consider necessary. We have arranged for members of our executive board and supervisory board, as well as for all officers of affiliated companies both within and outside of Germany, directors and officers (D&O) liability insurance with a deductible to be paid by the individuals covered. Linde Re S.A., Luxembourg, as our Group's reinsurance captive, bears the risk, above an appropriate deductible amount, for property damage to our Group up to a maximum of €10 million.

Material Contracts

In connection with the acquisition of BOC, we are party to an acquisition plan (the ''Scheme of Arrangement''). See ''Acquisition Offer to Acquire All the Shares of The BOC Group plc – Description of the Acquisition Offer.''

For further information on the Loan Agreement entered into on March 3, 2006, with the lead banks Commerzbank Aktiengesellschaft, Deutsche Bank, Dresdner Bank Aktiengesellschaft, Morgan Stanley Bank International Limited and The Royal Bank of Scotland plc for a total amount of £8.9 billion and €2.0 billion, which was syndicated by a total of 50 banks on May 3, 2006, see ''Acquisition Offer to Acquire All the Shares of The BOC Group plc – Financing of the Acquisition Offer.''

On March 15, 2004, we entered into a share purchase agreement with United Technologies Corporation (UTC) and UTC group companies for the sale of our Refrigeration business segment. The total purchase price was €325 million. The sale was consummated as of October 1, 2004. We furnished the usual warranties and certain indemnification assurances with regard to the sold business segment, including environmental liabilities, asbestos liabilities and tax liabilities. Apart from claims for indemnification for and claims arising from lacking title to the shares and interests sold, our entire liability under the share purchase agreement was limited to a maximum of €113.75 million. Under the agreement, claims for damages resulting from environmental liabilities will be time-barred 12 years after the closing date. The agreement also provides that we must be notified of any claims for breach of warranty by June 30, 2006, except for claims resulting from a breach of our obligation to transfer unrestricted title to the shares and interests sold; these claims may be asserted within ten years. We additionally furnished representations under a non-compete and non-poaching clause which will remain in effect for three years after the closing date.

Litigation

Risks from litigation may exist, in particular from potential claims for damages in connection with product liability, although there is, in particular, an increased risk in connection with pharmaceutical products in our Healthcare sub-segment, and from potential violations of applicable laws and regulations. We attempt to avoid claims by applying strict quality and safety standards, and have also purchased insurance to limit the consequences of potential claims. Since 2002, the gas industry has been confronted with claims for damages alleging damage to health resulting from the use of asbestos or certain welding materials. Most of these claims have been filed in the form of class actions in the United States. Some of the claims have also been filed against Group companies in the United States. Risks resulting from class-action suits are difficult to estimate in terms of the potential damages, but they may be substantial. So far, we have recorded no provisions to cover these risks.

Apart from those claims, the Company and its subsidiaries are not parties to any administrative, governmental, judicial or arbitration proceedings that could have material adverse effects on the financial condition or profitability of the Company or of our Group, nor have such proceedings been threatened. We are not aware that any such proceedings have been initiated, nor have any such proceedings been pending in the past twelve months.

Regulation and Regulatory Environment

Overview

We engage in all our business segments in areas that are subject to environmental laws and, depending on the applicable law on the individual site, may also be subject to strict environmental regulations. These regulations relate both to production plants and processes as well as to products that are manufactured and processed in them. For example, the individual plants operated by us each require an operating permit that is issued only subject to compliance with certain requirements related to the protection of the environment and the surrounding area, for which we are responsible as the operator of the plants. The handling, storage, use and transport of hazardous materials required by our business activity are subject to a comprehensive system of environmental regulations, which sets forth numerous requirements for the protection of employees, consumers and the environment that are a function of the hazardous characteristics of the materials in question. In general, the manufacture and handling of gases require compliance with the corresponding technical safety requirements due to the particular operating conditions (high pressure, low temperatures etc.) and the characteristics of the specific materials (in some cases toxic, hazardous to the environment, flammable and/or explosive). Any infringement of these laws or regulations, regardless of fault, may lead to a ban on operations for the area of activity or business in question. The operator and the responsible parties acting on its behalf may also be held liable for any bodily injury or property damage. However, we are not aware that any domestic or foreign production plants or our business activities in general are currently in significant violation of environmental laws and regulations that apply to individual sites. We have all material permits required for our domestic and foreign production plants, and such permits are valid and in force. We monitor our compliance with the requirements set forth in said laws and regulations as well as with all other environmental and occupational safety regulations on a regular basis.

We make our best efforts to promote environmental awareness among our employees by means of appropriate training programs. In many divisions, there is or will be an integrated management system for quality, safety and environmental protection which defines the most important requirements of occupational safety, product safety, occupational health and environmental protection. On the basis of these programs, internal operating standards have been defined which guarantee a high level of safety in the production and handling of our products and help to eliminate and limit hazards for all our employees, outside contractors and customers.

Laws and regulations that may become applicable in the future may require us to institute additional controls or measures, such as the draft European "REACH" regulatory framework (Registration, Evaluation and Authorization of Chemicals), which represents a fundamental reform of European law in the field of chemicals. Companies that produce, market or process chemicals in the territory of the European Union will be required to share the responsibility for the availability and transparency of information on the hazards related to their chemicals. Among other things, for example, we will be required to bear responsibility for the testing and evaluation of the hazardous nature of the chemicals we use, produce or market. Depending on the final configuration of the regulatory framework, which will probably not come into force until 2007, we will therefore be required to shoulder additional obligations and costs. We are not aware of any other laws and regulations relevant to our activity that are to be issued shortly and could have a material effect on our business activity.

Linde Gas Division

The majority of our Linde Gas division's products are subject to the above-mentioned laws and regulations governing hazardous substances. Some gases are marketed by this division as food additives and are subject to the laws and regulations governing foods. The marketing of these substances can be restricted or prohibited altogether if they are found to be hazardous to human health, which could result in a significant drop in revenue. We are not aware of any circumstances that might limit the marketability of these gases on the domestic or European level as a result of changes to current legislation.

Some of our products are classified as medical products. Although in most countries medical products are subject to laws and regulations that are generally less strict than those that apply to drugs, the laws and regulations covering medical products are becoming stricter. A medical product may be marketed in the territory of the European Union only if it carries the "CE" identification. The right to apply a "CE" identification is obtained by a manufacturer only after it has successfully completed the conformance evaluation process specified for the medical product in question, which includes an evaluation of quality, safety and certification that it is not harmful to health. In addition, the manufacturer is required to issue an E.U. conformance statement. The completion of the conformance evaluation process can sometimes entail significant costs. If a medical product loses its "CE" identification and can therefore no longer be marketed, it could also result in a significant decline in sales.

In the Healthcare sub-segment, we manufacture and sell numerous products that are classified as medicinal products and are therefore subject to the special regulations of the Drugs Acts of the individual states. The European Union has issued various directives and regulations on the subject of drugs. Each member state is required to implement these directives and to adapt its own laws accordingly. In Germany, the most important national law that applies to medicinal products is the German Pharmaceuticals Act (*Arzneimittelgesetz*). The legal standards in other European countries are comparable to those of the German Pharmaceuticals Act. According to these requirements, a medicinal product may be marketed only if it has received a corresponding marketing authorization. This marketing authorization is issued if the quality, effectiveness and safety of the drug have been scientifically proven. The medicinal products that are marketed are subject to ongoing monitoring by the competent authorities. The marketing authorization for the medicinal product may be subsequently restricted, made subject to specific requirements, cancelled or revoked if the evaluation of the quality, effectiveness or safety of the product changes.

The production of medicinal products is also subject to continuous monitoring under the German Pharmaceuticals Act, and requires a separate license for which special requirements must be met, in particular with regard to the manufacturing premises and equipment and the employees involved. We have such a separate manufacturing license for all our relevant manufacturing facilities. The authorities can subsequently restrict or prohibit subsequent manufacture of the medicinal product in question if the requirements for manufacturing are no longer met. If the medicinal products do not meet these requirements, their marketing can be restricted or prohibited altogether.

We intend to develop the established medical gases we currently produce into full pharmaceutical products and to apply for the required drug licenses in all European states. The possibility that the license may be denied represents a significant business risk in our Healthcare sub-segment that could prevent us from marketing these products. Both the application for and maintenance of this license entail additional costs for, among other things, the hiring and training of qualified employees as well as for the purchase or construction of the appropriate equipment and facilities.

Dual-Use Products

Because some of the products produced by us or our production equipment can be used not only for civilian purposes but also for military purposes (dual-use products), their export is subject to special export requirements. The responsible export authorities are entitled, in cases in which the civilian use of the exported goods is not clearly explained or may be contrary to the interests of Germany, to prohibit the export of these dual-use products. We also export our products and production equipment to countries that might potentially be made the subject of an embargo on account of political developments. Depending on the scope of the embargo, the products or production equipment we export might then also be affected by the ban on exports.

Contamination

At some of our sites, the ground and/or the ground water are contaminated, although we consider the cleanup costs insignificant. Tests are being conducted at some sites on account of suspected contamination of the ground or of the groundwater. Reserves are established for the remediation costs that will result if contamination is found, or measures are taken in cooperation with our environmental insurance carrier. It is possible that additional, currently unknown contamination may exist in the industrial sites currently operated by us or formerly owned by us, and that we may be held responsible by the responsible authorities or by third parties for the remediation or for the cost of remediation. Beyond the current remediation operations, we are unaware of any immediate need for action. Depending on the hazard potential of the individual plants, regular inspections are conducted by our own environmental protection officers and by supervisory authorities.

ACQUISITION OFFER TO ACQUIRE ALL SHARES IN THE BOC GROUP PLC

Description of the Acquisition Offer

On March 6, 2006, we announced that we had reached agreement with The BOC Group plc (''BOC'') on the terms and conditions of our recommended cash acquisition offer to acquire the entire issued and to be share capital in BOC at the price of 1,600 British pence per BOC share. The offer price represents a premium of approximately 39% on the closing BOC share price as of January 23, 2006 (being the last business day before the announcement by BOC that it had received an approach from us).

On June 6, 2006, the European Commission approved our acquisition of BOC. The approval is subject to certain conditions. The conditions require the divestiture of our entire gas business in the United Kingdom, BOC's gas activities in Poland and contracts with our ethylene oxide customers in the United Kingdom and Ireland. These divestitures correspond to a sales volume of approximately €160 million. In addition, we have committed to transfer certain contracts with helium suppliers and to terminate, to an extent agreed with the European Commission, joint ventures between BOC and our French competitor, Air Liquide S.A., in the Asia/Pacific region, either by selling BOC's shareholding or by acquiring Air Liquide's shareholding. Implementation of the acquisition offer remains subject, however, to the approval of the acquisition offer by the U.S. anti-trust authorities, or their waiver of such approval requirement. The U.S. anti-trust authorities may make their approval of the acquisition offer contingent on the satisfaction of certain requirements, such as our or BOC's sale of parts of our or their respective businesses.

Subject to receiving the approval of the U.S. anti-trust authorities, the acquisition offer is expected to be implemented under the terms of a ''scheme of arrangement'' to be approved by an English court in accordance with section 425 of the English Companies Act. An agreement of this type between a company and its shareholders is a conventional form for the execution of a recommended takeover in the United Kingdom. The exact terms and conditions of the scheme of arrangement are set forth in a ''Scheme Document,'' which is sent to the shareholders of BOC. The Scheme of Arrangement first requires the consent of BOC's shareholders in a court meeting with a numerical majority of the shareholders present or represented, who must at the same time represent at least 75% in value of the shares present at the meeting. The Scheme of Arrangement also requires the consent of the shareholders, by a special resolution, at a special shareholders' meeting that is normally held immediately after the court meeting. The specific requirements for the adoption of the resolution depend on the instructions of the court, but normally a qualified majority of at least 75% of the votes cast is required. Following the resolutions and the satisfaction of all the conditions provided for in the Scheme Document, or the waiver of those conditions (if and to the extent that such waiver is permitted), the scheme of arrangement requires final approval by the English court. The procedure is then binding on all BOC shareholders upon registration with the Registrar of Companies, regardless of whether or not the shareholders participated in the court hearing.

At present, the Scheme of Arrangement is (assuming the approval of our acquisition offer by the U.S. anti-trust authorities by July 3, 2006) based on the following schedule:

July 9, 2006	Announcement of the schedule under the Scheme of Arrangement
August 4, 2006	Court hearing and special shareholders' meeting
August 14, 2006	Publication of the Scheme Document
August 23, 2006	Final court hearing

When the Scheme of Arrangement is implemented, all of the BOC shares (other than those in respect of which BOC shareholders elect to receive loan notes as consideration, further details on which are set forth below) will be cancelled. The resulting capital reserve will be capitalized and used to pay up the new shares that will be issued to us as purchaser. As compensation for the cancellation of their shares, the BOC shareholders, including holders of BOC American Depositary Shares, will receive a cash payment in accordance with the terms and conditions described above. Alternatively, BOC shareholders can elect to transfer their shares directly to us and for each £1 consideration in cash that would otherwise be payable in accordance with the scheme of arrangement, to accept from us a loan note having a face value of £1.

Immediately after the implementation of the scheme of arrangement, we will hold all of the issued shares of BOC, except for the shares held by the Employee Benefit Trust. In respect of the majority of BOC stock options, holders will then have six months to exercise their options. In respect of a number of BOC stock options, there will be no time limit by when holders can exercise their options. The shares they receive through the exercise of the options will be transferred from the Employee Benefit Trust or will be newly issued by BOC. However, all shares transferred or issued to these option holders will be acquired by us through compulsory purchase provisions inserted into BOC's articles of association by way of the special shareholders' meeting referred to above, as will all shares still held by the Employee Benefit Trust at the end of the six-month period following the effective date of the scheme of arrangement. Once this six-month period expires, we will hold all shares of BOC, and all options (other than the limited number of options referred to above) currently in existence regarding BOC stock will expire.

On March 6, 2006, the board of directors of BOC announced that it considers the price that we offered to be fair and that it is of the opinion that the acquisition offer is in the best interests of BOC shareholders. The board of directors of BOC therefore intends to recommend to BOC shareholders that they approve the scheme of arrangement and the corresponding resolutions of the meeting of BOC shareholders convened by the court and of the special shareholders' meeting.

There is a risk that we may have to pay BOC £75 million, if (i) certain conditions precedent are not met by October 31, 2006, provided that the BOC board of directors has continued to recommend the acquisition offer (unless it has withdrawn its recommendation in response to a specific event within our control) or (ii) one of a number of specific events occur within our control or the control of our supervisory board or executive board, our shareholders, our advisers (acting in their capacity as such) or our financing banks, or other debt holders and (a) our offer to acquire BOC fails as a result, or (b) the offer has not become unconditional by February 28, 2007 ("break fee arrangement").

Since the conditions precedent for our acquisition offer had not been met as of May 31, 2006, BOC is entitled to pay a second interim dividend, up to a maximum amount of 27 pence per share, in the amount of 3.375 pence per share for each consecutive seven-day period (but not for any fraction of such a period) within the period beginning on June 1, 2006, and ending on the earlier of July 26, 2006, or the date on which we announce that the conditions precedent have been met. As a result, BOC is entitled to pay interim dividends up to a maximum of £134 million assuming that 498 million BOC shares exist. At the final exchange rate as of December 31, 2005 of €0.6872 per £1.00, the interim dividend would amount to a maximum of approximately €196 million.

We, BOC and the trustees of the BOC UK Defined Benefit Pension Schemes (having regard to the interests of active, deferred and retired members) have reached agreement in respect of BOC's obligations in relation to the funding of such schemes following completion of the offer and the agreement has been cleared by the UK Pensions Regulator. Clearance, however, does not cover any material change in future circumstances (for example, any subsequent capital extraction or material weakening of the employer covenant); this would constitute a separate clearance application which could potentially require further us to procure accelerated funding of the schemes.

Financing of the Acquisition Offer

Our acquisition offer values the outstanding BOC shares at approximately £8.2 billion. On March 3, 2006, we entered into a loan agreement with COMMERZBANK Aktiengesellschaft, Deutsche Bank Aktiengesellschaft, Dresdner Bank Aktiengesellschaft, Morgan Stanley Bank International Limited and The Royal Bank of Scotland plc as mandated lead arrangers for a credit facility amounting to an aggregate of £8.9 billion and €2.0 billion, respectively, which was subsequently syndicated to a total of 50 banks on May 3, 2006. The portion of the facility denominated in British pounds will be used primarily to finance the acquisition of BOC, all related costs and to refinance outstanding obligations. This facility is divided into three tranches, the largest of which, in the amount of £5.5 billion (Tranche B), becomes due in not more than 30 months from March 3, 2006, and the two other tranches, in the respective amounts of £1.4 billion (Tranche A-1) and £2.0 billion (Tranche A-2), become due after three-and-one-half and five years, respectively, from March 3, 2006. The euro tranche will be a revolving tranche which is to be used for the general corporate purposes of our expanded Group and will be available for five years after March 3, 2006. If the capital increase described in this Prospectus has been completed before the purchase price for BOC becomes due, we have the option under the credit facility of not drawing on the full amount of the facility.

Tranche A-1 will bear interest at a rate equal to the sum of the applicable margin, LIBOR (or EURIBOR, as the case may be) and any mandatory costs (all as defined under the loan agreement). The applicable margin for Tranche A-1 is 0.50% per year until six months after the date of the first utilization of Tranche A-1. Thereafter the amount of the applicable margin will vary as specified in a margin adjustment clause, according to which the margin depends on the ratings issued from time to time by Standard & Poor's and Moody's for Linde's long-term senior unsecured debt obligations (the ''ratings''). The applicable margin will then be not less than 0.30% per year and not more than 0.75% per year.

Tranche A-2 and the euro tranche will bear interest at a rate equal to the sum of the applicable margin, LIBOR (or EURIBOR, as the case may be) and any mandatory costs. The applicable margin for Tranche A-2 and the euro tranche is 0.55% per year to the date six months after the date of the first utilization of Tranche A-2. Thereafter the amount of the applicable margin will vary as a function of the ratings, and will be not less than 0.35% per year and not more than 0.80% per year.

Tranche B will bear interest at a rate equal to the sum of the applicable margin, LIBOR (or EURIBOR, as the case may be) and any mandatory costs. The applicable margin for Tranche B will initially be 0.45% per year. If by the expiration of six months after the date of first utilization of Tranche B, we have not received a certain amount in cash proceeds from the issue of ordinary shares or other instruments which are treated as equity for rating purposes, the applicable margin for Tranche B will be 0.65% per year from that date until such proceeds are received. After the proceeds are received, the applicable margin for Tranche B will be 0.40% per year.

The loan agreement also provides that the applicable interest rate for each tranche may be increased by 1.0% per year if an Obligor (as defined in the loan agreement) fails to pay an amount as due under a Finance Document (as defined in the loan agreement).

We are obligated to pay a ticking fee from and including March 3, 2006 until the earlier of the date falling six months after March 3, 2006 and the date on which all the pre-conditions to our acquisition offer have been satisfied or waived (the ''Initial Period''):

(i) for the first three months from March 3, 2006, 0.065% per year,

(ii) thereafter, 0.08% per year,

calculated on each lender's Available Commitment (as defined in the loan agreement).

We are obligated to pay the following commitment fees under the loan agreement:

(i) For Tranches A-1 and A-2: 32.5% per year of the applicable margin for the tranche concerned,

(ii) For Tranche B: 32.5% per year of the applicable margin for Tranche B, and

(iii) For the euro tranche: 30% per year of the applicable margin for this tranche,

calculated in each case on the basis of the undrawn and uncanceled amount of the available loan funds (''Available Commitment'') (as defined in the loan agreement) from each lender.

We must also pay an arrangement fee, a participation fee, an underwriting commission and an agency fee.

If we exercise our option to extend the term of Tranche B, we must pay an extension option fee of 0.075% of the amount of Tranche B extended, if this amount is 50% or more of the total loan funds under Tranche B (the ''Total Facility B Commitments'') (as defined in the loan agreement), or 0.05% of the amount of Tranche B extended if that amount is less than 50% of the Total Facility B Commitments.

We intend to refinance Tranche B, if and to the extent it is utilized, by a combination of debt and equity financing in the capital markets (which includes €1.8 billion from a capital increase and up to approximately €1.3 billion in equivalent value from the issuance of the Bonds) and from the proceeds of the disposal of certain businesses and income from operating activities, or to refrain from drawing on the loans in the amount of the proceeds from the capital increase. The loan agreement does not provide for scheduled repayments. See "Risk Factors – Risks Related to Our Acquisition Offer to Shareholders of BOC – We must repay a substantial portion of our new credit facility by September 2008. An important component of the financing of our planned acquisition of BOC is the divestment of parts of our business, which we expect to complete within the next 18 months. We are not able to predict with certainty whether, at what time or under what conditions we will be able to make these divestments."

The facilities made available under the loan agreement are not secured, but the loan agreement is subject to covenants that will affect our flexibility in structuring our operations. For example, until we return to a Standard & Poor's Rating Services BBB+ rating for our senior unsecured obligations and a Moody's Investors Service, Inc., A3 rating, we may not exceed a specified ratio of consolidated net financial debt to consolidated EBITDA and may not fall below a specified ratio of consolidated EBITDA to total net interest charge. The loan agreement specifies that the first ratio, known as "dynamic indebtedness," must decrease over the term of the agreement. The second ratio, which measures "interest coverage," may decrease by half in 2007 and the first half of 2008 compared to the ratio specified for the second half of 2006, but it must then increase again. In addition, certain covenants that apply under the loan agreement for the entire term of the loan agreement will limit the ability of the Company and certain consolidated companies to use their assets as security, dispose of assets, assume additional financial liabilities, make loans to unconsolidated companies, and provide guarantees for the financial liabilities of unconsolidated companies. Every violation of the covenants under the loan agreement (in some cases after expiration of the time granted to remedy the violation) provides the lenders a contractual right to call the loan prior to maturity. The lenders are also entitled to accelerate the maturity of the facility immediately if there are certain other grounds for termination. In particular, there is a cross-default provision under which the lenders are entitled to terminate the credit facility if we, Linde Finance B.V. and/or certain major companies in our group have, under certain conditions, defaulted on payment obligations under other financial obligations of any type whatsoever in an aggregate amount of more than €50 million. The lenders would also be entitled to terminate the credit facility if, for example, there is a significant deterioration in the financial condition of the Company or of our Group as a whole, before we have received funds in the amount of at least €2.35 billion from this capital increase and/or other capital measures that are classified as equity by the ratings agencies, and this deterioration provides a justified reason to expect that we will no longer be able to meet our payment obligations under the facility. See "Risk Factors – Risk Related to our Acquisition Offer to Shareholders of BOC – Our planned acquisition of The BOC Group plc will result in a significant increase in our net financial debt and a significant decline in our equity ratio, which is the ratio of shareholders' equity to total assets. This could lead to a downgrading of our credit rating by rating agencies, which may adversely affect our interest expense. In addition, we cannot exclude the possibility that a downgrading of our credit rating to "non-investment grade" might in some cases adversely affect our operations, in particular with respect to the long-term contracts in our Gas and Engineering business segment" and "– The new credit facility that we have entered into in connection with our planned acquisition of BOC contains certain covenants that could impair our business flexibility, and the credit facility can be terminated under certain circumstances."

The loan agreement also provides that, in our view, regardless of the rating and the performance of our business, we may draw guarantees under the syndicated acquisition credit facility in the amount of up to €500 million. We consider this amount sufficient. We expect to use these funds primarily for plant construction. In this area, we also have substantial bilateral guarantee lines available from banks.

Until our first draw-down on the credit facility, we have a revolving credit facility of €1.8 billion available for our general financing purposes, which does not subject us to compliance with any financial ratios. This revolving credit facility will be replaced by the euro tranche of the credit facility.

After the completion of our acquisition of BOC, we will be exposed to increased interest rate risks and currency translation and transaction risks. We intend to significantly reduce these risks by using a variety of hedging instruments. Our hedging strategy also includes the use of "deal-contingent" instruments, the purpose of which is to establish exchange rate or interest rate hedges that only come into effect if our acquisition of BOC is actually consummated. If the acquisition of BOC is not consummated, these hedging instruments will be voided at no further cost to us.

It is our goal to maintain our Group's investment grade rating.

Reasons for the Acquisition Offer and Strategy

Through the acquisition, we plan to become a world leader among industrial gas and engineering companies by combining the local presence of the two companies into a strong global network. After our acquisition of BOC, we will be particularly well positioned to exploit opportunities in the most important growth markets in the gas industry. The two companies are also a good fit geographically and on the basis of their different product and customer segments. The acquisition would result in strong positions in the growth regions of Eastern Europe, South America and Southeast Asia/China. At the product level, the combination of the two companies would significantly enhance market prospects in the growth product segments helium, hydrogen, healthcare and special gases. In four of these seven important growth segments, we plan to become the market leader with estimated growth rates between 4% and 15%.

In addition to our combined Group's growth prospects, we expect that our merger with BOC, apart from the one-time costs for our acquisition of BOC that are expected to amount to €200 million, will create potential synergies for our combined Group in the amount of up to €250 million annually beginning in 2009. The synergy effects are expected to be realized primarily in the optimization of purchasing management and increased procurement volumes, a reduction in cost of sales and administration, the optimization of supply chain management, including production and distribution, and savings in research and development. We also expect revenue synergies from increased sales volumes in various geographic regions, cross selling in, for example, the Healthcare sub-segment and an overall expanded offering of products and services to customers. Our customers will be served on a worldwide basis through our strong local presence in management, production, sales and engineering in the local regions in which we operate. The ongoing transfer of know-how within our Group will be intensified between our individual sites and expanded within our enlarged Group.

Effects of the Acquisition Offer on Our Financial Ratios

For information on the effect our acquisition offer will have on our financial ratios, see "Illustrative Financial Information (Linde Including BOC)".

We use return on capital employed (ROCE) as our central control parameter for measuring medium and long-term performance. For our Group, earnings before income taxes, interest expenses and interest charges for pension provisions are set in relation to average capital employed. Capital employed is defined as shareholders' equity plus pension provisions and financial debt.

Operating income (EBIT) or operating income before depreciation and amortization (EBITDA) and earnings per share (EPS) serve as short-term performance indicators.

The merger with BOC will materially influence the above ratios. The cash purchase of BOC will result in a substantial increase in capital employed. At the same time, earnings will be reduced by amortization of reserves which will be disclosed in the process of allocating the purchase price, and by higher interest expenses. This will initially have an adverse impact on the key figure we use to measure performance, although amortizing previously undisclosed reserves will result in no change in our operating performance.

However, in order to present our operating performance transparently in the future, and in a form more comparable with competitors, after the integration of BOC, we will report ROCE and EPS after adjustment for amortization of previously undisclosed reserves in the process of purchase price allocation.

GENERAL INFORMATION ON THE ISSUER

Incorporation and Seat

The Issuer was incorporated on May 12, 1999, as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the laws of The Netherlands. It is registered in the commercial register of the Amsterdam Chamber of Commerce under number 34115238. Its official seat is in Amsterdam and its registered office address is at Strawinskylaan 3111, Atrium 7th floor, 1077 ZX Amsterdam, The Netherlands. Its telephone number is +31 20 3013 800 and its fax number is +31 20 3013 809.

The Issuer is a wholly-owned subsidiary of Linde AG and it has no subsidiaries.

Purpose

In accordance with Article 2 of its articles of association, the purpose of the Issuer is:

- to incorporate, participate in, manage and finance other companies and enterprises;
- to render services of any nature whatsoever to other companies and enterprises and, in general, to serve the interest of the Linde Group of which the Issuer forms a part;
- to acquire and hold, either in its own name or in that of any nominee, shares, stocks, bonds, loans, option rights or securities, irrespective of their nature, forms or names, and to exercise all rights and powers incident to the ownership thereof;
- to borrow and to lend moneys, to place public loans and private loans and to enter into any finance agreement or to perform financial transactions of any kind, on behalf of the Issuer itself as well as on behalf of third parties, to invest its capital as well as borrowings in any kind of moveable or immoveable property, interests, rights and securities, irrespective of their nature, forms or names, and any assets and liabilities;
- to provide collateral, to furnish guarantees and other security and to encumber assets as security for payment of debts of the Issuer, of companies of Linde Group and of third parties;
- to engage in financial and commercial activities of any nature whatsoever, and, furthermore, any activity which may be related or conducive to the foregoing.

Litigation

The Issuer is not party to any administrative, governmental, judicial or arbitration proceedings that could have material adverse effects on the financial condition or profitability of the Company or of our Group, nor have such proceedings been threatened. We are not aware that any such proceedings have been initiated, nor have any such proceedings been pending in the past twelve months.

Share Capital

The authorized capital of the Issuer amounts to Euro fifteen million (€15,000,000), divided into fifteen thousand ordinary shares, each having a nominal value of one thousand Euro (€1,000).

All shares are owned by Linde AG. At the date of this Prospectus, the issued and paid up capital amounts to Euro five million (€5,000,000).

Capitalization

	As at 31 December 2005 (Dutch GAAP)	As at 31 December 2004 (Dutch GAAP)
	(€ thousand)	(€ thousand)
Current liabilities		
Bonds and notes payable	(228.686.370)	(137.573.935)
Interest payable to third parties	(52.695.902)	(55.603.705)
Loans from group companies	(644.615.936)	(409.341.477)
Interest payable to group companies	(2.310.859)	(1.691.396)
Other payables to group companies	–	(6.619.596)
Forward exchange contracts	(20.249.457)	(19.086.292)
Taxes payable	(812.650)	(400.334)
Other payables	(3.796.510)	(6.087.190)
Accounts payable and accrued interest	(6.226.958)	(8.709.846)
Total Current Liabilities	**(959.394.642)**	**(645.113.771)**
Long-term liabilities		
Bonds notes payable	(1.001.581.249)	(1.261.061.525)
Convertible bond	(550.000.000)	(550.000.000)
Subordinated bond	(400.000.000)	(400.000.000)
Total long term liabilities	**(1.951.581.249)**	**(2.211.061.525)**
Capital and reserves		
Share capital	5.000.000	5.000.000
Retained earnings	14.623.012	12.271.929
Unappropriated profit	3.180.136	2.351.083
Total equity	**22.803.148**	**19.623.102**

In March 2004, the Issuer bought back a nominal amount of Euro three hundred sixty million (€360,000,000) in bonds. Since 29 April 2003 no medium term notes have been issued.

All bonds and notes payable have been issued under the terms of the €1.0 billion multi-currency Commercial Paper Programme which started in October 2001 or the €5.0 billion Debt Issuance Programme which started in April 2003, except for the Subordinated Bond 2003 with a principal amount of €400,000,000 which has been issued in July 2003 and the Convertible Bond 2004 with a principal amount of €550,000,000 which has been issued in May 2004. With respect to these programs as well as the Subordinated Bond 2003 and the Convertible Bond 2004, Linde AG has issued an unconditional and irrevocable guarantee in favour of the Issuer.

Supervisory Board[(1)]

The members of the supervisory board of the Issuer are:

Mr. Björn Schneider;

Dr. rer. pol. Peter Diesch;

Mr. Erhard Hinrich Wehlen.

[(1)] The members of the supervisory board and the managing directors may be contacted via the Issuer's registered head office.

Managing Directors[1]

The current managing director of the Issuer is:

Mr. Nicolaas Gijsbertus Maria Limmen.

Conflicts of Interest

There are no potential conflicts of interest between the Issuer on the one side and the members of the Supervisory Board and the Managing Director on the other side.

Shareholders' Meeting

The ordinary general meeting of shareholders shall be held at least once a year, not later than six months after the end of the financial year. Each share gives the right to one vote.

Independent Auditor

KPMG Accountants N.V., Burg Rijnderslaan 10-20, 1185 Amstelveen, The Netherlands, have been appointed as the independent auditors of the Issuer. They have audited the financial statements for the years ending on 31 December 2003, 2004 and 2005.

Financial Year

The financial year of the Issuer is equal to the calendar year.

(1) The members of the supervisory board and the managing directors may be contacted via the Issuer's registered head office.

GENERAL INFORMATION ON THE GUARANTOR

Company Formation, Name, Registered Office and Financial Year

Linde Aktiengesellschaft (the ''Company'') was founded as a German stock corporation (*Aktiengesellschaft*) in 1879 under the name ''Gesellschaft für Linde's Eismaschinen.'' The name of the company was changed to ''Linde Aktiengesellschaft'' pursuant to a shareholders' resolution on June 22, 1965. The Company is registered under HRB 10000 in the commercial register at the local court of Wiesbaden, Germany.

The Company's registered office is in Wiesbaden, Germany. Our headquarters are located at Abraham-Lincoln-Strasse 21, D-65189 Wiesbaden, Germany (telephone: +49 611 7700).

Our financial year corresponds to the calendar year.

As a German stock corporation (*Aktiengesellschaft*), the Company is governed by German corporate law.

Duration and Dissolution

The Company has an indefinite term. However, except in the event of insolvency, it can be dissolved by a resolution of our shareholders' meeting with a three-quarters majority of the share capital represented. If that were to happen, any Company assets remaining after the adjustment of liabilities according to the requirements of the German Stock Corporation Act (*Aktiengesetz*) would be distributed among our shareholders on a proportional basis based on the numbers of shares held by each.

Corporate Purpose

The Company's corporate purpose is (a) to produce and sell industrial and other gases and their byproducts as well as to erect, acquire, sell and operate plants in which industrial and other gases are produced or used, (b) to manufacture and sell products in the fields of chemical equipment, machinery and vehicles and (c) to design and erect, acquire, sell and operate process and other industrial plants and equipment as well as plants and equipment for research purposes. The Company is permitted to take all measures and enter into all transactions for purposes of accomplishing, or which are directly or indirectly suitable for purposes of accomplishing, its corporate purpose, including research and development and cooperating with third parties in the areas described under (a) to (c) above. In the areas described under (a) to (c) above, the Company can conduct trade and provide services of all types. It may also restrict its activities to the individual areas described under (a) to (c) above. The Company can establish domestic or foreign branch offices, form other companies, acquire other companies or equity interests in other companies, in particular in companies whose corporate purposes include the areas described above in whole or in part. The Company may reorganize companies in which it holds an equity interests, combine those companies under unified management or limit itself to the management or administration of those companies after having sold its equity interest. The Company may also spin off some or all of its operations in the form of affiliated companies.

Independent Auditors

The independent auditors of our annual consolidated financial statements for the financial years ended December 31, 2003, 2004 and 2005 were KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main, Am Bonneshof 35, 40474 Düsseldorf (''KPMG''). KPMG audited the Company's annual unconsolidated financial statements prepared in accordance with the HGB and our annual consolidated financial statements prepared in accordance with IFRS as of and for the years ended December 31, 2003, 2004 and 2005 and has issued unqualified audit opinions with respect to these financial statements. KPMG is a member of the German Chamber of Auditors (*Wirtschaftsprüferkammer*).

KPMG has also been appointed as our independent auditor for the year ending December 31, 2006.

Disclosure Requirements for Shareholdings

As a listed company, the Company must comply with the provisions of the German Securities Trading Act (*Wertpapierhandelsgesetz*). These provisions state that shareholders are required to notify us in writing of the percentages of their voting rights as soon as they reach, exceed or fall below certain thresholds as a result of acquisitions, disposals or other means. These thresholds are set at 5%, 10%, 25%, 50%, and 75% of a listed company's voting rights. Shareholders must also promptly notify the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) of the change in percentages of their voting rights and the reasons for the changes, in any event no later than seven calendar days. We are required to publish this notification in at least one nationally circulated newspaper authorized by the national stock exchanges (*überregionales Börsenpflichtblatt*) without undue delay and under no circumstances later than nine calendar days after our receipt of the notification.

The German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) provides that any shareholder whose voting rights amount to or exceed 30% of our voting shares is required within seven calendar days to publish this fact, including the percentage of his or her voting rights, in at least one official newspaper authorized by the national stock exchanges or by means of an electronically operated system for disseminating financial information. The shareholder must then make a mandatory public acquisition offer to all of our shareholders unless an exemption has been granted from this obligation.

These thresholds under the German Securities Trading Act and the German Securities Acquisition and Takeover Act are calculated on the basis of effective, rather than direct, control of voting rights. If a shareholder fails to disclose this information promptly as required, German law prohibits the shareholder from exercising its rights relating to the shares, in particular voting rights and generally also the right to receive dividends, until the required information has been disclosed. In addition, the shareholder may be fined for failing to comply with the notification requirements.

MANAGEMENT

Overview

Our governing entities are our executive board (*Vorstand*), our supervisory board (*Aufsichtsrat*) and our general shareholders' meeting (*Hauptversammlung*). The powers of these entities are governed by the German Stock Corporation Act (*Aktiengesetz*), our articles of association (*Satzung*) and the rules of procedure of our executive board and our supervisory board. The German Stock Corporation Act requires us to have a two-tier management and control system consisting of our executive board and our supervisory board. The two boards work independently of each another, and no person may serve as a member of both boards at the same time. In accordance with our articles of association, we can be legally represented by two members of our executive board or by one executive board member together with an authorized signatory (*Prokurist*), as well as by authorized signatories or other people with authorization to sign as designated by our executive board.

In accordance with the German Stock Corporation Act and our articles of association, our executive board is responsible for managing our day-to-day business. In addition, our executive board legally represents us in our dealings with third parties. Our executive board is solely responsible for our management, and our annual shareholders' meeting may not issue instructions to our executive board.

Our supervisory board oversees and advises our executive board and is responsible for appointing and removing members of our executive board. In addition, our supervisory board represents us in transactions between us and any member of our executive board. While our executive board is required to submit regular reports on our day-to-day operations and fundamental corporate planning issues to our supervisory board, our supervisory board may also request special reports from our executive board at any time. Our supervisory board generally may not exercise any management functions. However, according to the rules of procedure of our supervisory board, certain types of transactions may not be carried out by our executive board without the consent of our supervisory board. If our supervisory board refuses to approve certain transactions contemplated by our executive board, our executive board can request that our annual shareholders' meeting makes the final decision.

The members of our supervisory board are generally elected for a fixed term of office of approximately five years. Under German law, each member's term expires no later than the end of our annual shareholders' meeting at which the shareholders ratify the acts of our supervisory board for the fourth financial year after the year in which the supervisory board member was elected, not counting the year in which the member's term begins. Our supervisory board members may be re-elected.

In carrying out their duties, the members of our executive board and our supervisory board have to exercise the standard of care of a prudent and conscientious business person. In complying with this standard of care, the members of these boards have to take into account a broad range of considerations, including our interests and the interests of our shareholders, employees and creditors. Our executive board in particular must respect our shareholders' right to equal treatment.

The German Stock Corporation Act prohibits individual shareholders and any other persons from influencing us to cause a member of our executive board or supervisory board to take actions that are detrimental to the Company. Anyone who uses his or her influence to cause a member of our executive board or supervisory board, an authorized signatory or an authorized agent (*Handlungsbevollmächtigter*) to act in a way that is detrimental to the Company or our shareholders is liable to us for any damage that results. Furthermore, the members of our executive board and supervisory board are also jointly and severally liable if they breach their duties and cause damage to the Company.

Where a breach of duty by members of our executive board or supervisory board causes damages to the Company, the Company may assert claims for compensation against the members of our executive board or our supervisory board. Our executive board represents us in court when claims are asserted against supervisory board members, and our supervisory board represents us when claims are asserted against executive board members. According to a decision by the German Federal Supreme Court, our supervisory board has a duty to assert claims for compensation against our executive board that are likely to succeed in court unless there are strong reasons involving the good of the corporation for not doing so, and these reasons outweigh or are at least as compelling as the reasons in favor of asserting the claims. However, even if the board entitled to represent us decides not to pursue a claim, we must assert claims for damages against members of our executive board or our supervisory board if our annual shareholders' meeting resolves by simple majority to do so. Our annual shareholders' meeting may appoint special representatives to assert the claims for damages.

Shareholders owning in the aggregate a total of one-tenth or a proportionate amount of €1,000,000 of our issued share capital may request that the court appoint a representative to assert the claims for damages. In addition, shareholders owning in the aggregate a total of one-hundredth or a proportionate amount of €100,000 of our issued share capital at the time the motion is filed may apply for the admission of a lawsuit to the district court where the Company's registered office is located asserting our claims for damages in their own name. One of the conditions for the admission of such a lawsuit is that the respective shareholder has made an unsuccessful request to us to file a suit within a reasonable period of time and there must be evidence to justify the presumption that the Company has suffered a loss due to dishonesty or a gross violation of the law or our articles of association. We are entitled at all times to assert a claim for damages on our own. If we file a suit, any pending shareholders' lawsuit relating to the admission of a lawsuit or the shareholders' lawsuit itself becomes inadmissible.

We may only waive claims for damages asserted against members of our governing entities or make an out-of-court settlement for such claims if (i) at least three years have passed since the relevant claim came into existence, (ii) the settlement is approved by a shareholders' resolution at our annual shareholders' meeting by a simple majority of votes, and (iii) a minority of shareholders owning an aggregate total of one-tenth of our issued share capital do not record an objection.

Executive Board

Our executive board consists of four members as of the date of this Prospectus.

The rules of procedure of our executive board grant each member of our executive board a specific area of responsibility within the scope of the executive board's decisional responsibility. The members of our executive board are nevertheless jointly responsible for managing our Group. Our executive board constitutes a quorum when the majority of its members participate in a given resolution by voting. Resolutions are passed by a simple majority of the votes cast unless a greater majority is required by law. In case of a tie, the chairman casts the deciding vote.

In accordance with the German Stock Corporation Act, our executive board must submit regular reports to our supervisory board, particularly on their planned business policy and fundamental issues of corporate planning, the profitability of the Company, day-to-day business and any other transactions that may be of material importance to our profitability or liquidity.

The table below lists the names of the members of our executive board as of the date of this Prospectus and includes their age, principal areas of responsibility, the year in which each member was first appointed and all companies or partnerships in which the members held seats on an administrative, management or supervisory entity or of which they were partners during the last five years. This table does not list every membership of our executive board members on the administrative, management, or supervisory entities of our subsidiaries:

Name	Age (in years)	Year first appointed	Area of responsibility/Activity	Other directorships and other supervisory board appointments*
Prof. Dr.-Ing. Wolfgang Reitzle	57	2002 (Chairman since 2003)	Chairman, Investor relations, communication, organization, IT, law, auditing, corporate development	**1999 – 2002: Ford Motor Company, Dearborn (Michigan, United States)** Group Vice-President of Ford Motor Company; Chairman and CEO of the Premier Automotive Group, London, as well as Chairman of Jaguar Cars Ltd. and Volvo Cars (responsible for Aston Martin, Jaguar, Land-Rover, Lincoln and Volvo) **2002 to 2005:** **2005:** External appointments: – Allianz Lebensversicherungs-AG – Deutsche Telekom AG (since February 10, 2005) Group appointment: – STILL GmbH (Chairman) **2004:** External appointment: – Allianz Lebensversicherungs-AG Group appointments: – Linde Kältetechnik Verwaltungs GmbH (Chairman, January 1 through October 31, 2004) – STILL GmbH (Chairman since January 1, 2004) **2003:** External appointments: – Allianz Lebensversicherungs-AG – Bayer AG (through March 25, 2003) **2002:** External appointments: – Allianz Lebensversicherungs-AG (since December 11, 2002) – Bayer AG (since April 26, 2002)
Dr.-Ing. Aldo Belloni	56	2000	Gas and engineering, patents	**2005:** Group appointment: – nv Hoek Loos, The Netherlands (Deputy Chairman of the supervisory board; until March 16, 2005) **2004:** Group appointment: – nv Hoek Loos, Netherlands (Deputy Chairman of the supervisory board)

Name	Age (in years)	Year first appointed	Area of responsibility/Activity	Other directorships and other supervisory board appointments*
				2003: Group appointment: – nv Hoek Loos, Netherlands (Deputy Chairman of the supervisory board) **2002:** – **2001:** –
Dr. rer.pol. Peter Diesch . . .	51	2004	Accounting, controlling, finances, M&A, taxes, personnel	**2001 – 2004:** **Member of the executive board of Tchibo Holding AG** **Appointments since 2004:** **2005:** – **2004:** –
Hubertus Krossa	58	2000	Material Handling	**2005:** External appointment: – Bauknecht Hausgeräte GmbH Group appointment: – STILL GmbH **2004:** External appointment: – Bauknecht Hausgeräte GmbH Group appointments: – Linde Kältetechnik Verwaltungs GmbH (January 1 – October 31, 2004) – STILL GmbH **2003:** External appointment: – Bauknecht Hausgeräte GmbH Group appointment: – STILL GmbH **2002:** External appointment: – Bauknecht Hausgeräte GmbH Group appointment: – STILL GmbH **2001:** External appointment: – Bauknecht Hausgeräte GmbH Group appointment: – STILL GmbH

* Broken down by statutory supervisory boards and comparable committees of German and international companies

Professor Dr. Ing. Wolfgang Reitzle

Dr. Reitzle began his career at BMW AG in Munich in 1976 after completing a diploma in mechanical engineering and a second course of university study in labor studies and economics. He held various executive positions and was appointed to the management board in 1986. In 1999 he moved from BMW AG to Ford Motor Company in Dearborn, Michigan, where he was Group Vice President, Chairman and CEO of Premier Automotive Group, London, until 2002 while also serving as Chairman of Jaguar Cars Ltd. and Volvo Cars (responsible for Aston Martin, Jaguar, Land-Rover, Lincoln and Volvo). He joined our executive board in May 2002 and has been Chairman of our executive board since January 2003. He was appointed Honorary Professor at Technische Universität München in May 2005.

Dr. Ing. Aldo Belloni

After studying engineering and chemistry in Milan, Dr. Belloni became a process development engineer in the Fine Chemicals division of Oxon Italia SpA, Milan, in 1974. He worked as an engineer for processing and operations of systems at Krebs & Co. GmbH in Berlin from 1976 until he joined Linde Aktiengesellschaft in 1980. He initially held various management positions before he became a member of the Executive Management of the Linde Engineering business segment in 1994 and then a member of our executive board in January 2000.

Dr. rer. pol. Peter Diesch

After studying economics in Freiburg im Breisgau and serving as a research assistant at the University of Dortmund, Dr. Diesch was first employed at MTU Motoren- und Turbinen-Union München GmbH from 1985 to 1991, where his last position was as head of department of staff positions for accounting and controlling projects and questions of principles. After serving from 1992 to 1994 as Managing Director of Dornier Medizintechnik GmbH, Munich, and from 1994 to 2000 as Managing Director of Airbus Deutschland GmbH and a member of the Management Board of DaimlerChrysler, he was appointed member of the management board of Tchibo Holding AG, Hamburg, in 2001. He has been a member of our executive board since May 2004.

Hubertus Krossa

After vocational training and obtaining a degree in business (Dipl.-Kfm.) from the Universities of Mainz and Münster, Mr. Krossa joined Linde Aktiengesellschaft in 1977, where he held various executive positions from 1981 through 1991. He moved to Whirlpool Europe in Comerio, Italy in 1991, and became Chairman of the management board of Bauknecht Hausgeräte GmbH and member of the European Management of Whirlpool Europe starting in 1992. He returned to Linde in 1997 as a member of the general management of Linde Kältetechnik and has been a member of our executive board since 2000.

The business address of the members of our executive board is our headquarters in Wiesbaden, Germany.

The current terms of office of the members of our executive board will end on the following dates:

- Prof. Dr. Ing. Wolfgang Reitzle on May 9, 2007 (although Dr. Reitzle's term of office was extended to May 9, 2012 pursuant to a resolution of our supervisory board dated May 24, 2006)
- Dr. Ing. Aldo Belloni on December 31, 2009
- Dr. rer.pol. Peter Diesch on May 16, 2009
- Hubertus Krossa on December 31, 2009

The employment contracts for the members of our executive board were entered into for the length of their terms of office. If the members' employment relationships end on the specified dates, their employment contracts do not provide for any payments other than pension benefits or any remaining vested rights to future pension benefits.

In 2005 we paid members of our executive board cash compensation totaling €9,685,627 for their services to us and our subsidiaries. Of this amount, €2,655,627 related to fixed salaries and €7,030,000 to variable compensation. Under the stock option program (Linde Management Incentive Programme), 230,000 subscription rights with a market value of €6.92 per subscription right at the issue date were granted as part of total compensation in 2005, for a total of €1,591,600. See the notes to our 2005 IFRS Consolidated Financial Statements.

Accruals totaling €6,658,748 for our Group were set aside as of December 31, 2005 for pension commitments to the active members of our executive board.

Payments to retired executive board members and their surviving dependents amounted to €2,385,616 in 2005. Provisions for pension obligations for these individuals amounted to €34,504,903 as of December 31, 2005.

We have purchased directors and officers' liability insurance, with a deductible, for each member of our executive and supervisory boards and for all governing entities of our affiliated companies, both inside and outside Germany. This insurance coverage is valid all over the world. The policy covers the legal costs of defending a member of a governing entity and any awarded compensation to be paid up to the total of the limit of indemnity.

We have not granted any loans to the members of our executive board. The members of our executive board have not entered into any transactions with us that have been outside the ordinary course of business.

The members of our executive board have not been charged with fraud or similar crimes during the five years prior to the date of this Prospectus. While acting in their capacity as members of an administrative, management or supervisory entity or as a member of the senior management of another company, our executive board members have not been involved in the insolvency or liquidation of a company. In addition, they have not been the subject of any other investigations and/or sanctions or penalties imposed by public authorities (including any professional organizations or associations). In addition, no member of our executive board has been banned by any court from holding seats on an administrative, management or supervisory entity of a company that is an issuer of securities or from acting as a member of management or executive boards of any issuer during the five years prior to the date of this Prospectus.

There are no familial relationships between any members of our executive board. There are no familial relationships between any members of our executive board and any members of our supervisory board.

Supervisory Board

The German Co-determination Act of 1976 (*Mitbestimmungsgesetz*) governs the composition of our supervisory board. Pursuant to this act, our supervisory board consists of 16 members: Eight shareholder representatives and eight employee representatives. The shareholder representatives are elected by our annual shareholders' meeting. The employee representatives are elected in accordance with the provisions of the German Co-determination Act of 1976.

Resolutions of our supervisory board require a simple majority vote by its members, unless otherwise required by German law. In the event of a tie, the chairman of our supervisory board will be entitled to cast two votes if a second round of voting on the same subject results also in a tie.

Our supervisory board must convene at least twice during each six-month calendar period.

The following table lists the names of the members of our supervisory board as of the date of this Prospectus and includes their positions on our supervisory board, the year in which each member was first appointed and the names of all companies or partnerships in which supervisory board members held a seat on an administrative, management or supervisory entity or of which they were a partner during the last five years. This table does not list every membership of our supervisory board members on the administrative, management or supervisory entities of our subsidiaries:

Name (principal occupation)	Position	Member since	Other directorships
Dr. rer. pol. Manfred Schneider (Chairman of the supervisory boards of Bayer AG and Linde Aktiengesellschaft)	Chairman Chairman of the standing committee and the mediation committee in accordance with section 27 of the German Co-determination Act of 1976 and member of the audit committee	2001, Chairman since 2003	**Executive Board:** Bayer AG (Chairman until April 26, 2002) **Supervisory Boards:** Allianz AG Bayer AG (Chairman since April 26, 2002) DaimlerChrysler AG Metro AG RWE AG TUI AG

Name (principal occupation)	Position	Member since	Other directorships
Hans-Dieter Katte* (Chairman of the Works Council, Linde Engineering Division, Linde Aktiengesellschaft, Pullach)	Deputy Chairman Chairman of the standing committee and the mediation committee in accordance with section 27 of the German Co-determination Act of 1976	1998, Deputy Chairman since 2003	
Michael Diekmann (Chairman of the management board of Allianz AG)	Second Deputy Chairman Member of the standing committee and the mediation committee in accordance with section 27 of the Co-determination Act	2003	**Supervisory Boards:** BASF AG Deutsche Lufthansa AG Allianz Deutschland AG (Chairman) Allianz Lebensversicherungs-AG (Chairman) (retired) Allianz Versicherungs-AG (Chairman) (retired) Allianz Global Investors AG (Chairman) (formerly Allianz Dresdner Asset Management GmbH) Dresdner Bank AG (Chairman) Allianz First Life, Korea (Chairman) (retired) Allianz pojistovna, a.s., Bratislava, Slovakia (Chairman) (retired) Allianz pojistovna, a.s., Prague, Czech Republic (Chairman) (retired) T.U. Allianz Polska S.A., (non-life) Poland (Chairman) (retired) T.U. Allianz Polska S.A. (life), Poland (Chairman) (retired) Hungaria Bistosito Rt., Hungary (Chairman) (retired) **Boards of Directors:** Assurances Générales de France (Vice President) Riunione Adriatica di Sicurtà S.p.A. (Vice President) Allianz of America Inc. (Chairman) Allianz Insurance Ltd., South Africa (Deputy Chairman) Allianz Insurance Ltd., Rosebank (Deputy Chairman) (retired) Allianz Fire and Marine Insurance, Japan (retired) Pioneer Allianz Life Assurance Corp., Philippines (retired) Allianz Insurance Management Asia Pacific Pte. Ltd., Singapore (retired) Allianz Ins. (Singapore) Pte. Ltd., (AZSGP), Singapore (retired) Allianz Insurance of South Africa Ltd., South Africa (Chairman) (retired) Shield Development, South Africa (Chairman) (retired) Allianz C.P. Life Assurance Co. Ltd., Thailand (Deputy Chairman) (retired) Allianz Bajaj Life Ins. Co. Ltd., India (retired) Bajaj Allianz General Ins. Co. Ltd., India (retired) Allianz Australia Ltd. (formerly MMI Insurance Group), Australia (retired) National Insurance Company, Brunei (retired)

Name (principal occupation)	Position	Member since	Other directorships
Dr. oec. Josef Ackermann** (Chairman of the management board and the Group Executive Committee of Deutsche Bank AG)	Member	1997	**Supervisory Boards:** Bayer AG Deutsche Lufthansa AG Siemens AG Eurex Clearing AG (retired) Eurex Frankfurt AG (retired) DB Investor AG (Chairman) (retired) **Administrative Boards:** Eurex Zürich AG (retired) Deutsche Bank Luxemburg SA (Chairman) (retired) **Boards of Directors:** Stora Enso Oyi, Helsinki (retired) The Nasdaq Stock Market Inc. (retired) **Board of Non-Executive Directors:** Vodafone Group plc (retired)
Dr. rer. oec. Karl-Hermann Baumann (former Chairman of the supervisory board of Siemens AG)	Member Chairman of the audit committee	1998	**Supervisory Board:** E.ON AG Schering AG Deutsche Bank AG (retired) Siemens AG (Chairman) (retired) ThyssenKrupp AG (retired) Wilhelm von Finck AG (retired) mg technologies ag (retired)
Dr. jur. Gerhard Beiten (attorney-at-law)	Member	1978	**Executive Board:** Landesverband Bayern der Deutschen Schutzvereinigung für Wertpapierbesitz e.V. (DSW) **Supervisory Board:** IWKA Industriewerke Karlsruhe Augsburg AG (retired) MVS Miete Vertrieb Service AG (retired)
Dipl.-Ing. Siegried Friebel* (Chairperson of the Works Council of Linde-KCA-Dresden GmbH)	Member	2004	
Dipl.-Wirtsch.-Ing. Gerhard Full (former Chairman of our executive board – through December 31, 2002)	Member Member of the standing committee and the audit committee	2003	**Supervisory Board:** nv Hoek Loos, Netherlands (Deputy Chairman) (retired)
Gernot Hahl* (Chairman of the Works Council, Linde Gas Division, Linde Aktiengesellschaft, Worms)	Member	1998	
Joachim Hartig* (Chairman of the Works Council, Linde Material Handling Division, Linde Aktiengesellschaft, Aschaffenburg)	Member Member of the standing committee, the audit committee and the mediation committee in accordance with section 27 of the German Co-determination Act of 1976	1993	

Name (principal occupation)	Position	Member since	Other directorships
Dipl.-Soziologe Thilo Kämmerer* (Trade Union Secretary for the executive board of IG Metall Frankfurt)	Member	2003	**Supervisory Board:** Alstom Power AG (retired)
Klaus-Peter Müller (Chairman of the Management Board of Commerzbank AG)	Member	2003	**Supervisory Boards:** Steigenberger Hotels AG Eurohypo Aktiengesellschaft (Chairman) Ford Deutschland Holding GmbH (retired) Ford-Werke AG (retired) ABB AG (retired) Goodyear Dunlop Tires Germany GmbH (retired) ThyssenKrupp Materials AG (retired) **Boards of Directors:** KfW Kreditanstalt für Wiederaufbau Liquiditäts-Konsortialbank GmbH Assicurazioni Generali S.p.A. Commerzbank International S.A., Luxembourg (President) Commerzbank (Schweiz) AG (President) (retired) **Board of Directors:** Parker Hannifin Corporation
Kay Pietsch* (Chairman of the Works Council, STILL GmbH, Hamburg)	Member	2003	
Prof. Dr. jur. Jürgen Strube (Chairman of the supervisory board of BASF Aktiengesellschaft)	Member	2000	**Executive Board:** BASF Aktiengesellschaft (Chairman until May 6, 2003) **Supervisory Boards:** Allianz Lebensversicherungs-AG BASF Aktiengesellschaft (Chairman since May 6, 2003) Bayerische Motorenwerke AG Bertelsmann AG (Deputy Chairman) Commerzbank AG Fuchs Petrolub AG (Chairman) Hapag-Lloyd AG Hochtief AG (retired)
Wilfried Woller* (Member of the Managerial Board responsible for management sector 5, IG Bergbau, Chemie, Energie)	Member	2004	**Supervisory Boards:** Deutsche Steinkohle AG Wohnungsbaugesellschaft Glückauf mbH (retired) **Advisory Board:** RAG Trading GmbH
Dipl.-Ing. Frank Zukauski* (Head of the Center of Components Cylinder, STILL GmbH)	Member	2002	

* Employee representative

** Dr. Josef Ackermann tendered his resignation from membership on our supervisory board, effective as of June 30, 2006. Following judicial approval, his successor will be Dr. Clemens Börsig.

Members of our supervisory board may be contacted at the address of our headquarters in Wiesbaden, Germany.

Our supervisory board has established three committees consisting of certain of its members: the standing committee, the audit committee, and the mediation committee. The standing committee and the audit committee each have five members and the mediation committee has four members. The main responsibility of the audit committee (composed of Dr. Karl-Hermann Baumann, Gerhard Full, Joachim Hartig, Hans-Dieter Katte and Dr. Manfred Schneider) is to prepare the decisions of our supervisory board to adopt our annual financial statements and approve our consolidated financial statements. It enters into agreements with our auditor and deals with issues related to risk management. It also discusses our interim reports with our executive board. The standing committee (composed of Dr. Manfred Schneider, Hans-Dieter Katte, Michael Diekmann, Gerhard Full and Joachim Hartig) makes proposals to our supervisory board on the appointment and dismissal of members of our executive board. It makes decisions on behalf of our supervisory board concerning employment, pension and other agreements with members of our executive board. In addition, it regularly confers on long-term succession planning for our executive board and reviews the efficiency of the activities of our supervisory board. The mediation committee (composed of Dr. Manfred Schneider, Hans-Dieter Katte, Michael Diekmann and Joachim Hartig) carries out the tasks assigned to our supervisory board in section 31(3) of the German Co-determination Act of 1976.

The term of office of our current supervisory board members expires upon completion of our annual shareholders' meeting in 2008.

The remuneration paid to our supervisory board is set forth in section 11 of our articles of association. The members of our supervisory board received an aggregate amount of €2,124,192 in 2005, €892,504 of which related to fixed compensation remuneration and €1,200,600 to variable remuneration. Each supervisory board member receives a fixed compensation of €35,000. The additional variable remuneration is based on the amount of dividends and the return on capital employed (ROCE). The sum of the salary and variable compensation may not exceed a total of €90,000 per financial year. The chairman receives three times and every deputy and every member of the standing committee one-and-a-half times the remuneration of a member of our supervisory board. The chairman of the audit committee is paid an additional €40,000 annually and every other member of the audit committee is paid an additional €20,000 annually. If a member of our supervisory board holds several offices simultaneously for which he is paid increased remuneration, he will receive only the remuneration for the highest-paid office. If members of our supervisory board receive higher compensation as a result of holding offices on our supervisory board or its committees, the maximum set forth above shall be increased by the same percentage or the same fixed amount. The compensation of members of our supervisory board who belong to our supervisory board or one of its committees for only a portion of the financial year will be pro rated. Each member of our supervisory board is also paid an attendance fee of €500 for each supervisory board and supervisory board committee meeting that he attends. All members of our supervisory board are reimbursed for the expenses they incur in carrying out their duties, and the value-added tax payable on their compensation.

We have purchased directors and officers' liability insurance, with a deductible, for each member of our executive and supervisory boards and for all governing entities of our affiliated companies, both inside and outside Germany. This insurance coverage is valid all over the world. The policy covers the legal costs of defending a member of a governing entity and any awarded compensation to be paid up to the total of the limit of indemnity.

We have not granted any loans to the members of our supervisory board. Our supervisory board members have not entered into any transactions with us that have been outside the ordinary course of business.

As far as we are aware, the members of our supervisory board have not been charged with fraud or similar crimes during the last five years prior to the date of this Prospectus. As far as we are aware, the members of our supervisory board have not been involved in any insolvency or liquidation of a company in the past while acting as members of an administrative, management or supervisory entity or as a member of the senior management of another company. In addition, as far as we are aware, the members of our supervisory board, with the exception of Dr. Josef Ackermann, have not been the subject of any other investigations and/or sanctions or penalties imposed by public authorities, including any professional organizations or associations. They have also not been banned by any court from holding seats on any administrative, management, or supervisory body of a company that is an issuer of securities or from acting as a member of management or of the executives board of any issuer during the five years prior to the date of this Prospectus. The Düsseldorf public prosecutor's office brought charges against Dr. Josef Ackermann in February 2003. The charges were based on the suspicion of breach of trust in connection with payments to former members of the managing board of Mannesmann after it was acquired by Vodafone in spring 2000. The Düsseldorf district court dismissed all charges on July 22, 2004. The Düsseldorf public prosecutor's office appealed the verdict before the German Federal Court of Justice. The Federal Court of Justice remanded the case to the Düsseldorf district court on December 21, 2005. We expect the new proceedings to begin on October 26, 2006.

There are no familial relationships between any members of our supervisory board. There are no familial relationships between any members of our supervisory board and any members of our executive board. There are no service agreements between us or any of our subsidiaries and any member of our supervisory board that provide for benefits if the services of a member of the supervisory board are terminated.

Equity Interests Held by Executive Board and Supervisory Board Members in the Company or in the Company's Businesses

As of the date of this Prospectus, the members of our executive board held a total of 10,195 shares representing a notional amount of our issued share capital totaling €26,099.20 and the members of our supervisory board held a total of 2,451 shares representing a notional amount of our issued share capital totaling €6,274.56. As of the date of this Prospectus, the members of our executive board and supervisory board held a total of 937,000 option rights. Consequently, no member of our executive board or supervisory board, directly or indirectly, held shares or options exceeding 1% of the shares we have issued. In addition, the total number of shares and options held by the members of our executive board and supervisory board as of December 31, 2005 did not exceed 1% of the shares we have issued.

Conflicts of Interest

There are no consulting or other contracts for work and services between us and the members of our supervisory board. As of the date of this Prospectus, there are no transactions between us or our affiliated companies and members of our executive board and related parties. There are no conflicts of interest of our executive board and supervisory board members that must be disclosed immediately to our supervisory board.

Certain members of our supervisory board and our executive board are or were previously members of the supervisory boards or management boards of other companies. We have commercial relationships with almost all of those companies, but those relationships are structured and implemented on an arm's length basis. We have ongoing commercial relationships with our shareholders Deutsche Bank AG, Commerzbank AG, and Allianz AG that include underwriting services during securities offerings, other investment banking services, credit, money market and foreign exchange transactions and insurance coverage for normal business operations. For information on business relationships with closely related parties, see "Principal Shareholders and Related Party Transactions – Related Party Transactions and Legal Relationships."

Annual Shareholders' Meeting

Our annual shareholders' meeting may be held at the Company's registered office or in a German city where a stock exchange is located on which our shares are admitted to the official market segment. Our annual shareholders' meeting may be convened by our executive board or, in cases required by law, by our supervisory board or a group of shareholders who, in the aggregate, hold at least 5% of our issued share capital. Our annual shareholders' meeting must be held within the first eight months of each financial year. Pursuant to a resolution of our annual shareholders' meeting on May 4, 2006 amending our articles of association, only shareholders who register for our annual shareholders' meeting and provide evidence of their share ownership are entitled to attend the meeting and vote. We must receive the registration and evidence of share ownership at the address provided for that purpose in the invitation by the seventh day before our annual shareholders' meeting at the latest. The evidence of share ownership must be provided in the form of a special evidence of share ownership obtained from the custodial institution and relating to the twenty-first day before our annual shareholders' meeting. The registration and the evidence of share ownership must be in the German or English language. Printed versions (*Textform*) of either is sufficient.

Our annual shareholders' meeting must be convened at least 30 days before the registration date for shareholders. The last date on which shareholders may register is not to be included when calculating this 30-day period.

Each of our ordinary shares entitles the holder to one vote at our annual shareholders' meeting.

Resolutions of our annual shareholders' meeting are passed with a simple majority of votes cast and, where the law requires a capital majority, with a simple majority of our issued share capital represented at the time of the resolution, as long as the law does not stipulate a larger majority of votes or capital. Shareholders can exercise their voting rights by proxy. In accordance with the German Corporate Governance Code, we name one or more proxies to exercise shareholders' voting rights according to the relevant shareholder's instructions.

Pursuant to the German Stock Corporation Act, resolutions of fundamental importance to the Company require not just a majority of votes cast, but also a majority of at least three-quarters of our issued share capital represented at the time of the resolution. Resolutions of fundamental importance include in particular:

- Capital increases, unless otherwise specified in our articles of association;
- The creation of authorized or conditional capital;
- Capital reductions;
- The conclusion of inter-company agreements (*Unternehmensverträge*);
- Changes in legal form, mergers, and other structural measures in accordance with the German Transformation and Reorganization Act (*Umwandlungsgesetz*);
- Amendments to our articles of association (unless otherwise specified in our articles of association); and
- The liquidation of the Company.

Corporate Governance

The German Corporate Governance Code (*Deutscher Corporate Governance Kodex*) contains recommendations and suggestions for managing and monitoring listed companies in Germany. It is based on internationally and nationally recognized standards for good and responsible corporate governance. The purpose of the German Corporate Governance Code is to make the German corporate governance system transparent for investors. The German Corporate Governance Code was passed by the Government Commission of the German Corporate Governance Code (*Regierungskommission Deutscher Corporate Governance Kodex*) on February 26, 2002 and has been amended since then, including most recently on May 21, 2003 (effective as of July 4, 2003) and on June 2, 2005 (effective as of July 12, 2005).

There is no legal obligation to comply with the recommendations or suggestions of the German Corporate Governance Code. Section 161 of the German Stock Corporation Act only requires that our executive board and supervisory board declare on an annual basis either that the recommendations of the German Corporate Governance Code were and will be adhered to or state which recommendations were or will not be followed. This declaration must be available to shareholders on an ongoing basis. No disclosure is required when companies deviate from the suggestions in the German Corporate Governance Code.

The Company adheres to the recommendations of the Government Commission on the German Corporate Governance Code dated May 21, 2003 and, since July 21, 2005, with the recommendations of the German Corporate Governance Code dated June 2, 2005, with the exception of Item 4.2.4 sent. 2 of the German Corporate Governance Code (individualized statement of executive board compensation) and Item 5.4.7 sent. 6 and 7 of the German Corporate Governance Code (individualized statement of supervisory board compensation). The compensation paid to our entire executive board and our entire supervisory board was and is shown in the notes to our consolidated financial statements or in our remuneration report broken down according to fixed components, success-based components and, where applicable, components with a long-term incentive effect. We consider this reporting of total compensation sufficient for purposes of transparency.

PRINCIPAL SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Principal Shareholders

The following table shows the shareholders that held more than 5% of our ordinary shares as of June 19, 2006, based on the notices of such shareholders. The rest of our shares are in free float. All of our ordinary shares have identical voting rights. There are no multiple voting rights.

Shareholder	Percentage of ordinary shares
Deutsche Bank AG Taunusanlage 12 60325 Frankfurt am Main	9.95%
Commerzbank Aktiengesellschaft Kaiserstrasse 16 60311 Frankfurt am Main	10.08%
Allianz Aktiengesellschaft Königinstrasse 28 80802 Munich	11.32%

Voting shares are attributed to the indicated shareholders in accordance with section 22 of the German Securities Trading Act, and/or held directly by them.

Related Party Transactions and Legal Relationships

In addition to the subsidiaries included in its consolidated financial statements, we have direct or indirect relationships with many different affiliated, non-consolidated subsidiaries, joint ventures and associated companies while conducting our normal business activities. The business relationships with those companies are carried out at arms' length. Related companies that are controlled by our Group or on which we can exercise a considerable influence are shown in the list of shareholdings in our 2004 IFRS Annual Consolidated Financial Statements, broken down by business unit.

The list of our complete shareholdings is also on record in the commercial registers of the local courts (*Amtsgericht*) in Wiesbaden and Munich, Germany.

The volume of transactions between our Group and those related companies in the 2005, 2004 and 2003 financial years was as indicated in the following tables. The total was about 2.3% of total revenues for financial year 2005, about 2.3% for 2004, and about 2.2% for 2003.

Services provided by the Group to related companies:

	2005	2004	2003
	(€ millions)		
Revenue from engineering services to related companies and persons	20	1	2
Revenue from the sale of technical gases to related companies or persons	–	11	10
Other revenue from the sale of products (finished or unfinished) and services to related companies or persons	194	208	189
Other income from the sale of real estate and other fixed assets to related companies and persons	3	–	–

Services obtained by the Group from related companies:

	2005	2004	2003
		(€ millions)	
Technical gases obtained from related companies or persons	15	–	–
Expenses from leasing transactions with related parties and persons	–	8	36
Material handling services obtained from related companies or persons	5	12	13
Products (finished or unfinished) and services obtained from related companies or persons	130	130	54
Other operating expenses from the purchase of real estate and other fixed assets from related companies or parties	2	–	–

During the past year, certain members of our supervisory board and executive board have been or were supervisory board or management board members of other companies. We have normal business relationships with almost all of those companies. The conditions for the sale of products and services when dealing with these companies are on an arm's length basis. Our current business relationships with our shareholders Deutsche Bank AG, Commerzbank AG and Allianz AG include underwriting services during securities offerings, other investment banking services, credit, money market, and foreign exchange transactions and insurance coverage for normal business operations. See "Subscription and Sale"

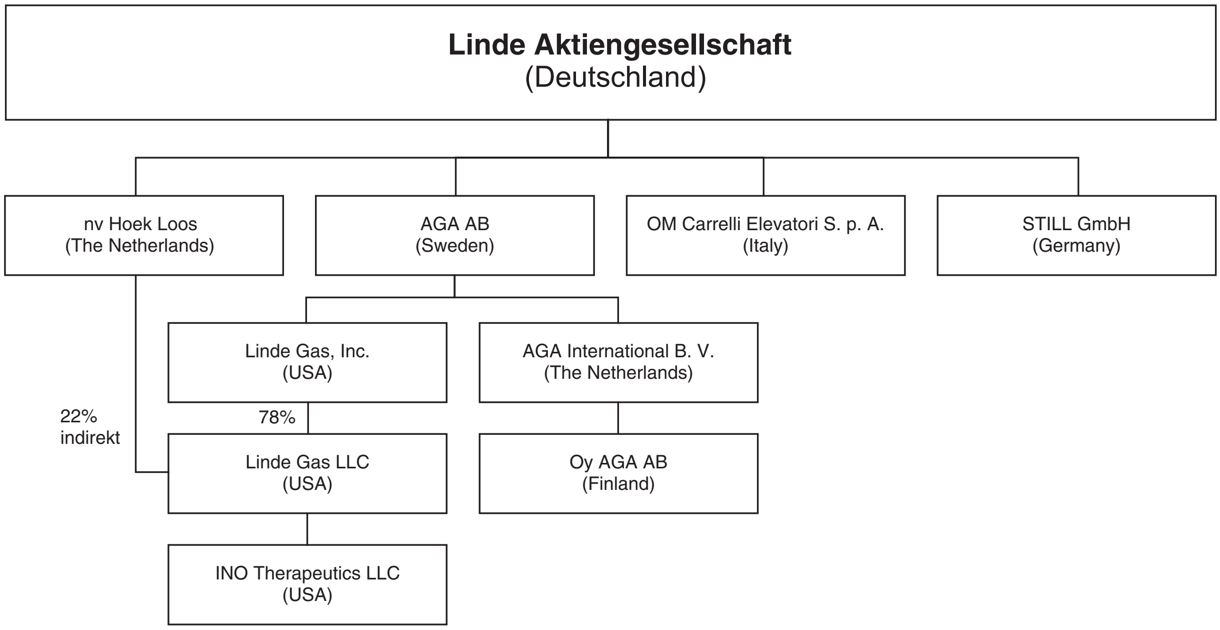
The following liabilities to, and receivables from, related companies existed as of the balance sheet date:

	2005	2004	2003
		(€ millions)	
Receivables from related companies and persons	36	54	39
Liabilities to related companies and persons	43	14	13
Allowance for doubtful debts of related companies and persons	1	–	–

GROUP STRUCTURE

Corporate structure

Linde Aktiengesellschaft is the parent company of our Group. Linde Aktiengesellschaft performs centralized control tasks within the framework of its function of managing our Group, and it also conducts substantial operational business. Linde Aktiengesellschaft has direct operational responsibility for both our Gas and Engineering business segment and the production of industrial trucks under the Linde brand name.



We plan to spin off our Material Handling business segment into a subsidiary sometime during the 2006 financial year. In addition to the production of industrial trucks under the Linde brand name, this also includes the companies OM Carrelli Elevatori S.p.A. and STILL GmbH.

Primary Affiliated Companies

The table below contains information about our primary affiliated companies as of December 31, 2005 (figures in thousands, in the respective local currency):

	Still GmbH	nv Hoek Loos	AGA AB	Linde Gas LLC	INO Therapeutics LLC	Linde Gas a. s. (previously: Technoplyn)	Oy AGA AB	OM Carrelli Elevatori S. p. A.
Registered office	Hamburg	Schiedam	Lidingö	Wilmington	Wilmington	Prague	Espoo	Milan
Founded in	Germany	The Netherlands	Sweden	United States	United States	Czech Republic	Finland	Italy
Corporate purpose	Production and distribution of forklifts	Holding company	Production and distribution of gases	Production and distribution of gases	Distribution of medical gases	Production and distribution of gases	Production and distribution of gases	Production and distribution of forklifts
Currency	EUR	EUR	SEK	USD	USD	CZK	EUR	EUR
Outstanding contributions	0	0	0	0	0	0	0	0
Subscribed capital	55,000	8,832	1,096,380	0	0	2,320,000	9,090	20,000
Reserves	39,712	201,286	1,625,795	455,574	30,795	640,853	1,917	324,345
Net profit for the year as of December 31, 2005	0[1]	49,933	2,854,756	56,184	65,853	2,082,544	24,093	(54,787)
Share of subscribed capital	100%	100%	100%	100% (indirect)	100% (indirect)	100% (indirect)	100% (indirect)	100%
Liabilities of Linde Aktiengesellschaft from financial services	60,254	–	–	–	–	–	–	–
Financial debt to Linde Aktiengesellschaft	–	–	–	–	–	3,969[2]		
Currency of parent company	EUR	EUR	EUR	USD	USD	EUR	EUR	EUR
Income/loss from the investment in 2005	(34,764)	20,000	19,857	–	–	22,760	26,000	–
Book value of the investment in the balance sheet of Linde Aktiengesellschaft or controlling company	79,373	290,640	3,624,133	409,665	7,460	110,226	2,554	327,191

(1) Due to profit and loss transfer agreement with Linde Aktiengesellschaft, losses before transfer: €34,764 thousand.

(2) Plus €210,128 thousand financial debt to Linde Finance NL.

CREDIT RATINGS

Our current credit ratings for our senior unsecured long-term debt are BBB+ according to Standard & Poor's Rating Services (''Standard & Poor's'') and A3 according to Moody's Investors Service, Inc. (''Moody's''). Due to our planned acquisition of BOC, both rating agencies have issued a negative outlook for us and for BOC, with Standard & Poor's indicating a two-level downgrade in our credit rating and Moody's indicating a downgrade of our credit rating of up to two levels. This would result in us receiving the lowest investment grade credit rating from Standard & Poor's and, at worst, the second lowest investment-grade credit rating from Moody's. BOC's rating will be aligned with our rating due to its merger with us.

The Bonds are expected to be rated upon issuance BBB- by Standard & Poor and Baa2 by Moody's.

TAXATION

The following is a general description of certain tax considerations relating to the purchasing, owning and disposing of Bonds. It does not purport to be a complete analysis of all tax considerations relating to the Bonds. Prospective purchasers of Bonds should consult their tax advisers as to the consequences, under the tax laws of the country in which they are resident for tax purposes and under the tax laws of the Republic of Ireland and the Netherlands, of acquiring, holding and disposing of Bonds and receiving payments of principal, interest and other amounts under the Bonds. This summary is based upon the laws in force and their interpretation on the date of this Prospectus and is subject to any change in law or interpretation that may occur after such date, even with retroactive effect.

TAXATION IN THE REPUBLIC OF IRELAND

The comments below are of a general nature based on the Issuer's understanding of the current law and practice in Ireland relating to the taxation of Bonds and are subject to changes therein. They relate only to the position of persons who are the absolute beneficial owners of the Bonds and the interest on them and may not apply to certain classes of person, such as dealers. Taxation laws are subject to change from time to time, and no representation is or can be made as to whether such laws will change or what impact, if any, such changes will have on the statements contained in this summary. Holders of Bonds are advised to consult their own tax advisers with respect to the application of Irish taxation laws to their particular circumstances in relation to the purchase, ownership or disposition of bonds.

Income Tax – Annual Interest Withholding Tax

No withholding for or on account of Irish income tax will be required to be made on interest arising on the Bonds.

Income and Corporation Tax

Persons resident or ordinarily resident in Ireland are generally liable to Irish income tax or corporation tax on their worldwide income. In the case of persons that are individuals, interest (including discounts) will be liable to income tax at the marginal rate (currently either 20% or 42% depending on their circumstances). In the case of corporate entities, corporation tax at the passive rate (currently 25%) will apply. Where such a person suffers withholding tax under the laws of the Netherlands, a foreign tax credit would be available against the person's Irish tax liability.

Persons who are neither resident nor ordinarily resident in Ireland are generally liable to Irish tax only in respect of Irish source income. Interest (including discounts) from the Notes should not be considered Irish source income since the Issuer is not incorporated nor tax resident in Ireland.

Where a charge to Irish tax arises, there is a statutory obligation to account for Irish tax on a self assessment basis. There is no requirement for the Irish Revenue Commissioners to issue or raise an assessment.

Capital Gains

Unless otherwise brought into the charge to Irish income tax, a capital gain will be subject to Irish Capital Gains Tax in respect of a disposal (including redemption) by a Bondholder of a Bond except where such holder is a person neither resident nor ordinarily resident in Ireland who does not have an enterprise, or an interest in an enterprise, which carries on business in Ireland through a branch or agency or a permanent representative to which or to whom the Bonds are attributable.

Stamp Duty

No Irish stamp duty will be payable on the issue or transfer by delivery of Bonds.

Capital Acquisitions Tax

A gift or bequest of Bonds may give rise to a liability to Irish gift tax or inheritance tax in the hands of the disponee or successor, if either the Bonds which are the subject of the disposition are located in Ireland, or if either the disponer or disponee are resident or ordinarily resident in Ireland.

TAXATION IN THE FEDERAL REPUBLIC OF GERMANY

The following summary of certain German tax consequences of purchasing, owning and disposing the Bonds is based on the effective tax law at the date of this Prospectus which may be changed, even with retroactive effect. The summary does not describe all tax considerations that may be relevant to an individual purchaser's decision to purchase the Bonds. It is not a substitute for tax advice.

Prospective purchasers of the Bonds are advised to consult their own tax advisors for the tax consequences of the purchase, the ownership and the disposition of the Bonds, including the effect of any state or local taxes under the tax laws of the Federal Republic of Germany as well as in each other country of which they are residents.

Tax Residents

Interest Payments

Interest, including interest having accrued up to the disposition of a Bond and credited separately (***Accrued Interest*** *– Stückzinsen*) paid to a Bondholder resident in Germany (a person whose residence, habitual abode, statutory seat, or place of effective management and control is located in Germany) is subject to German personal or corporate income tax. On the basis of the assessed personal or corporate income tax solidarity surcharge of 5.5% is levied. In addition, if the Bonds are held as assets of a German commercial business, any interest is subject to trade tax. If the Bonds are held as a non-business asset, any Accrued Interest paid by an individual upon the acquisition of the Bonds may give rise to negative income and may, therefore, reduce such Bondholder's personal or corporate income tax liability.

If the Bonds are held in a custodial account which the Bondholder maintains with the German branch of a German or non-German bank or financial services institution (the ***Disbursing Agent*** *– inländische Zahlstelle*), such Disbursing Agent will withhold tax (*Zinsabschlag*) at a rate of 30% of the gross amount of all interest payments to the Bondholder, including Accrued Interest, plus 5.5% solidarity surcharge thereon. As a result, 31.65% of the gross amount of interest, including Accrued Interest, paid to a Bondholder will be withheld by the Disbursing Agent.

The tax withheld by the Disbursing Agent will be credited as a prepayment against the Bondholders' total annual tax burden for German personal or corporate income tax purposes. No tax is withheld by the Disbursing Agent, if the Bondholder is an individual who has filed a certificate of exemption (*Freistellungsauftrag*) with the Disbursing Agent and the Bonds held by such individual are not part of a German commercial business property or generate income from the letting and leasing of property. However, this exemption applies only to the extent that the aggregate interest income derived from the Bonds after deduction of Accrued Interest paid upon the purchase of the Bonds and the deductible expense allowance (€51 for individuals and €102 for married couples filing jointly), together with an individual's other investment income administered by the Disbursing Agent, does not exceed the maximum annual exemption amount shown on the certificate of exemption (up to €1,370 for individuals and €2,740 for married couples filing jointly). No withholding obligation exists also, if the Bondholder submits to the Disbursing Agent a certificate of non-assessment (*Nichtveranlagungsbescheinigung*) issued by the local tax office.

According to German tax law the Issuer is not obliged to withhold tax.

Sale or Redemption of Bonds

The Issuer believes that the Bonds qualify as financial innovation (*''Finanzinnovation''*) in the meaning of § 20 para. 2 no. 4 of the German Income Tax Act (*Einkommensteuergesetz*). This qualification results in a tax treatment as laid out in this summary. It is, however, not possible to predict reliably whether or not the competent tax authorities will share this view. Should the Bonds not qualify as financial innovation in the aforementioned meaning according to the view of the tax authorities, a different tax treatment may apply.

Gains from the sale, assignment or redemption of the Bonds, including gains derived by a secondary or subsequent purchaser, are considered as interest and are subject to personal or corporate income tax as well as solidarity surcharge at a rate of 5.5% thereon. If the Bonds are held as assets of a German commercial business, such gains are subject to trade tax also. If the Bondholder will not prove a lower predetermined yield to maturity (so called *Emissionsrendite*) of the Bonds attributable to the period over which the holder has held such Bonds, the taxable gain from the sale, assignment or redemption of the Bonds is calculated as the difference between the proceeds from the sale, assignment or redemption and the issue or purchase price of the Bonds (so-called *Marktrendite*).

If the Bonds are held in a custodial account maintained with a Disbursing Agent, tax is deducted at a rate of 30% (plus solidarity surcharge of 5.5% thereon) from the excess of the proceeds arising from the sale or redemption over the issue or purchase price paid for the Bonds, if the Bonds were held in custody with such Disbursing Agent since the acquisition of the Bonds. If custody has changed since the acquisition of the Bonds, this tax deduction will be due on an amount equal to 30% of the proceeds arising from the sale, assignment or redemption of the Bonds. In computing the tax to be withheld, the Disbursing Agent may deduct from the basis of the withholding tax any Accrued Interest previously paid during the calendar year by the Bondholder to the Disbursing Agent. The tax deduction will be credited against the Bondholder's annual tax liability for personal or corporate income tax purposes. No tax will be withheld, if the Bondholder is an individual whose Bond does not form part of the property of a German business nor gives rise to income from the letting and leasing of property and who filed a certificate of exemption (*Freistellungsauftrag*) with the Disbursing Agent to the extent that the interest income derived from the Bond together with other investment income does not exceed the maximum exemption amount shown on this certificate (see above Interest Payments). The same applies if the Bondholder submits to the Disbursing Agent a certificate of non-assessment (*Nichtveranlagungsbescheinigung*) issued by the local tax office.

Should the Bonds – contrary to the belief of the Issuer (see above) – not qualify as a financial innovation, gains from the sale, assignment or redemption of the Bonds (other than Accrued Interest and certain other amounts) may be tax free, if the Bonds are held by private investors and if the time period between the acquisition and the sale or redemption of the Bonds exceeds one year. In this case, tax losses may not be deductible.

Taxation of income from capital gains is presently subject to the planning of the implementation of basic changes in the German tax system. In particular it is discussed that gains from private sales transactions derived from the sale and redemption of securities may become generally taxable at a flat tax rate of perhaps 20%. However, it is presently uncertain if and in how these plans will be implemented.

Non-Residents

Interest, including Accrued Interest, paid to a Bondholder and capital gains realized by a Bondholder not resident in Germany will not be taxable in Germany, and no tax will be withheld (even if the Bonds are kept with a Disbursing Agent) so long as (1) the Bonds are not held as a business asset of a German permanent establishment or through a permanent German representation of the Bondholder, (2) the interest income of such Bonds does not otherwise constitute German source income (such as income from the letting and leasing of certain German situs property or income from over-the-counter transactions) and (3) the non-resident Bondholder does comply with the procedural rules to prove his status as a non-tax resident. Otherwise, the Bondholder not resident in Germany will be subject to a tax regime similar to that described above under "Tax Residents."

Tax treaties concluded by Germany generally do not permit Germany to tax the capital gains derived by a Bondholder resident in the other treaty country, unless the Bonds form part of the business property of a permanent establishment or a fixed base maintained in Germany by the Bondholder.

Inheritance and Gift Tax

The receipt of the Bonds in case of succession upon death, or by way of a gift among living persons is subject to German inheritance and/or gift tax if the deceased, donor and/or the recipient is a German resident. German inheritance and gift tax is also triggered if neither the deceased, nor the donor nor the recipient of the Bonds are German residents, if the Bonds are attributable to German business activities and if for such business activities a German permanent establishment is maintained or a permanent representative is appointed in Germany. In specific situations German expatriates that were tax resident in Germany may be subject to inheritance and gift tax. Double taxation treaties may provide for exceptions to the domestic inheritance and gift tax regulations.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transition period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have (agreed to) adopt(ed) similar measures (a withholding system in the case of Switzerland) with effect from the same date. Germany has implemented EU Council Directive 2003/48/EU effective 1 July 2005.

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement (the **"Subscription Agreement"**) expected to be entered into between the Issuer, the Guarantor, Barclays Bank plc, Citigroup Global Markets Limited, Dresdner Bank AG London Branch and UBS Limited (together the **"Joint Lead Managers"**) and the other Managers listed on the cover page of this Prospectus, the Issuer will agree to sell to the Managers, and the Managers will agree, subject to certain customary closing conditions, to purchase the principal amounts of €-Bonds at a price of [98,00 – 101,00] per cent. of the principal amount and the principal amounts of £-Bonds at a price of [98,00 – 101,00] per cent. of the principal amount on the Closing Date:

Proceeds to the Issuer will be net of commissions of approximately 0.75 per cent of the principal amount of the Bonds payable to the Managers. The Issuer will furthermore agree to reimburse the Joint Lead Managers for certain expenses incurred in connection with the issue of the Bonds.

The Subscription Agreement will provide that the Joint Lead Managers, on behalf of the Managers, are entitled, under certain circumstances, to terminate the Subscription Agreement. In such event, no Bonds will be delivered to investors. Furthermore, Linde AG and Linde Finance B.V. will agree to indemnify the Managers against certain liabilities in connection with the offer and sale of the Bonds.

There are no interests of natural and legal persons involved in the issue, including conflicting ones, which are material to the issue.

Other Legal Relationships Between the Managers and the Group

In the past three years, Barclays Capital, Bayerische Hypo- und Vereinsbank AG, BNP Paribas, Citigroup, COMMERZBANK Aktiengesellschaft, Dresdner Bank Aktiengesellschaft, HSBC, Société Générale, The Royal Bank of Scotland and UBS, and the companies affiliated with such Managers have made lines of credit available to our Group.

As of the date of this Prospectus, we have bilateral lines of credit with Barclays Capital, Bayerische Hypo- und Vereinsbank AG, BNP Paribas, Citigroup, COMMERZBANK Aktiengesellschaft, Dresdner Bank Aktiengesellschaft, HSBC and Société Générale, and companies affiliated with such Managers. The initial terms of these lines of credit were unlimited ("until further notice"), and the volume was between €200,000 and approximately €169 million. Some lines of credit provide for a guarantee in the form of an "aval."

The Managers and their affiliated companies, along with other banks, have participated in the following financings of our Group in the following roles:

- *Linde syndicated loan (old) (€1.8 billion)*: Mandated Lead Arrangers: Barclays Capital, COMMERZBANK Aktiengesellschaft, Dresdner Bank Aktiengesellschaft, Société Générale; Arrangers: Bayerische Hypo-und Vereinsbank AG, BNP Paribas, Citigroup, The Royal Bank of Scotland, UBS.
- *Linde syndicated loan (new) (£8.9 billion and €2.0 billion)*: Mandated Lead Arrangers: COMMERZBANK Aktiengesellschaft, Dresdner Bank Aktiengesellschaft, The Royal Bank of Scotland; Senior Lead Arrangers: Barclays Capital, Bayerische Hypo- und Vereinsbank AG, BNP Paribas, Citigroup, HSBC, Société Générale, UBS.
- *Linde Debt Issuing Programme / MTN Programme (€5.0 billion)*: Dealers: Citigroup, COMMERZBANK Aktiengesellschaft, Dresdner Bank Aktiengesellschaft, Société Générale.
- *Linde Euro Commercial Paper Programme (€1.0 billion)*: Dealers: Barclays Capital, Dresdner Bank Aktiengesellschaft.
- *Linde Subordinated Bond (€400 million)*: Joint Lead Manager: Citigroup, Co-Lead Managers: Barclays Capital, BNP Paribas, Dresdner Bank Aktiengesellschaft; Co-Managers: COMMERZBANK Aktiengesellschaft.

- *Linde Convertible Bond (€550 million)*: Joint Lead Managers: Dresdner Bank Aktiengesellschaft, Société Générale; Managers: Barclays Capital, Bayerische Hypo- und Vereinsbank AG, COMMERZBANK Aktiengesellschaft.

We have entered into agreements with Barclays Capital, COMMERZBANK Aktiengesellschaft, BNP Paribas and Dresdner Bank Aktiengesellschaft in connection with our daily cash management and automatic account disposal.

We have entered into interest rate swap agreements with Barclays Capital, Bayerische Hypo- und Vereinsbank AG, Citigroup, COMMERZBANK Aktiengesellschaft, Dresdner Bank Aktiengesellschaft, HSBC, Société Générale and The Royal Bank of Scotland.

We have entered into currency hedging agreements with Barclays Capital, Bayerische Hypo- und Vereinsbank AG, Citigroup, COMMERZBANK Aktiengesellschaft, Dresdner Bank Aktiengesellschaft, HSBC, Société Générale and The Royal Bank of Scotland.

As of the date of this Prospectus, we have entered into other hedging agreements with COMMERZBANK Aktiengesellschaft, Dresdner Bank Aktiengesellschaft and UBS.

We have engaged Dresdner Bank Aktiengesellschaft to provide asset management services in connection with pensions.

We have engaged some of the Managers to assume export financings.

Selling Restrictions

European Economic Area

In relation to each Member State of the European Economic Area (EU plus Iceland, Norway and Liechtenstein) which has implemented the Prospectus Directive (each, a **"Relevant Member State"**), each Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Member State (the **"Relevant Implementation Date"**), it has not made and will not make an offer of the Bonds to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Bonds which has been approved by the competent authority in that Relevant Member State in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Bonds to the public in that Relevant Member State at any time:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last fiscal year; (2) a total balance sheet of more than €43,000,000 and (3) an annual turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an *"offer of Bonds to the public"* in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/7 1/EC and includes any relevant implementing measure in each Relevant Member State.

United States of America and its Territories

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **"Securities Act"**), and may not be offered, or sold within the United States of America (the **"United States"**) or to or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act. Each Manager has represented and agreed that it has offered and sold the Bonds, and will offer and sell the Bonds (i) as part of its distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of all the Bonds only in accordance with Rule 903 of the Regulation S under the Securities Act. Neither the Managers, their affiliates nor any person acting an its or their behalf have engaged or will engage in any directed selling efforts with respect to the Bonds, and it and they have complied and will comply with the offering restrictions requirements of Regulation S under the Securities Act. Each Manager has also agreed that at or prior to confirmation of sale of Bonds, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Bonds from it during the restricted period a confirmation or notice to substantially the following effect:

"The Bonds covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Bonds as determined and certified by each Manager, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meaning given to them in Regulation S under the Securities Act."

Terms used in the preceding paragraphs have the meaning given to them by Regulation S under the Securities Act. In addition, each Manager has represented and agreed that:

(a) except to the extent permitted under U.S. Treas. Reg. Section 1.163-5 (c)(2)(i)(D) (the **"TEFRA D Rules"**), (i) it has not offered or sold, and during the restricted period will not offer or sell, directly or indirectly, Bonds in bearer form to a person who is within the United States or its possessions or to a United States person, and (ii) it has not delivered and will not deliver, directly or indirectly, within the United States or its possessions definitive Bonds in bearer form that are sold during the restriction period;

(b) it has and throughout the restricted period will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Bonds in bearer form are aware that such Bonds may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by a TEFRA D Rules;

(c) if it was considered a United States person, that is acquiring the Bonds for purposes of resale in connection with their original issuance and agrees that if it retains Bonds in bearer form for its own account, it will only do so in accordance with the requirements of TEFRA D Rules; and

(d) with respect to each affiliate that acquires from it Bonds in bearer form for the purpose of offering or selling such Bonds during the restricted period that it will either (i) repeat and confirm the representations and agreements contained in sub-clauses (a), (b) and (c); or (ii) obtain from such affiliate for the benefit of the Issuer the representations and agreements contained in sub-clauses (a), (b) and (c).

Terms used in the preceding paragraph have the meaning given to them by the U.S. Internal Revenue Code and regulations thereunder, including the TEFRA D Rules.

United Kingdom of Great Britain and Northern Ireland

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to by communicated an invitation or inducement to engage in investment activity within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the **"FSMA"**) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in; from or otherwise involving the United Kingdom.

General

In addition to the specific restrictions set out above, the Managers agree that they will observe all applicable provisions of law in each jurisdiction in or from which it may offer Bonds or distribute any offering material.

GENERAL INFORMATION

Authorization

The creation and issue of the Bonds will be authorized by a resolution of the management board of the Issuer dated July [7-12], 2006. The supervisory board of the Guarantor has approved various financing measures, including the issuance of the Bonds, on 17 February 2006 and has delegated all further approvals required in this connection to its permanent committee (*ständiger Ausschuss*). The permanent committee of the Guarantor's supervisory board will approve the issuance of the Bonds and the granting of the Subordinated Guarantees on July [7-12] 2006.

Availability of Documents

For so long as any Bond is outstanding, copies of the following documents may be inspected during normal business hours at the specified office of each Paying Agent and as long as the Bonds are listed on the Irish Stock Exchange, the documents set out under a -g below will be available (free of charge) in physical form at the head office of the Irish Paying Agent in Dublin:

(a) the articles of association (Statuten) of the Issuer;

(b) the articles of association (Satzung) of the Guarantor;

(c) the Guarantees;

(d) the Prospectus;

(e) the confirmation of the authorization of the issue of the Bonds by the Issuer;

(f) the Issuer's audited consolidated annual financial statements as at and for each of the years ended December 31, 2005 and 2004, all prepared in accordance with Dutch GAAP; and

(g) the Guarantor's audited consolidated annual financial statements as at and for each of the years ended December 31, 2005, 2004 and 2003, all prepared in accordance with IFRS.

In connection with the application to list the Bonds on the regulated market of the Irish Stock Exchange appearing on the list of regulated markets issued by the E.C. copies of the constitutional documents of the Issuer will be deposited with the Irish Listing Agent where such documents may be examined and copies obtained.

Global Bonds

Each of the €-Bonds and the £-Bonds will initially be represented by a Temporary Global Bond without coupons, which will be exchangeable for a Permanent Global Bond without coupons. The relevant Temporary Global Bond and, upon exchange, the relevant Permanent Global Bond will be deposited with Clearstream.

Co-ownership interests in a Temporary Global Bond and, upon exchange, a Permanent Global Bonds can be held through participants in Clearstream. No definitive Bonds will be issued.

Each of the Temporary Global Bond and the Permanent Global Bond will bear the following legend:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

Listing

Application has been made to list the Bonds on the regulated market of the Irish Stock Exchange. The Bonds are expected to be traded from July [14], 2006 on. The Issuer has appointed Citigroup Global Markets Limited as the Principal Paying Agent, NCB Stockbrokers Limited, 3 George's Dock, International Financial Services Centre, Dublin 1 , Republic of Ireland as the Listing Agent for the Irish Stock Exchange and

Citibank International plc as the initial Irish Paying Agent. For so long as any Bonds are listed on the regulated market of the Irish Stock Exchange, the Issuer will maintain a paying agent in the city of Dublin.

Notifices, Payments, Expenses

For as long as any of the Bonds are listed on the Irish Stock Exchange, the Irish Stock Exchange will be informed by the Issuer of all notifications regarding payments.

For so long as any of the Bonds are listed on the Irish Stock Exchange, all notices to the Bondholders regarding the Bonds will be published in a leading newspaper having general circulation in Ireland (which is expected to be *"The Irish Times"*).

Payments and transfers of the Bonds will be settled through Clearstream.

The Issue Price of the €-Bonds is [98 – 101]% of the principal amount such bonds and the Issue Price of the £-Bonds is [98 – 101]% of the principal amount such bonds. The expenses of the issue of the Bonds will be approximately €10 million. The total expenses related to the admission to trading are expected to amount to approximately to €4,800.

Security Codes

The Bonds have been accepted for clearing with the following security identification numbers:

€-Bonds: ISIN : XS0259604329
£-Bonds: ISIN : XS0259607777

FINANCIAL INFORMATION

Linde Finance B.V.
Financial statements for the year 2005

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DIRECTOR'S REPORT

The Board of Directors of Linde Finance B.V. (''the Company'') hereby presents the financial statements for the book year 2005.

Operations

The Company was incorporated under Dutch law in Amsterdam on May 12, 1999. The principal activity of the Company is that of a finance company for the Linde AG Group from its Amsterdam office. The Company is a wholly-owned subsidiary of Linde AG, Germany.

In October 2001, the Company started a EUR 1,0 billion, multi currency, Commercial Paper (''CP'') Programme unconditionally guaranteed by Linde AG. As of December 31, 2005, the Company had no CP outstanding (2004: EUR 0 million). This programme is supplementary to the EUR 5,0 billion Debt Issuance Programme, which started in April 2000. At the end of December 2005, the Company had EUR 1,2 billion (2004: EUR 1,4 billion) debt outstanding under this programme. Additionally in 2004 the company issued a five year convertible loan of EUR 550 million and in 2003 a subordinated loan of EUR 400 million with an option to repay the loan anytime after July 2013.

During 2005 the bookkeeper and one of the Managing Directors retired. As at 31 December 2005 a total of four employees manage the day to day business.

As to currency risks, the Company has a conservative approach. Currency risks are avoided by the use of various hedging policies. Furthermore interest exposures with duration of more than one year are being hedged.

Financial Highlights in 2005

During the year, the interest income amounted to EUR 92,5 million versus EUR 103,0 million last year. The interest expense amounted to EUR 83,9 million versus EUR 93,8 million last year. The net result was EUR 3,2 million (2004: EUR 2,4 million). During the year the EUR 1,8 billion standby facility has been re-negotiated with a bank syndication.

Future developments

With the recently announced preconditioned offer for BOC by Linde AG, we anticipate increased activities during the second half of 2006 which will impact our balance sheet size and P&L. We expect no significant changes in personnel numbers nor significant changes in the structure of the Company.

Amsterdam, 24 March, 2006

The Board of Managing Directors

N.G.M. Limmen

GENERAL ACCOUNTING PRINCIPLES

Group affiliation and principle activity

The Company was incorporated under Dutch law in Amsterdam on May 12, 1999. The principal activity of the Company is that of a finance company for the Linde AG Group from its Amsterdam office. The Company is a wholly-owned subsidiary of Linde AG, Germany.

The financial information of the company is included in the consolidated financial statements of Linde AG, which is the direct holder of 100% of the issued share capital.

Basis of presentation

The accompanying accounts have been prepared under the historical cost convention in accordance with generally accepted accounting principles in the Netherlands and in conformity with the provisions of Part 9, Book 2 of the Netherlands Civil Code.

Accounting policies

All assets and liabilities are stated at face value, unless a different valuation principle is indicated in the following notes. Assets are shown net of provisions where necessary. Income and expenses are attributed to the financial year to which they relate.

a. Foreign currencies and financial derivatives

General

Assets and liabilities denominated in foreign currencies are translated into Euro at rates of exchange at the balance sheet date. Transactions in foreign currencies are converted at rates those prevailing at the dates of such transactions. Translation gains or losses are reflected in the profit and loss account.

Foreign currency risks

The Company enters into foreign currency forward exchange contracts and cross currency swaps in order to hedge the Company's currency exchange exposure. The related assets and liabilities are translated into Euro at the balance sheet date. The related derivatives used to hedge the exchange exposure are included in the balance sheet at their net realisable value, which approximates fair value.

Interest risk

Interest exposures with a duration of more than one year are being hedged, by entering into Interest Rate Swaps and Cross Currency Swaps. Interest swap premiums are deferred and amortised over the term of the related contract.

Credit risk

The Company solely provides loans within the Linde AG Group. In co-operation with Linde AG headquarters, assessments of credit risks are made and credit limits are set, which are periodically reviewed. In respect of cash at banks and financial derivatives, these are only deposited and/or entered into with banks of reputation.

b. Financial fixed assets

Financial fixed assets represent the nominal amounts of loans, of a long-term nature, issued to group companies. If necessary, provisions for a permanent diminution in value are established.

c. ***Net result***

The net result has been calculated on the basis of the accrual and matching principles.

d. ***Taxation***

Taxation is calculated on the basis of commercial income adjusted for available fiscal facilities.

BALANCE SHEET AS AT DECEMBER 31

	Note	2005 EUR	2004 EUR
Financial fixed assets	*1*		
Loans to group companies		1.910.682.844	2.056.113.219
		1.910.682.844	2.056.113.219
Current assets			
Loans to group companies	*2*	775.676.262	594.280.768
Interest receivable from group companies		33.428.629	28.837.610
Tax receivables		2.176.769	2.370.503
Other receivables	*3*	43.904.930	49.287.792
Cash at banks	*5*	167.909.605	144.908.416
		1.023.096.195	819.685.089
Current liabilities			
Bonds and notes payable	*6*	–228.686.370	–137.573.935
Interest payable to third parties		–52.695.902	–55.603.705
Loans from group companies	*2*	–644.615.936	–409.341.477
Interest payable to group companies		–2.310.859	–1.691.396
Other payables to group companies		–	–6.619.596
Forward exchange contracts	*4*	–20.249.457	–19.086.292
Taxes payables		–812.650	–400.334
Other payables	*9*	–3.796.510	–6.087.190
Accounts payable and accrued interest		–6.226.958	–8.709.846
		–959.394.642	–645.113.771
Net working capital		63.701.553	174.571.318
Total assets less current liabilities		1.974.384.397	2.230.684.537
Less: Long term liabilities			
Bonds notes payable	*6*	–1.001.581.249	–1.261.061.525
Convertible bond	*8*	–550.000.000	–550.000.000
Subordinated bond	*7*	–400.000.000	–400.000.000
		–1.951.581.249	–2.211.061.525
		22.803.148	19.623.012
Capital and reserves	*10*		
Share capital		5.000.000	5.000.000
retained earnings		14.623.012	12.271.929
Unappropriated profit		3.180.136	2.351.083
		22.803.148	19.623.102

The accompanying notes form an integral part of these financial statements

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31

		2005	2004
		EUR	EUR
Interest income	*11*		
Group company loans		91.086.828	101.344.441
Other interest income		1.409.556	1.627.323
		92.496.384	102.971.764
Interest expense			
Group company loans		–7.941.921	–7.475.469
Other interest expense		–76.005.260	–86.287.556
		–83.947.181	–93.763.025
Net interest result		8.549.203	9.208.739
Other			
Other expenses		–	–105.914
General and administrative expenses	*12*	–3.695.612	–5.238.069
Foreign exchange gain/loss, net		–13.757	15.201
Profit before taxation		4.839.834	3.879.957
Taxation	*13*	–1.659.698	–1.528.874
Net profit after taxation	*10*	3.180.136	2.351.083

The accompanying notes form an integral part of these financial statements

NOTES TO THE ANNUAL ACCOUNTS DECEMBER 31, 2005

1. Financial fixed assets

Financial fixed assets represent loans, of a long-term nature, issued to group companies. The movements in long-term loans to group companies during the year were as follows:

	2005	2004
	EUR	EUR
Balance January 1	2.056.113.219	2.370.052.795
New loans	33.530.607	701.838.348
To short term loans	–159.539.168	–101.983.250
Translation adjustment	–15.973.020	–9.456.379
Loans redeemed	–35.394.834	–904.338.295
Balance December 31	1.910.682.844	2.056.113.219

An amount of EUR 449,8 million (2004: EUR 444,4 million) of the principal portions outstanding are due and repayable over more than 5 years.

Long-term loans to group companies for a total amount of EUR 162,3 million (2004: EUR 259,6 million) are denominated in a currency other than Euro for which the Company has entered into foreign exchange contracts to hedge foreign currency risks. The valuation of the loans and exchange contracts are determined based on the yearend rate of exchange.

The fair value of financial fixed assets per December 31, 2005 is EUR 1.907 billion.

2. Loans to/from group companies

Loans to group companies

The Company holds loans to group companies for approximately EUR 775,7 million (2004: EUR 594,3 million). The principal portions are due and payable within one year. The majority of these loans provide that arm's-length interest rates are determined on a quarterly basis. The average stated interest rate on these loans as at December 31, 2005 was 2,95% (2004: 2,82%).

Short-term loans to group companies for a total amount of EUR 296,8 million (2004: EUR 275,8 million) are denominated in a currency other than Euro for which the Company has entered into foreign exchange contracts to hedge foreign currency risks. The valuation of the loans and exchange contracts are determined based on the yearend rate of exchange.

The fair value of loans to group companies per December 31, 2005 is EUR 775,6 million.

Loans from group companies

The Company holds loans from group companies for a total amount of EUR 626,9 million (2004: EUR 409,3 million). The principal portions are due and payable within one year. The majority of these loans provide that arm's-length interest rates are determined on a quarterly basis: as at December 31 the average stated interest rate on these loans was 2,30% (2004: 2,08%).

Short-term loans from group companies for an amount of EUR 323,5 million (2004: EUR 147,2 million) are denominated in a currency other than Euro for which the Company has entered into foreign exchange contracts to hedge foreign currency risks. The valuation of the loans and foreign exchange contracts are determined based on the yearend rate of exchange.

The fair value of loans from group companies per December 31, 2005 is EUR 626,9 million.

3. Other receivables

Other receivables include unamortised discounts for an amount of EUR 11.220.365 (2004: EUR 15.078.713) and interest swaps receivables of EUR 31.797.314 (2004: EUR 34.205.644). Of the unamortised discounts an amount of EUR 7.889.156 is due after one year (2004: EUR 11.415.268).

4. Forward exchange contracts

Foreign exchange contracts are included in the balance sheet at their net realizable value based on the yearend rate of exchange. None of the foreign currency contracts outstanding have a maturity of more than one year (2004: EUR 0 million).

5. Cash at banks

Cash at banks include deposits for an amount of EUR 165,9 million (2004: 142,5 million). The average interest rate on these deposits was 1,82% (2004: 2,15%).

6. Bonds, notes payable and bank loans

The bonds, notes payable and bank loans comprise loans from credit institutions as well as from institutional investors.

The maturity of the bonds, notes payable and bank loans can be shown as follows:

Maturity	2005	2004
	EUR	EUR
> 5 years	–	–
1-5 years	1.001.581.248	1.261.061.525
Sub-total long term	1.001.581.248	1.261.061.525
< 1 year	228.686.370	137.573.935
Sub-total current liabilities	228.686.370	137.573.935
Balance December 31	1.230.267.619	1.398.635.460

The payable bonds, notes and bank loans, bear an average interest of 2,89% (2004:2,84%). The payable bonds and notes have been issued under the terms of the Debt Issuance Programme. With respect to this programme, Linde AG has issued an unconditional and irrevocable guarantee in favor of the Company. Bonds and notes payable for an approximate amount of EUR 213,7 million (2004: EUR 302,1 million) are denominated in a currency other than Euro for which the Company has entered into foreign exchange contracts/cross currency swaps to hedge foreign currency risks. The valuation of the bonds and notes payable and foreign exchange contracts are determined based on the yearend rate of exchange.

The fair value of payable bonds, notes and bank loans short term per December 31, 2005 is EUR 209,2 million. The fair value of payable bonds, notes and bank loans long term per December 31, 2005 is EUR 1.033,3 billion.

7. Subordinated bond

In 2003 the company issued a subordinated bond without a maturity. The bond has a coupon of 6% which has been fixed till July 2013. The Company has the option to repay the bond anytime after July 2013. Under the terms of the bond contract, this bond is subordinated to all other liabilities of the company. With respect to this bond, Linde AG has issued an irrevocable subordinated guarantee in favor of the Company. The fair value per December 31, 2005 is EUR 396,3 million.

8. Convertible bond

In 2004 the company issued a convertible bond. The bond has a coupon of 1,25% which has been fixed till May 2009. Each Note will, at the opinion of the holder, subject to certain conditions, be convertible from July 2004 till May 2009 into ordinary shares Linde AG. With respect to this bond, Linde AG has issued an irrevocable guarantee in favor of the Company. The conversion price is EUR 56,482. The fair value per December 31, 2005 is EUR 546,3 million.

9. Other payables

Other payables are upfront premiums for an amount of EUR 3.796.510 (2004: EUR 6.087.190). Upfront premiums are received through issuing swaps to compensate some MTN discounts.

10. Capital and reserves

Authorized share capital consists of 15.000 shares of EUR 1,000 each. As at December 31, 2005, 5.000 shares were issued and fully paid in (December 31, 2004: 5.000).

Movements in capital and reserves were as follows:

	Share	Retained Earnings	Unappropriated profit	Total
	EUR	EUR	EUR	EUR
Balance December 31, 2003	5.000.000	12.371.929	–	17.271.929
2004 result		2.351.083	–	2.351.083
Balance December 31, 2004	5.000.000	14.623.012	–	19.623.012
Unappropriated profits 2005	–		3.180.136	3.180.136
Balance December 31, 2005	5.000.000	14.623.012	3.180.136	22.803.148

11. Interest incomes

The geographical breakdown of the interest income can be analyzed as follows:

	2005	2004
	EUR	EUR
Netherlands	3%	2%
Rest of Europe	95%	96%
USA and Canada	0%	0%
Other	2%	2%
Total	100%	100%

12. General and administrative expenses

The general and administrative expenses can be analyzed as follows (in EUR '000):

	2005	2004
	EUR	EUR
Wages and salaries	331	296
Guarantee commissions	2.127	2.404
Charges related to back up facilities	1.036	1.843
Other G&A expenses	202	695
	3.696	5.238

For wages and salaries, refer to note 15.

The guarantee commissions are charged by Linde AG with respect to bonds and notes payable of the Company and Linde AG's guarantee thereof.

13. Taxation

Taxes on income can be analyzed as follows:

	2005	2004
	EUR	EUR
Profit before taxation	4.839.834	3.879.957
Deductible costs previous years	–11.630	–
Taxable withholding tax	450.550	–290.518
	5.278.754	3.589.439
Income tax rate	31,5%	34,5%
	1.661.789	1.238.356
Tax income & expenses related to different period	–2.091	
Withholding tax	–	290.518
Income tax expenses	1.659.698	1.528.874
Effective tax rate	34,3%	39,4%

14. Directors

The Company has one managing Director (2004: 2) and three supervisory directors (2004: 3). The supervisory directors did not receive a remuneration in 2005. Furthermore the Company avails itself to the stipulations laid down in article 2:383, section 1, of the Dutch Civil Code with regard to the remuneration of the managing director.

15. Employees

During 2005 the Company had an average number of employees of 4 (2004: 3).

The wages and salaries as referred to in note 12 include social security charges of EUR 27.234 (2004: EUR 36.096) and pension premium costs of EUR 43.742 (2004: EUR 35.915).

16. Off balance sheet commitments

The Company has entered into a number of interest swap agreements , with a principal amount of EUR 1,0 billion (2004: EUR 1,1 billion), and a number of cross currency swap agreements, with a principal amount of approximately EUR 434,3 million (2004: EUR 530,7 million). The positive fair value of all derivatives is EUR 47,4 million, the negative fair value of all derivatives is EUR 33,0 million.

The Company has various limited sort time service contracts with related parties, respecting to back-office assistance. Furthermore the Company has limited rental, front- and back office commitments with third parties. Total expenses are approximately EUR 100.000 per annum.

The Company has also long time obligations namely, a syndicated multi-currency revolving credit facility agreement with an annual expense of EUR 0,45 million a year.

The Company has accommodated their pension obligations for employees in Hoek Loos pension fund. Linde Finance BV can be responsible for a deficit of the mentioned pension fund in proportion of the number of employees. At this moment there is no indications of a pension deficit.

Amsterdam, March 24, 2006

The Board of Managing Directors	The Board of Supervisory Directors
N.G.M. Limmen	W.P. Diesch E.H. Wehlen B. Schneider

SUPPLEMENTARY INFORMATION

Appropriation of results

In accordance with Article 27 of the Company's Articles of Association, profits, if any, are at the disposal of the General Meeting of Shareholders. The directors propose to add the net profit to retained earnings.

AUDITOR'S REPORT

Introduction

We have audited the accompanying 2005 financial statements of Linde Finance B.V., Amsterdam as set out on pages 6 to 14. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of 31 December 2005 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Furthermore we have established to the extend of our competence that the annual report is consistent with the company financial statements.

Amstelveen, March 24, 2006

KPMG Accountants N.V.

K. Oosterhof RA

Linde Finance B.V.
Financial statements for the year 2004

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DIRECTORS' REPORT

The Board of Directors of Linde Finance B.V. (''the Company'') hereby presents the financial statements for the book year 2004.

Operations

The Company was incorporated under Dutch law in Amsterdam on May 12, 1999. The principal activity of the Company is that of a finance company for the Linde AG Group from its Amsterdam office. The Company is a wholly-owned subsidiary of Linde AG, Germany.

In October 2001, the Company started a EUR 1,0 billion, multi currency, Commercial Paper (''CP'') Programme unconditionally guaranteed by Linde AG.

As of December 31, 2004, the Company had no CP outstanding (2003: EUR 0 million). This programme is supplementary to the EUR 5,0 billion Debt Issuance Programme, which started in April 2000. At the end of December 2004, the Company had EUR 1,4 billion (2003: EUR 2,3 billion) debt outstanding under this programme. Additionally the company issued a subordinated loan of EUR 400 million in 2003 with an option to repay the loan anytime after July 2013 and in 2004 a five year convertible loan of EUR 550 million.

During 2004, the average number of employees remained on the same level as of last year. As at 31 December 2004 a total of six employees (including the directors and hired personnel) manage the day to day business.

As to currency risks, the Company has a conservative approach. Currency risks are avoided by the use of various hedging policies. Furthermore interest exposures with duration of more than one year are being hedged.

Financial highlights in 2004

During the year, the interest income amounted to EUR 103,0 million versus EUR 117,5 million last year and interest expense amounted to EUR 93,8 million versus EUR 106,3 million last year. The net result was EUR 2,4 million (2003: EUR 3,2 million).

We incurred additional expenses due to the issue of a convertible bond, a partial buy back of outstanding MTN's and a partial buyback of the 1 billion bond.

Future developments

We anticipate that the interest result of the Company will remain on the same level in 2005. We expect no significant investments, no significant changes in personnel numbers nor significant changes in the financing structure of the Company.

Amsterdam, March 24, 2005

The Board of Managing Directors:

A. Hutter N.G.M. Limmen

GENERAL ACCOUNTING PRINCIPLES

Group affiliation and principal activity

The Company was incorporated under Dutch law in Amsterdam on May 12, 1999. The principal activity of the Company is that of a finance company for the Linde AG Group from its Amsterdam office. The Company is a wholly-owned subsidiary of Linde AG, Germany.

The financial information of the company is included in the consolidated financial statements of Linde AG, which is the direct holder of 100% of the issued share capital.

Basis of presentation

The accompanying accounts have been prepared under the historical cost convention in accordance with generally accepted accounting principles in the Netherlands and in conformity with the provisions of Part 9, Book 2 of the Netherlands Civil Code.

Accounting policies

All assets and liabilities are stated at face value, unless a different valuation principle is indicated in the following notes. Assets are shown net of provisions where necessary. Income and expenses are attributed to the financial year to which they relate.

a. Foreign currencies and financial derivatives

General

Assets and liabilities denominated in foreign currencies are translated into Euro at rates of exchange at the balance sheet date. Transactions in foreign currencies are converted at rates those prevailing at the dates of such transactions. Translation gains or losses are reflected in the profit and loss account.

Foreign currency risks

The Company enters into foreign currency forward exchange contracts and cross currency swaps in order to hedge the Company's currency exchange exposure. The related assets and liabilities are translated into Euro at the balance sheet date. The related derivatives used to hedge the exchange exposure are included in the balance sheet at their net realisable value, which approximates fair value.

Interest risk

Interest exposures with a duration of more than one year are being hedged, by entering into Interest Rate Swaps and Cross Currency Swaps. Interest swap premiums are deferred and amortized over the term of the related contract.

Credit risk

The Company solely provides loans within the Linde AG Group. In cooperation with Linde AG headquarters, assessments of credit risks are made and credit limits are set, which are periodically reviewed. In respect of cash at banks and financial derivatives, these are only deposited and/or entered into with banks of reputation.

b. Financial fixed assets

Financial fixed assets represent the nominal amounts of loans, of a long-term nature, issued to group companies. If necessary, provisions for a permanent diminution in value are established.

c. *Net result*

The net result has been calculated on the basis of the accrual and matching principles.

d. *Taxation*

Taxation is calculated on the basis of commercial income adjusted for available fiscal facilities. The charge processed in the profit and loss account also includes withholding taxes paid.

BALANCE SHEET AS AT DECEMBER 31

	Note	2004 EUR	2003 EUR
Financial fixed assets	*1*		
Loans to group companies		2.056.113.219	2.370.052.795
		2.056.113.219	2.370.052.795
Current assets			
Loans to group companies	*2*	594.280.768	658.716.474
Interest receivable from group companies		28.837.610	24.364.291
Tax receivables		2.370.503	1.008.193
Other receivables	*3*	49.287.792	16.105.105
Cash at banks	*5*	144.908.416	116.973.306
		819.685.089	817.167.369
Current liabilities			
Bank overdraft		–	–
Bonds and notes payable	*6*	–137.573.935	–395.573.710
Interest payable to third parties		–55.603.705	–19.305.346
Loans from group companies	*2*	–409.341.477	–426.705.457
Interest payable to group companies		–1.691.396	–2.021.430
Other payables to group companies		–6.619.596	–617.934
Forward exchange contracts	*4*	–19.086.292	–12.218.208
Taxes payables		–400.334	–187.944
Other payables	*9*	–6.087.190	–9.057.015
Accounts payable and accrued expenses		–8.709.846	–6.720.467
		–645.113.771	–872.407.511
Net working capital		174.571.318	–55.240.142
Total assets less current liabilities		2.230.684.537	2.314.812.653
Less: Long-term liabilities			
Bonds and notes payable	*6*	–1.261.061.525	–1.897.540.724
Subordinated bond	*7*	–400.000.000	–400.000.000
Convertible bond	*8*	–550.000.000	–
		–2.211.061.525	–2.297.540.724
		19.623.012	17.271.929
Capital and reserves	*10*		
Share capital		5.000.000	5.000.000
Retained earnings		12.271.929	9.063.799
Unappropriated profit		2.351.083	3.208.130
		19.623.012	17.271.929

The accompanying notes form an integral part of these financial statements.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31

	Note	2004 EUR	2003 EUR
Interest income	*11*		
Group company loans (net of exchange contract premiums)		101.344.441	116.329.124
Other interest income		1.627.323	1.161.881
		102.971.764	117.491.005
Interest expense			
Group company loans (net of exchange contract premiums)		–7.475.469	–6.971.602
Other interest expense		–86.287.556	–99.371.613
		–93.763.025	–106.343.215
Net interest result		9.208.739	11.147.790
Other			
Other expenses		–105.914	–
General and administrative expenses	*12*	–5.238.069	–6.045.896
Foreign exchange gain/(loss), net		15.201	–12.618
Profit before taxation		3.879.957	5.089.276
Taxation	*13*	–1.528.874	–1.881.146
Net profit after taxation	*10*	2.351.083	3.208.130

The accompanying notes form an integral part of these financial statements.

NOTES TO THE ANNUAL ACCOUNTS DECEMBER 31, 2004

1. Financial fixed assets

Financial fixed assets represent loans, of a long-term nature, issued to group companies. The movements in long-term loans to group companies during the year were as follows:

	2004	2003
	EUR	EUR
Balance January 1	2.370.052.795	2.418.657.061
New loans	701.838.348	631.312.297
To short term loans	–101.983.250	–217.768.429
Translation adjustment	–9.456.379	–62.916.980
Loans redeemed	–904.338.295	–399.231.154
Balance December 31	2.056.113.219	2.370.052.795

An amount of EUR 444,4 million (2003: EUR 559,6 million) of the principal portions outstanding are due and repayable over more than 5 years.

Long-term loans to group companies for a total amount of EUR 259,6 million (2003: EUR 257,3 million) are denominated in a currency other than Euro for which the Company has entered into foreign exchange contracts to hedge foreign currency risks. The valuation of the loans and exchange contracts are determined based on the yearend rate of exchange.

The fair value of financial fixed assets per December 31, 2004 is EUR 2,148 billion.

2. Loans to/from group companies

Loans to group companies

The Company holds loans to group companies for EUR 594,3 million (2003: EUR 658,7 million). The principal portions are due and payable within one year. The majority of these loans provide that arm’s-length interest rates are determined on a quarterly basis.

The average stated interest rate on these loans as at December 31, 2004 was 2,82% (2003: 3,04%).

Short-term loans to group companies for a total amount of EUR 275,8 million (2003: EUR 281,8 million) are denominated in a currency other than Euro for which the Company has entered into foreign exchange contracts to hedge foreign currency risks. The valuation of the loans and exchange contracts are determined based on the yearend rate of exchange.

The fair value of loans to group companies per December 31, 2004 is EUR 597,3 million.

Loans from group companies

The Company holds loans from group companies for a total amount of EUR 409,3 million (2003: EUR 426,7 million). The principal portions are due and payable within one year. The majority of these loans provide that arm’s-length interest rates are determined on a quarterly basis: as at December 31 the average stated interest rate on these loans was 2,08% (2003: 2,37%).

Short-term loans from group companies for an approximate amount of EUR 147,2 million (2003: EUR 215,7 million) are denominated in a currency other than Euro for which the Company has entered into foreign exchange contracts to hedge foreign currency risks. The valuation of the loans and foreign exchange contracts are determined based on the yearend rate of exchange.

The fair value of loans from group companies per December 31, 2004 is EUR 392,6 million.

3. Other receivables

Other receivables include unamortised discounts for an amount of EUR 15.078.713 (2003: EUR 16.079.894) and interest swaps receivables.

Of the unamortised discounts an amount of EUR 11.415.268 is due after one year (2003: EUR 11.733.849).

4. Forward exchange contracts

Foreign exchange contracts are included in the balance sheet at their net realisable value based on the yearend rate of exchange. None of the foreign currency contracts outstanding have a maturity of more than one year (2003: EUR 0 million).

5. Cash at banks

Cash at banks include deposits for an amount of EUR 142,5 million (2003: 117,3 million), which mature within one week subsequent to the balance sheet date and are therefore not freely available as at December 31, 2004. The average interest rate on these deposits was 2,15% (2003: 2,09%).

6. Bonds, notes payable and bank loans

The bonds, notes payable and bank loans comprise loans from credit institutions as well as from institutional investors.

The maturity of the bonds, notes payable and bank loans can be shown as follows:

Maturity	2004	2003
	EUR	EUR
> 5 years	–	144.831.294
1-5 years	1.261.061.525	1.752.709.430
Sub-Total Long-term	1.261.061.525	1.897.540.724
< 1 year	137.573.935	395.573.710
Sub-Total Current liabilities	137.573.935	395.573.710
Balance December 31	1.398.635.460	2.293.114.434

The payable bonds, notes and bank loans, bear an average interest of 2,84% (2003:2,72%). The payable bonds and notes have been issued under the terms of the Debt Issuance Programme. With respect to this programme, Linde AG has issued an unconditional and irrevocable guarantee in favor of the Company. Bonds and notes payable for an approximate amount of EUR 302,1 million (2003: EUR 473,1 million) are denominated in a currency other than Euro for which the Company has entered into foreign exchange contracts/cross currency swaps to hedge foreign currency risks. The valuation of the bonds and notes payable and foreign exchange contracts are determined based on the yearend rate of exchange.

The fair value of payable bonds, notes and bank loans short term per December 31, 2004 is EUR 138,0 million. The fair value of payable bonds, notes and bank loans long term per December 31, 2004 is EUR 1,379 billion.

7. Subordinated bond

In 2003 the company issued a subordinated bond without a maturity. The bond has a coupon of 6% which has been fixed till July 2013. The Company has the option to repay the bond anytime after July 2013. Under the terms of the bond contract, this bond is subordinated to all other liabilities of the company. With respect to this bond, Linde AG has issued an irrevocable subordinated guarantee in favor of the Company.

The fair value per December 31, 2004 is EUR 479,1 million.

8. Convertible bond

During the year the company issued a convertible bond. The bond has a coupon of 1,25% which has been fixed till May 2009. Each Note will, at the opinion of the holder, subject to certain conditions, be convertible from July 2004 till May 2009 into ordinary shares Linde AG. With respect to this bond, Linde AG has issued an irrevocable guarantee in favor of the Company. The conversion price is EUR 56,482. The fair value per December 31, 2004 is EUR 512,8 million.

9. Other payables

Other payables are upfront premiums for an amount of EUR 6.087.190 (2003: EUR 9.057.015). Upfront premiums are received through issuing swaps to compensate some MTN discounts.

10. Capital and reserves

Authorized share capital consists of 15.000 shares of EUR 1,000 each. As at December 31, 2004, 5.000 shares were issued and fully paid in (December 31, 2003: 5.000).

Movements in capital and reserves were as follows:

	Share	Retained earnings	Unappropriated profit	Total
	EUR	EUR	EUR	EUR
Balance December 31, 2002	5.000.000	9.063.799	–	14.063.799
2003 result		3.208.130	–	3.208.130
Balance December 31, 2003	5.000.000	12.271.929	–	17.271.929
Unappropriated profit 2004	–		2.351.083	2.351.083
Balance December 31, 2004	5.000.000	12.271.929	2.351.083	19.623.012

11. Interest income

The geographical breakdown of the interest income can be analysed as follows:

	2004	2003
Netherlands	2%	3%
Rest of Europe	96%	96%
USA and Canada	0%	0%
Other	2%	1%
Total	100%	100%

12. General and administrative expenses

The general and administrative expenses can be analysed as follows (in EUR '000):

	2004	2003
	EUR	EUR
Wages and salaries	296	265
Guarantee commissions	2.404	2.662
Charges related to credit rating and backup facilities	1.843	2.407
Other G&A expenses	695	712
	5.238	6.046

For wages and salaries, refer to note 15.

The guarantee commissions are charged by Linde AG with respect to bonds and notes payable of the Company and Linde AG's guarantee thereof.

13. Taxation

Taxes on income can be analysed as follows:

	2004	2003
Profit before taxation	3.879.957	5.089.276
Taxable withholding tax	–290.518	–387.219
	3.589.439	4.702.057
Income tax rate	34,5%	34,5%
	1.238.356	1.622.210
Tax income and expenses relating to a different period		–128.283
Withholding tax	290.518	387.219
Income tax expenses	1.528.874	1.881.146
Effective tax rate	39,4%	37,0%

14. Directors

The Company has two directors (2003: 2) and three supervisory directors (2003: 4). The supervisory directors and one of managing directors did not receive a remuneration in 2004. Furthermore the Company avails itself to the stipulations laid down in article 2:383, section 1, of the Dutch Civil Code with regard to the remuneration of the managing directors.

15. Employees

During 2004 the Company had an average number of employees of 3 (2003: 3).

The wages and salaries as referred to in note 12 include social security charges of EUR 36.096 (2003: EUR 35.898) and pension premium costs of EUR 35.915 (2003: EUR 26.032).

16. Off balance sheet commitments

The Company has entered into a number of interest swap agreements, with a principal amount of EUR 1,1 billion (2003: EUR 1,6 billion), and a number of cross currency swap agreements, with a principal amount of approximately EUR 530,7 million (2003: EUR 648,4 million).

The positive fair value of all derivatives is EUR 129,0 million, the negative fair value of all derivatives is EUR 56,1 million.

The Company has various limited sort time service contracts with related parties, respecting to back-office assistance. Furthermore the Company has limited rental, front- and back office commitments with third parties. Total expenses will be approximately EUR 100.000 a year.

The Company has also long time obligations namely, a syndicated multi-currency revolving credit facility agreement with an annual expense of EUR 1,2 million a year.

The Company has accommodated their pension obligations for employees in Hoek Loos pension fund. Linde Finance BV can be responsible for a deficit of the mentioned pension fund in proportion of the number of employees. On this moment no indications are known for a deficit.

Amsterdam, March 24, 2005

The Board of Managing Directors:

A. Hutter
N.G.M. Limmen

The Board of Supervisory Directors:

W.P. Diesch, Chairman
E.H. Wehlen
B. Schneider

SUPPLEMENTARY INFORMATION

Appropriation of results

In accordance with Article 27 of the Company's Articles of Association, profits, if any, are at the disposal of the General Meeting of Shareholders. The directors propose to add the net profit of EUR 2.351.083 to retained earnings.

Auditors’ report

Introduction

We have audited the accompanying 2004 financial statements of Linde Finance B.V.,

Amsterdam. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of 31 December 2004 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Amstelveen, March 24, 2005

KPMG Accountants N.V.

Unaudited consolidated financial statements of Linde Aktiengesellschaft as of and for the three months ended March 31, 2006 (IFRS)

Group income statement

	January to March 2006	January to March 2005[1]	Year 2005[1]
	in € million		
Sales	2,415	2,118	9,555
Cost of sales	1,636	1,447	6,541
Gross profit on sales	779	671	3,014
Marketing and selling expenses	337	304	1,322
Research and development costs	47	44	174
Administration expenses	192	173	712
Other operating income	47	41	209
Other operating expenses	25	26	106
Operating profit (EBIT)	225	165	909
Interest income	23	42	99
Interest charges	41	66	199
Net interest	–18	–24	–100
Income from associates	–	–	1
Other investment income	1	–1	–1
Financial result	–17	–25	–100
Earnings before taxes on income	208	140	809
Taxes on income	73	50	286
Net income	135	90	523
Minority interests	–1	–1	–9
Net income after minority interests	134	89	514
Earnings per share in €	1.12	0.75	4.30
Earnings per share in € – fully diluted	1.05	0.71	4.06

1) Restated

Group balance sheet

	Mar. 31, 2006	Dec. 31, 2005[1)]
	in € million	
Assets		
Goodwill	2,821	2,823
Other intangible assets	316	313
Tangible assets	3,707	3,738
Investments in associates	164	159
Other financial assets	68	84
Leased assets	617	625
Receivables from financial services	480	500
Trade receivables	7	8
Other receivables and other assets	26	74
Deferred tax assets	244	245
Non-current assets	8,450	8,569
Inventories	1,201	1,082
Receivables from financial services	143	110
Trade receivables	1,515	1,564
Other receivables	405	325
Securities	6	5
Cash and cash equivalents	871	906
Prepaid expenses and deferred charges	50	33
Non-current assets held for sale and disposal groups	–	23
Current assets	4,191	4,048
Total assets	12,641	12,617

1) Restated

Group balance sheet

	Mar. 31, 2006	Dec. 31, 2005[1)]
	in € million	
Equity and liabilities		
Capital subscribed	307	307
Capital reserve	2,706	2,704
Retained earnings	1,812	1,679
Cumulative changes in equity not recognized through the income statement	–270	–267
Total equity excluding minority interests	4,555	4,423
Minority interests	52	49
Total equity	4,607	4,472
Provisions for pensions and similar obligations	1,128	1,122
Other non-current provisions	119	168
Deferred tax liabilities	354	372
Financial debt	1,980	1,997
Liabilities from financial services	328	338
Trade payables	4	4
Other non-current liabilities	63	92
Deferred income	72	69
Non-current liabilities	4,048	4,162
Other current provisions	1,402	1,308
Financial debt	334	419
Liabilities from financial services	174	173
Trade payables	1,462	1,467
Other non-current liabilities	498	481
Deferred income	116	124
Liabilities directly related to non-current assets held for sale	–	11
Current liabilities	3,986	3,983
Total equity and liabilities	12,641	12,617

1) Restated

Statement of recognized income and expense

	Jan. 1, 2006 to Mar. 31, 2006	Jan. 1, 2005 to Mar. 31, 2005
	in € million	
Gain/loss on remeasurement of securities	–	–
Gain/loss on remeasurement at fair value of derivative financial instruments	24	3
Currency translation differences	–27	42
Change in actuarial gains/losses on pension provisions and effect of limitation on a defined benefit asset (IAS 19.58)	–	–70
Other gains and losses recognized in equity	–	1
Gains and losses recognized directly in equity	–3	–24
Net income	135	90
Total gains and losses recognized	132	66
of which due to:		
Linde AG shareholders	131	65
Other shareholders	1	1
Effects of changes in accounting policies:		
Linde AG shareholders	–	–91
Other shareholders	–	–

Group cash flow statement

	January to March 2006	January to March 2005[1]	Year 2005[1]
	in € million		
Net income after minority interests	134	89	514
Amortization and depreciation of fixed assets	192	185	749
Changes in assets and liabilities, adjusted for the effects of changes in Group structure	–66	–103	359
Change in leased assets	–45	–38	–209
Other items	–1	4	9
Cash flow from operating activities	214	137	1,422
Payments for tangible and intangible assets and technical equipment held under lease agreements in accordance with IFRIC 4	–168	–150	–849
Payments for financial assets and investments in consolidated companies	–2	–29	–63
Proceeds on disposal of fixed assets and consolidated companies and repayment of receivables from financial services in accordance with IFRIC 4	31	12	102
Cash flow from investing activities	–139	–167	–810
Dividend payments and changes in minority interests	–	–	–150
Repayment of financial liabilities	–109	–84	–133
Cash flow from financing activities	–109	–84	–283
Net cash inflow/outflow	–34	–114	329
Opening balance of cash and cash equivalents	906	564	564
Transfer to trust account[2]	–87	–	–
Change in cash and cash equivalents due to effects of currency translation and changes in Group structure	–1	5	13
Closing balance of cash and cash equivalents	784	455	906

1) Restated

2) Arising from proposed purchase of Spectra Gases Inc.

Activities

	January to March 2006	January to March 2005[1)]	Change	Year 2005[1)]
		in € million		
Gas and Engineering				
Incoming orders	1,575	1,479	6.5%	7,233
Sales	1,494	1,333	12.1%	5,885
EBITDA	315	268	17.5%	1,175
EBIT	211	169	24.9%	779
EBT	200	154	29.9%	712
Linde Gas				
Incoming orders	1,200	1,036	15.8%	4,509
Sales	1,198	1,032	16.1%	4,492
EBITDA	294	257	14.4%	1,092
EBIT	192	160	20.0%	707
EBT	179	144	24.3%	632
Linde Engineering				
Incoming orders	502	465	8.0%	2,913
Sales	316	357	–11.5%	1,623
EBITDA	22	20	10.0%	106
EBIT	18	16	12.5%	89
EBT	20	17	17.6%	97
Material Handling				
Incoming orders	960	854	12.4%	3,787
Sales	922	771	19.6%	3,628
EBITDA	128	106	20.8%	545
EBIT	47	26	80.8%	223
EBT	39	18	116.7%	191
Group				
Incoming orders	2,533	2,347	7.9%	11,062
Sales	2,415	2,118	14.0%	9,555
EBITDA	417	350	19.1%	1,658
EBIT	225	165	36.4%	909
EBT	208	140	48.6%	809

1) Restated

ADDITIONAL COMMENTS

[1] General recognition and measurement policies

The unaudited interim report of Linde AG at March 31, 2006 has been drawn up in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), London, where these became effective on or before March 31, 2006. The term IFRS also includes International Accounting Standards (IAS), where these are still effective, and the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC). In accordance with the EU Regulation dated July 19, 2002 (EC No. 1606/2002), only those IFRS which have already been adopted by the European Commission have been applied in the quarterly report.

We have used the same recognition and measurement policies to draw up the interim report as those used to prepare the Group financial statements for the year ended December 31, 2005, with the exception of the following changes and have also applied IAS 34 ''Interim Financial Statements''.

With effect from January 1, 2006, Linde AG has applied IFRIC 4 ''Determining Whether an Arrangement Contains a Lease''. The application of this Standard will result in certain technical equipment in the Linde Gas division being recognized as finance leases. As a result, there was a transfer from tangible assets to receivables from financial services and the reclassification of part of the corresponding revenue in the financial result. The change in accounting policy required by IFRIC 4 results in a restatement of prior year figures (''restated''). Further details about the effect of the change in accounting policy are given in the note on ''Embedded leases''.

Furthermore, in fiscal 2005, IAS 19 was amended in respect of the recognition of actuarial gains and losses relating to the measurement of pension provisions. At December 31, 2005, Linde AG made use of the newly available option of immediately recognizing actuarial gains and losses in equity. As a result of this change in accounting policy at December 31, 2005, the comparatives in these quarterly financial statements have been restated (''restated''). Further details about the effect of the amendment to IAS 19 are given in the note on ''Pension obligations''.

In addition to the Standard referred to above, the following new or amended Standards and Interpretations issued by IASB and IFRIC came into effect on January 1, 2006. However, either these did not have a significant effect on the net assets, financial position and results of operations of the Group or they were not relevant for the Group financial statements.

- Amendment to IAS 39 and IFRS 4 ''Financial Guarantee Contracts''
- Amendment to IFRS 4 ''Revised Guidance on Implementing IFRS 4''

[2] Changes in Group structure

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

The Linde Group comprises the following companies:

	As at Dec. 31, 2005	Additions	Disposals	As at March 31, 2006
Consolidated subsidiaries	274	6	6	274
of which within Germany	35	1	1	35
of which outside Germany	239	5	5	239
Subsidiaries reported at acquisition cost	55	3	9	49
of which within Germany	10	–	2	8
of which outside Germany	45	3	7	41
Companies accounted for using the equity method	33	3	–	36
of which within Germany	8	–	–	8
of which outside Germany	25	3	–	28

[3] Foreign currency translation

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

The following exchange rates have been used:

		Mid-rate at balance sheet date		Average rate	
Exchange rate €1 =	ISO code	March 31, 2006	March 31, 2005	March 2006	March 2005
Czech Republic	CZK	28.465000	29.880000	28.594761	29.998710
Great Britain	GBP	0.697300	0.688400	0.686544	0.693640
Sweden	SEK	9.439600	9.143500	9.350382	9.073960
Switzerland	CHF	1.580000	1.548500	1.559652	1.548594
USA	USD	1.211800	1.296200	1.203431	1.311924

[4] First-time application of IFRIC 4 (Embedded leases)

In this quarterly report, Linde AG has applied IFRIC 4 "Determining Whether an Arrangement Contains a Lease" for the first time. The application of IFRIC 4 is mandatory from January 1, 2006. As a result of the change in accounting policy required by IFRIC 4, the comparative figures have been restated ("restated").

In accordance with the criteria set out in IFRIC 4, certain technical equipment in the Linde Gas division – in particular certain on-site plants and ECOVAR plants – must be classified as "embedded finance leases". As a result, 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. This will lead in future to a reduction in sales in the Linde Gas division. Only the finance income relating to receivables from financial services will be disclosed, together with a one-off amount included in sales on the completion and bringing on stream of the plant. Assets under construction, which in future must be classified as "embedded finance leases", will be disclosed under inventories and no longer under tangible assets.

Group balance sheet

	Dec. 31, 2005
	in € million
Equity at Dec. 31, 2005 – as reported	4,413
Adjustments as a result of the change in accounting treatment of certain technical equipment in the Linde Gas division recognized as finance leases under IFRIC 4	
Change in tangible assets	–372
Change in inventories	58
Change in receivables from financial services	405
Deferred tax	–32
Equity at Dec. 31, 2005 – restated	4,472

Group income statement

	January to March 2005	Fiscal 2005
	in € million	
Net income after minority interests – as reported	85	501
Previously unrecognized actuarial gains/losses relating to the measurement of pension provisions (IAS 19)	2	–
Adjustment to earnings as a result of the change in accounting treatment of certain technical equipment in the Linde Gas division recognized as finance leases under IFRIC 4		
Change in sales	–6	54
Change in cost of sales	4	–58
Change in finance income from lease agreements	5	24
Deferred tax expense	–1	–7
Net income after minority interests – restated	89	514

[5] Pension 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 directly recognized in equity.

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

In the quarterly reports, a competent estimate of the pension obligation is made, based on trends in the actuarial parameters (discount rate, expected return on plan assets, growth in future benefits, growth in pensions), and taking into account any exceptional effects in the current quarter.

At March 31, 2006, the actuarial parameters on which the pension obligations are based had not changed significantly, so that the calculation of the obligation continues to be based on the underlying assumptions at December 31, 2005.

[6] Earnings per share

in € million/Shares in thousands	January to March 2006	January to March 2005[1]	Year 2005[1]
Net income after minority interests	134	89	514
Plus: increase in profit due to dilutive effect of convertible bond	3	3	13
Profit after adjusting for dilutive effects	137	92	527
Weighted average number of shares outstanding	119,864	119,327	119,564
Dilutive effect of Linde Management Incentive Programme	569	293	358
Effect of dilutive convertible bond	9,738	9,738	9,738
Weighted average number of shares outstanding – fully diluted	130,171	129,358	129,660
Earnings per share in €	1.12	0.75	4.30
Earnings per share in € – fully diluted	1.05	0.71	4.06

1) Restated

[7] Equity

Statement of changes in Group equity

in € million	Capital subscribed	Capital reserve	Retained earnings	Cumulative changes in equity not recognized through the income statement: Currency translation differences	Remeasurement of securities at fair value	Derivative financial instruments	Actuarial gains/losses	Total equity excluding minority interests	Minority interests	Total equity
As at Jan. 1, 2005 – figures originally published	**305**	**2,680**	**1,266**	**–205**	**–**	**–3**	**–**	**4,043**	**38**	**4,081**
Adjustments:										
Change in accounting policy IAS 19	**–**	**–**	**4**	**–**	**–**	**–**	**–139**	**–135**	**–**	**–135**
Change in accounting policy IFRIC 4	**–**	**–**	**44**	**–**	**–**	**–**	**–**	**44**	**–**	**44**
As at Jan. 1, 2005 – restated	305	2,680	1,314	–205	–	–3	–139	3,952	38	3,990
Dividend payments	–	–	–	–	–	–	–	–	–	–
Change in currency translation differences	–	–	–	42	–	–	–	42	–	42
Financial instruments	–	–	–	–	–	3	–	3	–	3
Net income – restated	–	–	89	–	–	–	–	89	–	89
Changes as a result of the share option scheme	–	2	–	–	–	–	–	2	–	2
Other changes	–	–	–	–	–	–	–70	–70	1	–69
As at March 31, 2005 – restated	305	2,682	1,403	–163	–	–	–209	4,018	39	4,057
As at Dec. 31, 2005 – figures originally published	307	2,704	1,622	–48	–	–9	–212	4,364	49	4,413
Adjustments:										
Change in accounting policy IFRIC 4	–	–	57	2	–	–	–	59	–	59
As at Jan. 1, 2006 – restated	307	2,704	1,679	–46		–9	–212	4,423	49	4,472
Dividend payments	–	–	–	–	–	–	–	–	–	–
Change in currency translation differences	–	–	–	–27	–	–	–	–27	–	–27
Financial instruments	–	–	–	–	–	24	–	24	–	24
Net income	–	–	134	–	–	–	–	134	1	135
Changes as a result of share option scheme	–	2	–	–	–	–	–	2	–	2
Other changes	–	–	–1	–	–	–	–	–1	2	1
As at March 31, 2006	307	2,706	1,812	–73	–	15	–212	4,555	52	4,607

[8] Significant events

See page 3 for details about the submission of a recommended cash offer to The BOC Group plc.

Credit agreement negotiated in order to finance the cash offer

In connection with the recommended cash offer for The BOC Group plc, a credit agreement was negotiated on March 3, 2006 with the lead banks, Commerzbank AG, Deutsche Bank AG, Dresdner Kleinwort Wasserstein, Morgan Stanley Bank International Limited and The Royal Bank of Scotland plc for total amounts of GBP 8,900,000,000 and € 2,000,000,000. It is intended to refinance the funds received under the credit agreement through a combination of equity and debt finance on the capital market, proceeds from the sale of individual activities and income from current operations.

Other

During the reporting period, two bonds with a total volume of € 60 million were repaid on schedule. Apart from the events mentioned above, there have been no significant events for the Linde Group between the end of the reporting period on March 31, 2006 and the publication deadline for these quarterly financial statements.

Audited consolidated financial statements of Linde Aktiengesellschaft as of and for the financial year ended December 31, 2005 (IFRS)

Group income statement

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

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

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

Group balance sheet

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

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

Group balance sheet

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

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

Statement of recognized income and expense in Group financial statements

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

Group cash flow statement

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

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

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

Group cash flow statement

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

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

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

Segment information by activity

See Note [38]	Gas and Engineering 2005	Gas and Engineering Restated & comparable 2004	Material Handling 2005	Material Handling Restated & comparable 2004	Corporate 2005	Corporate Restated & comparable 2004	Group 2005	Group Restated & comparable 2004
				in € million				
Non-current assets (excluding tax receivables and deferred tax assets)	6,594	6,251	1,421	1,346	303	275	8,318	7,872
of which investments in associates accounted for under the equity method	46	36	101	95	12	8	159	139
Inventories	399	371	611	546	14	25	1,024	942
Other current assets (excluding tax receivables)	968	918	773	673	178	291	1,919	1,882
Securities, cash and cash equivalents	–	–	–	–	911	567	911	567
Segment assets	7,961	7,540	2,805	2,565	1,406	1,158	12,172	11,263
Non-current liabilities (excluding pension provisions and deferred tax liabilities)	177	103	104	129	38	69	319	301
Current liabilities (excluding tax liabilities)	1,896	1,585	829	712	369	352	3,094	2,649
Segment liabilities	2,073	1,688	933	841	407	421	3,413	2,950
Income tax liabilities offset against income tax claims	–	–	–	–	297	290	297	290
Capital employed including pension provisions	5,582	5,511	1,915	1,747	965	765	8,462	8,023
of which pension provisions	621	566	453	410	48	43	1,122	1,019
Sales to third parties	5,825	5,395	3,626	3,368	50	93	9,501	8,856
Sales to other segments	6	11	2	4	–8	–15	–	–
Segment sales	5,831	5,406	3,628	3,372	42	78	9,501	8,856
EBITDA	1,212	1,105	545	490	–63	–81	1,694	1,514
Amortization of intangible assets (excluding goodwill amortization), depreciation of tangible assets and leased assets	–429	–423	–322	–296	–30	–21	–781	–740
EBITA	783	682	223	194	–93	–102	913	774
Financial result	–92	–99	–32	–30	–	5	–124	–124
of which profit/loss from associates	–8	–3	5	3	4	3	1	3
EBTA	691	583	191	164	–93	–97	789	650
Goodwill impairment losses	–	–8	–	–20	–	–	–	–28
Earnings before taxes on income	691	575	191	144	–93	–97	789	622
Return on capital employed (ROCE) in %[1]	14.5	12.8	13.1	12.3	–	–	12.5	10.8
EBITA return on sales in %	13.4	12.6	6.2	5.8	–	–	9.6	8.7
Cash flow from operating activities[2]	1,213	990	248	268	–26	–3	1,435	1,255
Cash flow from investing activities	–632	–581	–178	–164	–13	14	–823	–731
Free cash flow	581	409	70	104	–39	11	612	524
Capital expenditure (excluding financial assets)	635	511	191	176	25	31	851	718
Number of employees at December 31[3]	22,191	21,787	19,323	18,878	715	718	42,229	41,383

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

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

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

Segment information by activity

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

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

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

Segment information by region

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

NOTES TO THE GROUP FINANCIAL STATEMENTS: GENERAL PRINCIPLES

[1] Basis of preparation

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

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

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

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

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

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

[2] Principles of consolidation

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

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

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

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

[3] Acquisitions and sales

Acquisitions

The following major acquisitions were made during the year:

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

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

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

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

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

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

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

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

Disposals

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

[4] Scope of consolidation

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

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

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

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

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

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

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

The Linde Group comprises the following companies:

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

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

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

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

[5] Foreign currency translation

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

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

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

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

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

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

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

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

[6] Currencies

The following principal exchange rates have been used:

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

[7] Accounting policies

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

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

Recently issued accounting standards

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

– IFRS 2 *Share-based Payment,*

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

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

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

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

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

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

Changes in accounting policies

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

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

Comparability of prior year figures

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

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

Group balance sheet

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

Group income statement

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

Revenue recognition

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

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

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

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

Cost of sales

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

Research and development costs

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

Financial result

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

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

Intangible assets

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

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

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

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

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

Tangible assets

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

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

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

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

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

Financial assets

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

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

Inventories

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

Long-term construction contracts

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

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

Receivables and other assets

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

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

Derivative financial instruments

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

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

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

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

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

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

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

Deferred taxes

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

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

Provisions for pensions and other obligations

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

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

Other provisions and provisions for insurance contracts

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

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

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

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

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

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

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

Financial debt and liabilities

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

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

Accounting for leases

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

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

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

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

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

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

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

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

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

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

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

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

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

Assets held for sale and disposal groups

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

Discretionary decisions and estimates

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

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

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

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

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

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

NOTES TO THE GROUP INCOME STATEMENT

[8] Sales

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

Sales are derived from the following activities:

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

[9] Cost of sales

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

[10] Research and development costs

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

[11] Other operating income and expenses

Other operating income

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

Other operating expenses

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

[12] Financial result

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

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

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

[13] Taxes on income

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

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

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

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

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

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

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

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

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

Deferred tax assets and liabilities:

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

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

Tax loss carryforwards

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

[14] Minority interests

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

[15] Earnings per share

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

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

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

[16] Other information on the Group income statement

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

NOTES TO THE GROUP BALANCE SHEET

[17] Goodwill/Intangible assets

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

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

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

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

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

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

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

[18] Tangible assets

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

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

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

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

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

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

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

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

[19] Investments in associates/Other financial assets

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

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

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

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

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

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

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

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

[20] Leased assets

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

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

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

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

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

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

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

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

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

These are analyzed by due date as follows:

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

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

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

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

[21] Inventories

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

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

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

[22] Receivables and other assets

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

Receivables from financial services

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

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

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

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

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

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

Receivables from percentage of completion contracts

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

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

Customer retentions were immaterial.

Other receivables and other assets

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

[23] Securities

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

[24] Cash and cash equivalents

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

[25] Prepaid expenses and deferred charges

The whole amount is due within one year.

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

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

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

[27] Equity

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

Statement of changes in Group equity

				Cumulative changes in equity not recognized through the income statement						
in € million	Capital subscribed	Capital reserve	Retained earnings	Currency translation differences	Remeasurement of securities at fair value	Derivative financial instruments	Actuarial gains/ losses	Total equity excluding minority interests	Minority interests	Total equity
At Jan. 1, 2004, as reported	305	2,595	1,144	–183	–	–	–	3,861	35	3,896
Adjustments: First-time application of IFRS 2	–	9	–9	–	–	–	–	–	–	–
Adjustments: Change in accounting policy IAS 19	–	–	–	–	–	–	–98	–98	–	–98
At Jan. 1, 2004, restated	305	2,604	1,135	–183	–	–	–98	3,763	35	3,798
Dividend payments[1]	–	–	–135	–	–	–	–	–135	–2	–137
Change in currency translation differences	–	–	–	–22	–	–	–	–22	–	–22
Financial instruments	–	–	–	–	–	–3	–	–3	–	–3
Amount arising from the issue of convertible bond	–	67	–	–	–	–	–	67	–	67
Net income, restated	–	–	270	–	–	–	–	270	5	275
Changes as a result of share option scheme	–	8	–	–	–	–	–	8	–	8
Other changes	–	1	–	–	–	–	–41	–40	–	–40
At Dec. 31, 2004/Jan. 1, 2005, restated	305	2,680	1,270	–205	–	–3	–139	3,908	38	3,946
Dividend payments[1]	–	–	–149	–	–	–	–	–149	–1	–150
Change in currency translation differences	–	–	–	157	–	–	–	157	1	158
Financial instruments	–	–	–	–	–	–6	–	–6	–	–6
Amount arising from the issue of convertible bond	–	–	–	–	–	–	–	–	–	–
Net income	–	–	501	–	–	–	–	501	9	510
Changes as a result of share option scheme	2	24	–	–	–	–	–	26	–	26
Other changes	–	–	–	–	–	–	–73	–73	2	–71
At Dec. 31, 2005	307	2,704	1,622	–48	–	–9	–212	4,364	49	4,413

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

Capital subscribed

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital reserve

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

Retained earnings

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

Cumulative changes in equity not recognized through the income statement

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

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

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

Minority interests

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

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

[28] Provisions for pensions and similar obligations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Reconciliation of the defined benefit obligation and the plan assets:

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

1) Prior year figures restated.

Funding status of defined benefit pension obligations:[1]

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

1) Prior year figures restated.

Portfolio structure of plan assets:[1)]

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

1) Prior year figures restated.

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

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

1) Prior year figures restated.

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

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

[29] Other provisions and provisions for insurance contracts

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

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

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

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

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

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

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

* Including currency differences.

[30] Financial debt

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

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

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

The bonds are analyzed as follows:

Fixed-interest bonds

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

Variable-interest bonds

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

1) Includes adjustments relating to hedging transactions.

2) Effective interest rate in relevant currency.

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

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

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

Subordinated bond

In June 2003, a subordinated bond for €400 million was issued. It has no final maturity date, although there is a right to call the loan from July 4, 2013. If the right to call the loan is not exercised on this date, the increased coupon will attract interest at a variable rate (3 month Euribor +3⅜ percent). The right to call the loan will then be available every quarter on the due date for interest payment. The coupon payment may be suspended as soon as Linde AG fails to pay a dividend. Coupon payments may be suspended for a maximum period of five years. If Linde AG resumes the coupon payments, those payments which have not previously been disbursed are made up.

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

[31] Liabilities from financial services

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

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

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

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

Liabilities from financial services

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

[32] Trade payables, Other liabilities

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

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

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

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

[33] Deferred income

Deferred income comprises:

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

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

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

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

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

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

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

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

OTHER INFORMATION

[35] Share option scheme

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

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

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

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

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

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

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

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

Option values

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

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

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

Black-Scholes option price model

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

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

Option rights

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

* at issue date.

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

[36] Derivative financial instruments

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

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

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

Currency risks

Linde generally enters into forward exchange contracts to hedge the exposure to risks arising from fluctuations in receivables, payables and liabilities denominated in foreign currencies, as well as from outstanding contracts and anticipated transactions. If forecasted transactions are to be hedged, the rules for cash flow hedges are generally applied.

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

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

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

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

Interest rate risks

The Group is refinanced mainly through the issue of bonds and medium-term notes in various currencies. Linde hedges the exposure to the resulting future interest rate and currency risks by entering into appropriate interest rate and combined interest rate/currency swaps. These economic hedges are reflected in the balance sheet by applying the rules for hedge accounting. Where future cash flows of interest and capital are hedged, this gives rise to a cash flow hedge. The change in fair value of these swaps is recognized directly in Cumulative changes in equity not recognized through the income statement and disclosed separately. In 2005, the negative fair values of derivatives reported in this way amounted to €0 million (2004: €1 million). These cash flow hedges will be terminated in 2006.

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

Price change risks

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

Measurement information for financial instruments

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

Interest curves

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

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

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

Fair value of derivative financial instruments – Assets

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

Fair value of derivative financial instruments – Liabilities

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

Nominal amounts – Assets

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

* Including embedded derivatives from hybrid contracts.

Nominal amounts – Liabilities

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

* Including embedded derivatives from hybrid contracts.

[37] Group cash flow statement

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

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

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

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

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

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

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

[38] Segment information

Segment information by activity

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

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

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

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

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

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

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

Segment information by region

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

Segment assets/liabilities

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

[39] Employees

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

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

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

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

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

Balance sheet of Linde AG – Assets

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

Balance sheet of Linde AG – Equity and liabilities

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

Income statement of Linde AG

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

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

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

[41] Approval of the Group financial statements

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

[42] Related party transactions

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

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

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

Services provided by the Group to related parties:

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

Services provided by related parties to the Group:

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

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

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

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

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

Supervisory Board

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

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

Executive Board

Emoluments of the Executive Board

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

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

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

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

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

The remuneration report presents the basic features and the structure of the remuneration of the Executive Board and the Supervisory Board. It has been included in the Group management report on pages 018-020 of the 2005 annual report.

[44] Declaration of compliance with the Corporate Governance Code

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

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

[45] Contingent liabilities and Other financial commitments

Contingent liabilities

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

Litigation

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

Other financial commitments

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

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

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

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

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

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

[46] Auditors' fees and services

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

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

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

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

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

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

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

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

[47] Significant Group companies

Affiliated companies

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

Affiliated companies

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

Selected associates

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

[48] Events after the balance sheet date

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

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

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

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

DECLARATION OF THE EXECUTIVE BOARD

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

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

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

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

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

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

Wiesbaden, February 22, 2006

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

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

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

Hubertus Krossa
Member of the Executive Board
of Linde AG

The auditors have issued the following auditors' report on the consolidated financial statements and the group management report:

AUDITORS' REPORT

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

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the European Union and with the additional requirements of German commercial law pursuant to §315a (1) of the German Commercial Code (HGB) and with full IFRS, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, February 22, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprufungsgesellschaft

Professor Dr. Rolf Nonnenmacher Wirtschaftsprufer	Michael Gewehr Wirtschaftsprufer

Audited consolidated financial statements of Linde Aktiengesellschaft as of and for financial year ended December 31, 2004 (IFRS)

Group income statement

	Note	2004	2003
		in € million	
Sales	[8]	9,421	8,992
Discontinued operation		578	866
Cost of sales	[9]	6,539	6,215
Gross profit on sales		2,882	2,777
Marketing and selling expenses		1,314	1,297
Research and development costs	[10]	177	172
Administration expenses		723	722
Other operating income	[11]	251	251*
Other operating expenses	[11]	134	154
Amortization of goodwill		141	138
Special items			
Additional restructuring schemes		–	70
Transaction and disposal costs		–	50
Reorganization of Linde Material Handling Australia		–	20
Profits/losses on securities (contractual trust arrangement – Linde pension fund)		–	13
Operating profit (EBIT)		644	418
Discontinued operation		6	4
Net interest		–129	–142*
Income from associates		3	6
Other investment income		–	5
Financial result	[12]	–126	–131
Earnings before taxes on income		518	287
Discontinued operation		4	3
Taxes on income	[13]	239	178
Earnings after taxes on income		279	109
Minority interests	[14]	–5	–1
Net income		274	108
Discontinued operation		–	–
Earnings per share in €	[15]	2.30	0.91
Earnings per share in € – fully diluted –	[15]	2.24	0.91

* Prior year figures restated.

Group balance sheet

	Note	Dec. 31, 2004	Dec. 31, 2003
		in € million	
Assets			
Goodwill	[17]	2,788	2,892
Other intangible assets	[17]	277	252
Tangible assets	[18]	3,814	3,774
Investments in associates	[19]	139	144
Other financial assets	[19]	83	89
Leased assets	[20]	574	551
Fixed assets		7,675	7,702
Receivables from financial services	[22]	132	127
Trade receivables	[22]	45	9
Other receivables and other assets	[22]	21	50
Deferred tax assets	[13]	123	132
Other non-current assets		321	318
Inventories	[21]	942	1,107
Receivables from financial services	[22]	82	63
Trade receivables	[22]	1,409	1,561
Other receivables and other assets	[22]	560	573
Securities	[23]	3	4
Cash and cash equivalents	[24]	564	557
Prepaid expenses and deferred charges	[25]	35	30
Current assets		3,595	3,895
Total assets		11,591	11,915
Discontinued operation		–	652

Group balance sheet

	Note	Dec. 31, 2004	Dec. 31, 2003
		in € million	
Equity and liabilities			
Capital subscribed		305	305
Conditionally authorized capital €65 million (2003: €105 million)			
Capital reserve		2,663	2,595
Retained earnings		1,283	1,134
Cumulative changes in equity not recognized through the income statement		–208	–183
Total equity excluding minority interests	[26]	4,043	3,851
Minority interests	[27]	38	35
Total equity		4,081	3,886
Provisions for pensions and similar obligations	[28]	840	983
Other non-current provisions	[29]	177	140
Deferred tax liabilities	[13]	294	266
Financial debt	[30]	2,230	2,361
Liabilities from financial services	[31]	349	349
Trade payables	[32]	6	5
Other non-current liabilities	[32]	56	62
Deferred income	[33]	76	92
Non-current liabilities and deferred income		4,028	4,258
Discontinued operation		–	163
Other current provisions	[29]	1,107	1,104
Financial debt	[30]	305	630
Liabilities from financial services	[31]	174	162
Trade payables	[32]	1,194	1,159
Other current liabilities	[32]	575	590
Deferred income	[33]	127	126
Current liabilities and deferred income		3,482	3,771
Discontinued operation		–	291
Total equity and liabilities		11,591	11,915

Statement of changes in Group equity

See Note [26]	Capital subscribed	Capital reserve	Retained earnings	Cumulative changes in equity not recognized through the income statement: Currency translation differences	Remeasurement of securities at fair value	Derivative financial instruments	Total equity excluding minority interests	Minority interests	Total equity
					in € million				
As at Jan. 1, 2003	305	2,595	1,160	23	1	2	4,086	33	4,119
Dividend payments			–135				–135		–135
Change in currency translation differences				–206			–206	–1	–207
Financial instruments					–1	–2	–3		–3
Net income			108				108	1	109
Other changes			1				1	2	3
As at Dec. 31, 2003	305	2,595	1,134	–183	–	–	3,851	35	3,886
Amendments to Accounting Standards			10				10		10
As at Jan. 1, 2004	305	2,595	1,144	–183	–	–	3,861	35	3,896
Dividend payments			–135				–135	–2	–137
Change in currency translation differences				–22			–22		–22
Financial instruments						–3	–3		–3
Amount arising from issue of convertible bond		67					67		67
Net income			274				274	5	279
Other changes		1					1		1
As at Dec. 31, 2004	305	2,663	1,283	–205	–	–3	4,043	38	4,081

Group cash flow statement

	2004	2003
	in € million	
Net income	274	108
Minority interests	5	1
Earnings after taxes on income	279	109
Adjustments to net income to calculate cash flow from operating activities:		
Amortization of intangible assets/depreciation of tangible assets	721	726
Depreciation of leased assets	176	185
Amortization of financial assets	5	2
Profit/loss on disposal of fixed assets	–54	–26
Change in leased assets	–176	–170
Profit/loss on equity method valuation	–3	–6
Special items	–	127
Changes in assets and liabilities, adjusted for the effects of changes in Group structure:		
Change in inventories	2	–144
Change in trade receivables	–104	46
Change in other assets	33	16
Change in provisions	188	135
Change in trade payables	116	232
Change in other liabilities	66	49
Cash flow from operating activities	1,249	1,281
Discontinued operation	–6	36
Acquisitions of subsidiaries	–94	–8
Payments for tangible and intangible assets	–734	–601
Payments for financial assets	–39	–110
Proceeds on disposal of Refrigeration business segment (2003: proceeds on disposal of subsidiaries)	134	12
Proceeds on disposal of tangible and intangible assets	49	56
Proceeds on disposal of financial assets	24	9
Payments for securities held as current assets	–84	–13
Cash flow from investing activities	–744	–655
Discontinued operation	–13	–26

Group cash flow statement

	2004	2003
	in € million	
Dividend payments to shareholders and minority interests	–137	–135
Issue of employee shares	2	–
Cash outflows for the repayment of long-term loans	–359	–299
Change in liabilities from financial services	–5	9
Cash flow from financing activities	–499	–425
Discontinued operation	86	–9
Net cash inflow/outflow	6	201
Opening balance of cash and cash equivalents	557	364
Effect of changes in Group structure	6	1
Effects of currency translation	–5	–9
Closing balance of cash and cash equivalents	564	557
Additional information		
Income taxes paid	98	142
Interest paid	132	168
Interest received	54	59
Distributions/dividends received	–	3

Segment information by activity

in € million	Gas and Engineering 2004	Gas and Engineering 2003	Material Handling 2004	Material Handling 2003	Refrigeration 2004	Refrigeration 2003	Corporate 2004	Corporate 2003	Group 2004	Group 2003
Fixed assets	6,209	6,155	1,325	1,302	–	156	141	89	7,675	7,702
of which investments in associates accounted for under the equity method	36	32	95	105	–	–	8	7	139	144
Inventories	371	457	546	513	–	118	25	19	942	1,107
Trade receivables	810	714	629	610	–	242	15	4	1,454	1,570
Other segment assets (excluding tax claims)	160	155	85	112	–	15	404	382	649	664
Securities, cash and cash equivalents	–	–	–	–	–	–	567	561	567	561
Segment assets	7,550	7,481	2,585	2,537	–	531	1,152	1,055	11,287	11,604
Provisions (excluding pension and tax provisions)	600	533	274	244	–	79	237	296	1,111	1,152
Trade payables	904	824	298	266	–	72	–2	2	1,200	1,164
Other segment liabilities	184	186	269	269	–	30	186	211	639	696
Segment liabilities	1,688	1,543	841	779	–	181	421	509	2,950	3,012
Income tax liabilities offset against income tax claims	–	–	–	–	–	–	358	221	358	221
Capital employed including pension provisions	5,494	5,603	1,729	1,728	–	348	756	692	7,979	8,371
of which pension provisions	497	488	314	303	–	158	29	34	840	983
Sales to third parties	5,395	5,017	3,368	3,059	577	865	81	51	9,421	8,992
Sales to other segments	11	14	4	4	1	1	–16	–19	–	–
Segment sales	5,406	5,031	3,372	3,063	578	866	65	32	9,421	8,992
EBITDA (2003 before special items)	1,107	1,064	487	464	24	38	–77	–110[4]	1,541	1,456
Amortization of intangible assets (excluding goodwill amortization), depreciation of tangible assets and leased assets	–423	–430	–296	–308	–15	–24	–22	–11	–756	–773
EBITA (2003 before special items)	684	634	191	156	9	14	–99	–121	785	683
Special items (net)	–	–10	–	–60	–	–	–	–57	–	–127
EBITA	684	624	191	96	9	14	–99	–178	785	556
Financial result	–99	–106	–30	–28	–2	–1	5	4	–126	–131
of which profit/loss from associates	–3	3	3	1	–	–	3	2	3	6
EBTA	585	518	161	68	7	13	–94	–174	659	425
Amortization of goodwill	–111	–105	–27	–23	–3	–10	–	–	–141	–138
Earnings before taxes on income	474	413	134	45	4	3	–94	–174	518	287
Return on capital employed (ROCE) (2003 before special items) in %[1]	12.8	11.3	12.0	9.7	–	6.1	–	–	9.5	7.7
EBITA return on sales (2003 before special items) in %	12.7	12.6	5.7	5.1	–	1.6	–	–	8.3	7.6
Cash flow from operating activities[2]	990	957	268	321	–6	36	–3	–33	1,249	1,281
Cash flow from investing activities[2]	–581	–418	–164	–227	–13	–26	14	16	–744	–655
Capital expenditure (excluding financial assets)	511	406	428	411	17	29	31	10	987	856
Number of employees at December 31[3]	21,787	21,292	18,878	17,932	–	6,448	718	492	41,383	46,164

1) In the business segments and divisions, calculated as EBITA after adding back financial costs for pensions in relation to average capital employed; for the Group, earnings before taxes on income after adding back both financial costs for pensions and interest expenses in relation to average capital employed.

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

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

4) Prior year figures restated.

Segment information by activity

	Linde Gas		Linde Engineering	
	2004	2003	2004	2003
	in € million			
Fixed assets	6,169	6,071	139	158
of which investments in associates accounted for under the equity method	39	32	–	–
Inventories	167	159	204	300
Trade receivables	759	674	145	112
Other segment assets (excluding tax claims)	113	106	47	49
Securities, cash and cash equivalents	–	–	909	743
Segment assets	7,208	7,010	1,444	1,362
Provisions (excluding pension and tax provisions)	440	406	160	127
Trade payables	290	229	706	667
Other segment liabilities	83	84	102	106
Segment liabilities	813	719	968	900
Income tax liabilities offset against income tax claims	–	–	–	–
Capital employed including pension provisions	6,034	5,946	468	472
of which pension provisions	293	286	204	202
Sales to third parties	3,989	3,829	1,406	1,188
Sales to other segments	14	14	175	82
Segment sales	4,003	3,843	1,581	1,270
EBITDA (2003 before special items)	1,056	1,014	83	66[2)]
Amortization of intangible assets (excluding goodwill amortization), depreciation of tangible assets and leased assets	–416	–416	–14	–20
EBITA (2003 before special items)	640	598	69	46
Special items (net)	–	–10	–	–
EBITA	640	588	69	46
Financial result	–109	–118	11	12
of which profit/loss from associates	–	3	–	–
EBTA	531	470	80	58
Amortization of goodwill	–106	–101	–5	–4
Earnings before taxes on income	425	369	75	54
Return on capital employed (ROCE) (2003 before special items) in %[1)]	10.9	10.1	17.0	11.7
EBITA return on sales (2003 before special items) in %	16.0	15.6	4.4	3.6
Cash flow from operating activities	779	737	241	234
Cash flow from investing activities	–610	–409	–1	–23
Capital expenditure (excluding financial assets)	528	397	13	24
Number of employees at December 31[3)]	17,570	17,152	4,217	4,140

1) In the business segments and divisions, calculated as EBITA after adding back financial costs for pensions in relation to average capital employed.

2) Prior year figures restated.

3) This figure comprises active employees and trainees. Part-time employees are included pro-rata.

Segment information by region

	2004	2003
	in € million	
Sales		
Germany	2,012	2,061
Rest of Europe	5,217	4,808
North America	1,045	1,087
South America	332	302
Asia	528	556
Africa/Australia	287	178
	9,421	8,992
Capital expenditure		
Germany	310	307
Rest of Europe	580	502
North America	52	54
South America	29	29
Asia	38	15
Africa/Australia	28	60
	1,037	967
Long-term segment assets		
Germany	1,460	1,426
Rest of Europe	5,207	5,264
North America	547	596
South America	176	180
Asia	185	116
Africa/Australia	100	120
	7,675	7,702

The long-term segment assets are the fixed assets of the Group.

Group summary of fixed assets in € million	Acquisition and manufacturing cost							Accumulated amortization/depreciation							Net book value	
	Jan. 1, 2004	Currency adjustments	Changes in Group structure	Additions	Transfers	Disposals	Dec. 31, 2004	Jan. 1, 2004	Currency adjustments	Changes in Group structure	Amortization/ depreciation for the year	Transfers	Disposals	Dec. 31, 2004	Dec. 31, 2004	Dec. 31, 2003
Goodwill	3,578	–13	9	2	–	19	3,557	686	–11	–28	141	–	19	769	2,788	2,892
Capitalized development costs	261	–	–	49	–	53	257	149	–	–	38	–	52	135	122	112
Miscellaneous intangible assets	281	–1	–58	80	4	10	296	141	–	–29	38	–	9	141	155	140
Other intangible assets	542	–1	–58	129	4	63	553	290	–	–29	76	–	61	276	277	252
Land, freehold and leasehold, and buildings, including buildings on non-owned land	1,870	–6	–48	47	17	24	1,856	851	–4	–13	57	–	11	880	976	1,019
Technical equipment and machinery	4,812	–31	5	197	58	100	4,941	3,060	–23	–47	259	–	73	3,176	1,765	1,752
Fixtures, furniture and equipment	2,615	–15	–76	165	18	51	2,656	1,767	–11	–63	187	2	63	1,819	837	848
Payments in advance and plant under construction	155	–	–4	188	–102	1	236	–	–	–	1	–	1	–	236	155
Tangible assets	9,452	–52	–123	597	–9	176	9,689	5,678	–38	–123	504	2	148	5,875	3,814	3,774
Investments in associates	152	–5	–8	4	14	8	149	8	–	–1	3	–	–	10	139	144
Investments in affiliated companies	49	–	–28	41	–11	1	50	2	–	–1	2	–	–	3	47	47
Loans to affiliated companies	–	–	–	–	5	–	5	–	–	–	–	–	–	–	5	–
Loans to associates	5	–	–	–	–5	–	–	–	–	–	–	–	–	–	–	5
Investments in related companies	25	–	–1	3	–3	4	20	2	–	–1	–	–	–	1	19	23
Loans to related companies	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Investment securities	5	–	–	–	–	1	4	1	–	–	–	–	–	1	3	4
Other loans	10	–	–	2	–	3	9	–	–	–	–	–	–	–	9	10
Other financial assets	94	–	–29	46	–14	9	88	5	–	–2	2	–	–	5	83	89
Leased assets	1,071	–2	50	259	5	245	1,138	520	–3	23	176	–2	150	564	574	551
Fixed assets	14,889	–73	–159	1,037	–	520	15,174	7,187	–52	–160	902	–	378	7,499	7,675	7,702

NOTES TO THE GROUP FINANCIAL STATEMENTS: GENERAL PRINCIPLES

[1] Basis of preparation

The consolidated financial statements of Linde AG at December 31, 2004 have been drawn up in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), London, where these become operative on or before the balance sheet date. The term IFRS also includes International Accounting Standards (IAS) where these are still effective. All mandatory interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), for the fiscal year 2004 were also applied.

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

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

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

[2] Principles of consolidation

Companies are consolidated using the purchase method, under which investments in subsidiaries are offset against the Group's share of the equity of the consolidated subsidiaries at the date of acquisition. Differences arising which relate to hidden reserves or hidden charges are allocated to the appropriate asset or liability heading in the subsidiary based on the percentage of the investment. Any remaining positive balance is recognized as goodwill and amortized using the straight-line method over its expected useful life. The estimated useful life will not normally exceed 20 years, except in the Linde Gas division where the useful life of goodwill may be up to 40 years. Goodwill which arose prior to January 1, 1995 totaling €169 million continues to be offset against reserves under the option set out in IAS 22. When companies are deconsolidated, the goodwill is recognized in the income statement.

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

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

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

[3] Acquisitions and sales

Acquisitions

The following major acquisitions were made during the year:

Acquisitions by business segment

	Group holding	Acquisition cost	Date first consolidated
	in %	in €000	
Gas and Engineering			
Hydrogas (M) Sdn. Bhd., Kuala Lumpur (Hydrogas)	100	7,609	05/2004
Crio Medizintechnik GmbH, Birkenfeld (Crio)	100	24,457	06/2004
Singapore Syngas Pte. Ltd., Singapore (Syngas)	100	71,201	07/2004
Linde Carbonic Ltd., Bangkok (Carbonic)	99.44	4,838	08/2004

The fair value of the assets and liabilities acquired was as follows:

in € million	Gas and Engineering	Hydrogas	Crio	Syngas	Carbonic
Fixed assets	104	8	29	63	4
Inventories	3	–	–	3	–
Receivables and other assets	9	1	4	3	1
Cash and cash equivalents	14	–	–	14	–
Provisions	–12	–1	–4	–7	–
Financial liabilities	–2	–	–1	–1	–
Other liabilities	–8	–	–4	–4	–
Purchase price	108	8	24	71	5
Less cash and cash equivalents	–14	–	–	–14	–
Cash outflow	94	8	24	57	5

During the acquisitions, intangible assets of €24.8 million, which had previously not been recognized, were recorded. A positive difference of €24.7 million has been recognized as goodwill, based on the assessment of future earnings trends in Crio Medizintechnik GmbH.

In the course of the acquisition of Syngas, adjustments of €10 million were made to the carrying value of the tangible assets. Adjustments to the carrying value of other companies acquired were immaterial.

Since the date they were first consolidated, the companies acquired after March 31, 2004 have generated sales of €31 million and earnings for the year of €3 million.

Sales

The Refrigeration business segment was sold on October 1, 2004 to the Carrier Corporation, a company in the United Technologies Corporation (UTC) group, Hartford, Connecticut.

In accordance with IAS 35, this transaction is classified as a discontinued operation.

The fair value of the assets and liabilities sold was as follows:

in € million	
Fixed assets	128
Inventories	176
Receivables and other assets	279
Cash and cash equivalents	83
Provisions	–193
Financial liabilities	–132
Other liabilities	–138
Net loss assumed	14
Sale price	217
Less cash and cash equivalents	–83
Cash inflow	134

[4] Scope of consolidation

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

The principal companies included in the consolidation for the first time are either newly-acquired companies or Group companies previously disclosed as investments in affiliated companies.

Companies which are of minor significance in terms of the Linde Group's net assets, financial position and results of operations, because they are dormant or inactive, have not been consolidated. Instead, they are reported in the Group financial statements at acquisition cost. Non-consolidated subsidiaries in 2004 contributed 0.3 percent of Group sales (2003: 0.3 percent) and comprised around 0.3 percent of Group equity (2003: 0.1 percent).

The equity method is applied to joint ventures and companies in which Linde AG holds, either directly or indirectly, 20 percent or more of the voting rights and where it is able to exert significant influence on financial and operating policies.

The equity method is not applied where the company is relatively insignificant to the Group's net assets, financial position and results of operations. These companies are reported in the Group financial statements at acquisition cost.

The Linde Group comprises the following companies:

	As at Dec. 31, 2003	Additions	Disposals	As at Dec. 31, 2004
Consolidated subsidiaries	288	21	37	272
of which within Germany	27	4	1	30
of which outside Germany	261	17	36	242
Subsidiaries reported at acquisition cost	54	21	14	61
of which within Germany	16	4	4	16
of which outside Germany	38	17	10	45
Companies accounted for using the equity method	24	1	5	20
of which within Germany	4	–	–	4
of which outside Germany	20	1	5	16

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

Name	Registered office
AGA Linde Healthcare GmbH & Co. KG	Unterschleißheim
Commercium Immobilien- und Beteiligungs-GmbH	Wiesbaden
Eisengießerei Dinklage GmbH & Co. KG	Dinklage
Hans-Joachim Schrader Industriefahrzeuge GmbH & Co.	Essen
Linde Gas Produktionsgesellschaft mbH & Co. KG	Höllriegelskreuth
Linde Ladenbau GmbH & Co. KG	Bad Hersfeld
MATRA-WERKE GmbH	Frankfurt
Selas-Linde GmbH	Höllriegelskreuth
STILL GmbH	Hamburg
STILL-WAGNER GmbH & Co. KG	Reutlingen
Tega-Technische Gase und Gasetechnik GmbH	Würzburg
Tega-Technische Gase und Gasetechnik GmbH & Co. KG	Hamburg
TV Kohlensäure Technik und Vertrieb GmbH + Co.	Höllriegelskreuth
Unterbichler GmbH & Co. KG	Munich
Werbung und Messebau GmbH	Aschaffenburg

A list of the complete shareholdings of the Linde Group is held in the Commercial Register of the Local Courts (Amtsgerichte) of Wiesbaden, Munich, Aschaffenburg, Bad Hersfeld, Essen, Frankfurt, Hamburg, Reutlingen, Vechta and Würzburg. Significant Group companies are listed in Note [45].

[5] Foreign currency translation

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

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

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

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

Goodwill arising on the consolidation of foreign companies is translated at historical rates and reported at acquisition cost less accumulated amortization.

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.

[6] Currencies

The following exchange rates have been used:

		Mid-rate on balance sheet date		Annual average rate	
Exchange rate €1 =	**ISO-Code**	**Dec. 31, 2004**	**Dec. 31, 2003**	**2004**	**2003**
Argentina	ARS	4.051700	3.700400	3.668317	3.366075
Australia	AUD	1.748900	1.678800	1.690250	1.737596
Brazil	BRL	3.620600	3.643900	3.627917	3.478117
China	CNY	11.120600	10.267600	10.129861	9.213358
Czech Republic	CZK	30.390000	32.550000	31.876660	31.824667
Denmark	DKK	7.438500	7.444700	7.439795	7.430695
Great Britain	GBP	0.707100	0.707000	0.678756	0.691939
Hungary	HUF	245.775000	262.115000	251.658861	253.652922
Malaysia	MYR	5.019300	4.774100	4.696800	4.330633
Mexico	MXN	15.240000	14.150000	14.041336	12.216275
Norway	NOK	8.240000	8.415000	8.369871	8.003918
Poland	PLZ	4.087700	4.725500	4.536923	4.409267
Sweden	SEK	9.020000	9.071000	9.125354	9.122656
Switzerland	CHF	1.543700	1.559000	1.543836	1.521100
USA	USD	1.364000	1.261000	1.243924	1.131140

[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.* The financial statements of associates which use differing accounting policies have been retained without adjustment because of their minor significance.

Recently issued accounting standards

Revised accounting standards were published by the IASB in December 2003 as part of the IASB Improvement Project. These standards are mandatory from January 1, 2005. It is recommended that they are applied prior to this date. The relevant standards are as follows:

- IAS 1 Presentation of Financial Statements
- IAS 2 Inventories
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events after the Balance Sheet Date
- IAS 16 Property, Plant and Equipment
- IAS 17 Leases
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 24 Related Party Disclosures
- IAS 27 Consolidated and Separate Financial Statements
- IAS 28 Investments in Associates
- IAS 31 Interests in Joint Ventures
- IAS 32 Financial Instruments: Disclosure and Presentation
- IAS 33 Earnings per Share
- IAS 39 Financial Instruments: Recognition and Measurement
- IAS 40 Investment Property

The revised standards have been applied early to the 2004 Linde Group financial statements. The following standards were issued by the IASB in the first half of 2004 and will be mandatory from January 1, 2005:

- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations and related amended versions of IAS 36 Impairment of Assets and IAS 38 Intangible Assets. For companies acquired after March 31, 2004, this standard already applies.
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

These standards will not be applied by Linde AG until fiscal 2005. The impact of the new accounting standards in fiscal 2005 in respect of IFRS 2 *Share-based Payment* is explained in Note [34]. The application of IFRS 3 *Business Combinations* and the related amended version of IAS 38 *Intangible Assets* will result in there being no scheduled amortization of goodwill from 2005 onwards (2004: €112 million).

Revenue recognition

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

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

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

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

Cost of sales

Cost of sales comprises the cost of goods and services sold and the cost of merchandise sold. It includes not only the cost of direct materials and direct manufacturing expenses, but also indirect costs including depreciation of production plant, amortization of certain intangible assets and inventory writedowns. 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 may not be capitalized are charged to the income statement when they are incurred.

Intangible assets and tangible assets

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

Purchased and internally-generated intangible assets are stated at acquisition or production cost less straight-line amortization. Intangible assets are generally amortized over the period of any legal contract or over the estimated useful life of the asset.

Goodwill arising on the acquisition of companies after January 1, 1995 is recognized as an asset and amortized on a straight-line basis over its estimated useful life not exceeding 20 years. The goodwill which arose on the acquisition of AGA in 2000 is amortized over a period of 40 years, in common with practice in this industry sector. The reason for this, apart from the strategic significance of the business acquisition, is the high level of customer loyalty and capital tie-in over the long term. Amortization of goodwill is shown on a separate line in the income statement.

Development costs are capitalized at manufacturing cost if it is possible to identify the costs clearly and if the technical feasibility of the asset and the ability of Linde to sell it are assured. Moreover, the development activity must generate probable future economic benefits. Development costs are capitalized at manufacturing cost, which includes costs which are both directly and indirectly attributable to the development process. Capitalized development costs are amortized from the start of production on a straight-line basis over an estimated useful life of 5 years.

Costs incurred in connection with the acquisition and in-house development of internally used computer software, including the costs of bringing the software to an operational state, are capitalized and amortized on a straight-line basis over an estimated useful life of 3 to 8 years.

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

The 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 the need for an adjustment to the estimated useful life of an asset or an impairment in its value, Linde reviews the recoverability of the capitalized book value of intangible assets (including capitalized development costs and goodwill) and tangible assets on the basis of estimated future cash flows, discounted at a rate appropriate to the risk (impairment test). If the net book value of the asset exceeds the total discounted cash flows, an impairment loss is recognized. When estimating future cash flows, current and expected future income levels and segment-specific, technological, economic and general developments are taken into account. If the reason for an impairment loss recognized in prior years no longer exists, the carrying amount of the asset is increased to the carrying amount that would have been determined (i.e. acquisition/manufacturing cost net of amortization or depreciation) had no impairment loss been recognized. The impairment test is carried out on an annual basis for goodwill with an estimated useful life of more than 20 years.

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 values are not available. Associates are accounted for under the equity method at the appropriate proportion of their net assets plus any unamortized goodwill.

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

Inventories

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

Long-term construction contracts

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

Based on normal industry practice, we are disclosing for the first time in fiscal 2004 the financial result from long-term construction contracts in Other operating income also at Group level. Interest which does not relate to long-term construction contracts is shown in the Financial result. The prior year figures have been restated.

Receivables and other assets

Receivables and other assets are stated at face value or cost. Allowances are made for identifiable risks. Non-interest-bearing or low-interest receivables due in more than one year are discounted.

Derivative financial instruments

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

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

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

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

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

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

For further information about risk management and about the impact on the balance sheet of derivative financial instruments, see Note [35].

Deferred taxes

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

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

Provisions for pensions and other obligations

The actuarial valuation of provisions for pensions is based on the projected unit credit method set out in IAS 19 *Employee Benefits* for defined benefit commitments. This method takes into account not only vested future benefits and known pensions at the balance sheet date, but also expected future increases in salaries and pensions. The calculation of the provisions is determined using actuarial reports based on biometric accounting principles. Actuarial gains and losses are only recognized as income or expense if they exceed 10 percent of the defined benefit obligation. In this case, the actuarial gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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

Other provisions

In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* other provisions are recognized when Linde has a present obligation to a third party 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 recognized for all identifiable risks and liabilities of uncertain timing or amount. The amounts provided are the best estimate of the probable expenditure required to settle the obligation and are not offset against recourse claims. The settlement amount also includes potential cost increases at the balance sheet date.

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

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

Financial debt and liabilities

Financial debt is reported at amortized cost. Differences between historical cost and the repayment amount are accounted for using the effective interest rate method. Financial debt which comprises the hedged underlying transaction in a fair value hedge is 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 the lease transfers economic ownership to the lessee. All other lease transactions 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 net amount of future minimum lease payments due from the customer is disclosed under Receivables from financial services. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on Linde's net investment outstanding in respect of the lease.

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE GROUP INCOME STATEMENT

[8] Sales

Sales are analyzed by business segment and by region in the segment information, which forms part of the supplementary information described in the IFRS Framework. Sales are derived from the following activities:

in € million	2004	2003
Revenue from the sale of products and services	8,310	8,118
Revenue from long-term construction contracts	1,111	874
Sales	9,421	8,992

[9] Cost of sales

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

[10] Research and development costs

Research and development costs comprise not only research costs and non-capitalized development costs, but also amortization of capitalized development costs of €38 million (2003: €38 million).

[11] Other operating income and expenses

Other operating income

in € million	2004	2003
Profit on disposal of fixed and current assets	39	38
Ancillary revenue	19	21
Financial result from long-term contracts	15	12
Income from receivables written down	1	1
Exchange rate differences	66	73
Income from release of provisions	41	39
Miscellaneous operating income	70	67
Other operating income	251	251*

* Prior year figure restated.

An amount of €20 million was released in fiscal 2004 from the provisions set up in 2003 for transaction and selling costs relating to the sale of the Refrigeration business segment and the divestment of peripheral activities.

Net proceeds of €19 million were received on the sale of the investment in GCE Gas Control Equipment AB, Malmö. The resulting book profit was €15 million.

Other operating expenses

in € million	2004	2003
Expenses related to pre-retirement part-time work schemes	7	12
Loss on disposal of fixed and current assets	7	7
Exchange rate differences	70	81
Allowances for doubtful debts, payment shortfalls, write-downs on other current assets	19	16
Miscellaneous operating expenses	31	38
Other operating expenses	134	154

[12] Financial result

in € million	2004	2003
Interest and similar income	85	74
of which from affiliated companies €1 million (2003: €0 million)		
Interest and similar charges	–214	–216
Net interest	–129	–142*
Income from associates	3	6
Income from investments	–	3
Income from profit transfer agreements	3	3
Expense from loss sharing agreements	–1	–1
Amortization of financial assets and securities held as current assets	–2	–
Other investment income	–	5
Financial result	–126	–131

* Prior year figure restated.

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

The financial result from long-term construction contracts is being reported for the first time in fiscal 2004 in Other operating income also at Group level. Interest which does not relate to long-term construction contracts is shown in the Financial result. The prior year figures have been restated.

[13] Taxes on income

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

in € million	2004	2003
Current taxes	207	172
Deferred taxes	32	6
Taxes on income	239	178

The income tax expense disclosed for the fiscal year 2004 of €239 million is €40 million higher than the expected income tax expense of €199 million, a theoretical figure arrived at by applying the German tax rate of 38.4 percent (2003: 40 percent) to Group earnings before taxes on income. The difference between the expected income tax expense and the figure disclosed is explained below:

in € million	2004	2003
Earnings before taxes on income	518	287
Income tax rate of Linde AG (including trade tax)	38%	40%
Expected income tax expense	199	114
Foreign tax rate differential	–44	–33
Non tax deductible amortization of goodwill	36	40
Reduction in tax due to tax–free income	–40	–11
Increase in tax due to non tax deductible expenses	36	29
Tax income and expense relating to a different period	20	19
Effect of changes in tax rate	7	1
Change in other permanent differences	15	19
Other	10	–
Income tax expense disclosed	239	178
Effective tax rate	46%	62%

In fiscal 2004, the corporation tax rate was 25 percent (2003: 26.5 percent). Taking into account an average rate for trade earnings tax and the solidarity surcharge rate, this gives a tax rate of 38.4 percent for German companies (2003: around 40 percent).

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

No deferred tax is calculated in respect of retained profits in subsidiaries of €1.458 billion (2003: €1.334 billion), as the profits are indefinitely reinvested in these operations or are not subject to taxation.

Deferred tax assets and liabilities:

	2004		2003	
in € million	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Intangible assets and tangible assets	98	545	75	568
Financial assets	9	18	5	14
Current assets	118	283	101	169
Provisions	194	52	208	37
Liabilities	290	67	286	88
Tax loss carryforwards and tax credits	152	–	140	–
Valuation allowance	–67	–	–73	–
Amounts offset	–671	–671	–610	–610
	123	294	132	266

The carrying amount of deferred tax assets is reduced to the extent that it is no longer probable that the deferred tax asset will be utilized. A valuation allowance of €67 million (2003: €73 million) has therefore been recognized against the deferred tax assets to reduce the potential tax savings of €182 million (2003: €209 million), as it is not probable that the underlying tax loss carryforwards and tax credits of €171 million (2003: €199 million) and deductible temporary differences of €11 million (2003: €10 million) will be used. Of the total tax loss carryforwards and tax credits of €182 million (2003: €199 million), €64 million (2003: €78 million) may be carried forward for up to ten years and €118 million (2003: €121 million) may be carried forward for longer than ten years.

Tax loss carryforwards

in € million	**2004**	**2003**
May be carried forward for up to 10 years	94	101
May be carried forward for longer than 10 years	108	106
May be carried forward for an unlimited period	142	153
	344	360

[14] Minority interests

Included in the Earnings after taxes on income of the Linde Group is the profit attributable to minority shareholders of €5 million (2003: €1 million).

[15] Earnings per share

in € million/Shares in thousands	2004	2003
Net income	274	108
Plus: Increase in profit due to dilutive effect of convertible bond	8	–
Profit after adjusting for dilutive effects	282	108
Weighted average number of shares outstanding	119,273	119,262
Effect of dilutive subscription rights	216	48
Effect of dilutive convertible bond	6,429	–
Weighted average of shares outstanding – fully diluted –	125,918	119,310
Earnings per share in €	2.30	0.91
Earnings per share in € – fully diluted –	2.24	0.91

In May 2004, Linde issued a convertible bond with a nominal amount of €550 million. The conversion terms were not met in fiscal 2004. The dilutive effects of issuing future shares were taken into account in the calculation of earnings per share.

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

[16] Other information on the Group income statement

in € million	2004	2003
Cost of raw materials, supplies and merchandise	4,094	3,587
Cost of external services	444	367
Cost of materials	4,538	3,954
Wages and salaries	1,734	1,735
Social security contributions	405	392
Pension costs and personnel welfare costs	127	146
of which pension costs €126 million (2003: €142 million)		
Personnel costs	2,266	2,273
Scheduled amortization/depreciation of		
Goodwill	112	114
Other intangible assets	76	71
Tangible assets	504	517
Leased assets	176	185
	868	887
Impairment losses on		
Goodwill	29	24
Tangible assets	–	35
Financial assets	5	2
	34	61
Amortization, depreciation and impairment losses	902	948

In 2004, there were impairment losses relating to goodwill of €20 million (2003: €15 million) in the Material Handling business segment, €8 million (2003: €3 million) in the Linde Gas division and €1 million (2003: €6 million) in the Refrigeration business segment.

There were impairment losses relating to financial assets of €4 million (2003: €1 million) in the Linde Gas division and of €1 million (2003: €1 million) in the Material Handling business segment.

The impairment losses are based on a change in the assessment of the future results of operations of individual reporting units.

NOTES TO THE GROUP BALANCE SHEET

[17] Goodwill/Intangible assets

The total figure for goodwill includes the amortized goodwill arising on the acquisition of the AGA Group at a net book value of €2.495 billion (2003: €2.566 billion).

Included in Other intangible assets of €277 million (2003: €252 million) are capitalized development costs in the Material Handling business segment of €122 million (2003: €112 million) and concessions, industrial property rights, licenses and other intangible assets of €155 million (2003: €140 million).

Movements in intangible assets are set out in the Group summary of fixed assets.

[18] Tangible assets

An analysis of the tangible assets summarized under a single heading in the balance sheet and movements in tangible assets during the fiscal year are set out in the Group summary of fixed assets.

In fiscal 2004, borrowing costs for construction periods over one year of €7 million (2003: €5 million) were capitalized, based on an interest rate of 4.60 percent (2003: 4.75 percent).

The acquisition/manufacturing cost of tangible assets was reduced in the fiscal year by grants for air separation plants of €3 million (2003: €1 million).

[19] Investments in associates/Other financial assets

An analysis of the financial assets under the above headings in the balance sheet is set out in the Group summary of fixed assets.

Major associates are listed in Note [45]. The associated companies included have combined assets of €1,244 million, liabilities of €800 million, sales of €1,223 million and net income for the year of €27 million.

One associated company had an unrealized loss in the year for the first time of €1 million (2003: €0 million), the amount of its negative equity. Accounting for this associate under the equity method was discontinued.

[20] Leased assets

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

	Operating leases as lessor		Sales with guaranteed residual values		Finance leases as lessee		Total	
in € million	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Land and buildings	–	–	–	–	19	19	19	19
Industrial trucks	381	339	140	153	6	8	527	500
Technical equipment	5	3	–	–	5	8	10	11
Fixtures, furniture and equipment	–	–	–	–	18	21	18	21
	386	342	140	153	48	56	574	551

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

This item also includes equipment sold to leasing companies but for which Linde guarantees a certain residual value. Leased assets held under operating leases include, on the one hand, assets leased to customers with a value of €183 million (2003: €146 million), financed principally using Linde's own resources. On the other hand, they include assets leased to customers with a value of €203 million (2003: €196 million), which are refinanced by sale and leaseback transactions with leasing companies.

Future minimum lease payments to be received from customers under non-cancelable operating leases amount to €281 million (2003: €225 million) in aggregate. These are analyzed by due date as follows:

in € million	Dec. 31, 2004	Dec. 31, 2003
Future minimum lease payments to be received		
Due within one year	92	80
Due in one to five years	183	143
Due after more than five years	6	2
	281	225

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 totaled €48 million in 2004 (2003: €56 million); the corresponding depreciation charge was €13 million (2003: €10 million). The assets relate mainly to buildings leased by the STILL branches in Germany.

Contingent rents, mainly contingent on machine hours used, were recognized in income. The amounts were insignificant in the 2004 fiscal year. An analysis of movements in leased assets is given in the Group summary of fixed assets.

[21] Inventories

in € million	Dec. 31, 2004	Dec. 31, 2003
Raw materials and supplies	181	189
Work in progress, goods and services	189	225
Finished goods	405	383
Merchandise	93	134
Payments in advance to suppliers	74	176
	942	1,107

Included in the total are inventories of €407 million (2003: €389 million) reported at their net realizable value. The write-down on the gross value was €97 million (2003: €88 million).

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

[22] Receivables and other assets

in € million	Non-current 2004	Non-current 2003	Current 2004	Current 2003	Total 2004	Total 2003
Receivables from financial services	132	127	82	63	214	190
Receivables from percentage of completion contracts	–	–	72	38	72	38
Receivables from affiliated companies	–	–	6	2	6	2
Receivables from related companies	–	–	47	36	47	36
Other trade receivables	45	9	1,284	1,485	1,329	1,494
Trade receivables	45	9	1,409	1,561	1,454	1,570
Tax claims	1	11	180	168	181	179
Receivables from affiliated companies	–	–	10	7	10	7
Receivables from related companies	–	–	30	33	30	33
Miscellaneous receivables and assets	20	39	340	365	360	404
Other receivables and other assets	21	50	560	573	581	623

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 disclosed as receivables.

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

in € million	Dec. 31, 2004	Dec. 31, 2003
Gross investment	253	217
Due within one year	97	72
Due in one to five years	154	142
Due in more than five years	2	3
Present value of minimum lease payments	214	190
Due within one year	82	63
Due in one to five years	130	125
Due in more than five years	2	2
Unearned finance income	39	27

Included in the gross investment are unguaranteed residual values accruing to the benefit of the lessor of €30 million (2003: €28 million).

The receivables include minimum lease payments relating to non-cancelable subleases of €223 million (2003: €189 million).

Contingent rents, mainly contingent on machine hours used, were recognized in income and were insignificant in the 2004 fiscal year.

Receivables from percentage of completion contracts

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

At the balance sheet date, costs incurred and profits recognized on long-term construction contracts amounted to €2.029 billion (2003: €1.551 billion), offset against advances received of €2.452 billion (2003: €1.996 billion). These calculations give rise to receivables of €72 million (2003: €38 million) and liabilities of €495 million (2003: €483 million).

Customer retentions were immaterial.

Other receivables and other assets

Other receivables and other assets comprise mainly the fair values of derivative financial instruments amounting to €130 million (2003: €158 million), interest accruals from swaps of €38 million (2003: €58 million) and tax refund claims of €181 million (2003: €179 million).

[23] Securities

Only available-for-sale securities of €3 million (2003: €4 million) are included under this heading.

[24] Cash and cash equivalents

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

[25] Prepaid expenses and deferred charges

The whole amount is due within one year.

[26] Equity

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

Capital subscribed

The company's subscribed capital at the balance sheet date was €305,478,077.44. 119,327,374 shares have been issued at a par value of €2.56 per share. The shares are bearer shares.

In November 2004, the share capital was increased against cash contributions by a nominal amount of €167,014.40 as a result of the issue of employee shares out of Authorized Capital I while excluding shareholders' subscription rights. The 65,240 new bearer shares are entitled to dividend from January 1, 2004.

Authorized capital at the balance sheet date was €119,832,985.60.

The Executive Board of Linde AG has been authorized to raise subscribed capital in three separate tranches (Authorized Capital I, Authorized Capital II, Authorized Capital III), each running concurrently up to May 16, 2005. These permit the Executive Board, subject to approval by the Supervisory Board, to increase subscribed capital by issuing new shares. Shareholders generally have subscription rights.

Under Authorized Capital I, the Executive Board is entitled to increase subscribed capital by up to €39,832,985.60 against cash contributions. Shareholders' subscription rights may be excluded to an amount up to €3,332,985.60 which may be issued as employee shares.

Under Authorized Capital II, subscribed capital may be increased by up to €40 million against cash contributions, whereby shareholders' subscription rights may be excluded for an amount of up to 10 percent of subscribed capital, provided the issue price of the new shares is not significantly lower than the share price traded on the stock exchange.

Under Authorized Capital III, the Executive Board may increase subscribed capital by up to €40 million against cash or non-cash contributions. Shareholders' subscription rights may be excluded if the capital increase by way of non-cash contributions is performed with the object of acquiring a company or a participating interest in a company.

Moreover, in all the aforementioned instances, a proviso exists that enables the Executive Board to exclude subscription rights in the case of residual amounts and in those instances where convertible bonds or warrant-linked bonds had been issued.

The conditionally authorized capital at the balance sheet date is €65.36 million. Of the prior year amount of €105.36 million, €40 million expired on May 17, 2004.

At the Shareholders' Meeting on May 17, 2000, the Executive Board was authorized to issue bonds to a total nominal amount of €1 billion with conversion or option rights to new shares in the company. The authorization expires on May 16, 2005. To service the conversion and option rights arising from this authorization, it was resolved at the Shareholders' Meeting to create conditionally authorized capital of up to €50 million (2000 conditionally authorized capital).

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

Conditionally authorized capital of €40 million (1999 conditionally authorized capital) was available to give the holder/creditors of convertible bonds or warrant-linked bonds the option and/or conversion rights or to establish conversion obligations to new shares in the company. The bonds could be issued to a total nominal amount of €750 million, expiring on May 17, 2004, with a maturity period up to a maximum of 20 years. The authorization granted to the Executive Board has now expired, without the Board exercising its option to issue these convertible bonds.

Conditionally authorized capital of €15.36 million (2002 conditionally authorized capital) is available to operate the Linde Management Incentive Program (share option scheme).

The Company is also authorized to acquire up to 10 percent of subscribed capital through the purchase of own shares, expiring on October 31, 2005.

The German Securities Trade 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, has notified us in accordance with § 41 (2), sentence 1, German Securities Trade Act that as of April 1, 2002 it holds 10.04 percent of the voting rights in Linde AG.

Deutsche Bank AG, Frankfurt am Main, has notified us in accordance with § 41 (2), sentence 1, German Securities Trade Act that as of April 1, 2002 it holds 10.38 percent of the voting rights in Linde AG. These rights are fully attributed to Deutsche Bank under § 22 (1), sentence 1, No. 1, German Securities Trade Act. In addition, it has notified us in accordance with §§ 21 (1) and 24, German Securities Trade Act that its subsidiary DB Value GmbH, Norderfriedrichskoog, exceeded the thresholds of 5 percent and 10 percent of the voting rights in Linde AG on October 11, 2002 and now holds voting rights amounting to 10.0006 percent. Allianz Aktiengesellschaft, Munich, has notified us in accordance with § 41 (2), sentence 1, German Securities Trade Act WpHG that as of April 1, 2002 it controls 12.62 percent of the voting rights in Linde AG. Allianz controls 12.55 percent of these voting rights in accordance with § 22 (1), sentence 1, No. 1, German Securities Trade Act and 0.06 percent of the voting rights in accordance with § 22 (1), sentence 1, No. 6, German Securities Trade Act. Allianz also notified us in accordance with § 41 (2), sentence 1, German Securities Trade Act in conjunction with § 24 of the same Act that Alico-Beteiligungsgesellschaft mit beschränkter Haftung, Munich, as of April 1, 2002 held 11.01 percent of the voting rights in Linde AG. Moreover, Allianz notified us in accordance with § 21 (1) German Securities Trade Act in conjunction with § 24 of the same Act that AZ-LIN Vermögensverwaltungsgesellschaft mbH, Munich, exceeded the thresholds of 5 percent and 10 percent of the voting rights in Linde AG on August 20, 2002 and now holds voting rights of 11.01 percent. Allianz AG, Munich, also informed us voluntarily that Alico-Beteiligungsgesellschaft mbH, Munich, still controls 11.01 percent of the voting rights in Linde AG. Since August 20, 2002, these voting rights have been fully attributed to Alico-Beteiligungsgesellschaft mbH in accordance with § 22 (1), sentence 1, No. 1, German Securities Trade Act.

Capital reserve

The capital reserve comprises the premiums arising on the issue of shares and the amount arising from the issue of the convertible loan. The costs of the issue have been reduced pro-rata (€1 million).

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 on consolidation for acquisitions up to and including December 31, 1994 and adjustments not recognized through the income statement arising from the application of IFRS for the first time.

Cumulative changes in equity not recognized through the income statement

This heading comprises the differences arising from the translation of the financial statements of foreign subsidiaries and the effects of the remeasurement of securities and derivative financial instruments after tax being accounted for in equity rather than being recognized in the income statement.

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

	2004			2003		
in € million	**Before tax**	**Tax effect**	**Net**	**Before tax**	**Tax effect**	**Net**
Movement in currency translation differences	–22	–	–22	–206	–	–206
Movement in unrealized profits/losses from remeasurement of securities at fair value						
Movement in accumulated unrealized profits/losses	–	–	–	–	–	–
Realized profits/losses	–	–	–	–2	1	–1
Unrealized profits/losses on available-for-sale securities	–	–	–	–2	1	–1
Movement in unrealized profits/losses on derivative financial instruments						
Movement in accumulated unrealized profits/losses	–	–	–	–	–	–
Realized profits/losses	–3	–	–3	–2	–	–2
Unrealized profits/losses on derivative financial instruments	–3	–	–3	–2	–	–2

[27] Minority interests

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

in € million	**Dec. 31, 2004**	**Dec. 31, 2003**
Abelló Linde S.A., Barcelona	22	20
Linde Process Plant Company Ltd., Dalian	5	4
Linde Carbonic (Shanghai) Company Ltd., Shanghai	3	3
Bretagne Manutention S.A., Pacé	3	3
Various other companies	5	5
	38	35

[28] Provisions for pensions and similar obligations

in € million	Dec. 31, 2004	Dec. 31, 2003
Provisions for pensions	809	928
Provisions for similar obligations	31	55
	840	983

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

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

The provisions for similar obligations relate to bridging benefit payments in Germany and termination indemnities outside Germany.

Occupational pension schemes can generally be either defined contribution or defined benefit schemes. In the case of defined contribution plans, the company incurs no obligation other than the payment of contributions to an external pension fund. The total of all pension costs relating to defined contribution schemes in 2004 was €13 million (2003: €12 million).

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

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

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

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

In addition to assumptions about life expectancy and disability, the following assumptions also play a part, depending on the economic situation in the particular country, so that for countries outside Germany weighted average figures by obligation are given:

	Germany		Rest of Europe		USA		Other countries	
	2004	2003	2004	2003	2004	2003	2004	2003
Discount rate	4.75%	5.25%	4.73%	5.05%	5.98%	6.29%	8.13%	8.78%
Expected return on assets	5.25%	5.60%	4.31%	6.00%	6.19%	7.12%	10.00%	10.00%
Growth in future benefits	2.50%	2.50%	3.23%	3.01%	4.00%	3.08%	3.28%	4.88%
Growth in pensions	1.25%	1.50%	1.93%	1.92%	3.00%	2.54%	2.84%	3.60%

The growth in future benefits comprises expected future increases in salaries, which are estimated annually, taking inflation and the economic situation into account. The actuarial present value of the pension obligations calculated on the basis of the projected unit credit method is reduced by the fair value of the plan assets where these are held in an externally financed pension fund. If the plan assets exceed the obligations from the pension commitments, an asset is disclosed in accordance with IAS 19 *Employee Benefits.* According to IAS 19.58, an asset may arise where a defined benefit plan has been overfunded only if Linde, under its obligations as employer, has the right to receive a refund of the contributions in cash or to reduce future contributions. This did not apply in fiscal 2004.

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

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

A review as to whether actuarial gains and losses should be recognized is carried out on the basis of individual plans, adopting the ‘‘corridor’’ approach.

Funding status of defined benefit pension obligations:

	Germany		Rest of Europe		USA		Other countries		Total	
in € million	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Actuarial present value of pension obligations (defined benefit obligation)	1,029	1,003	839	791	59	58	5	5	1,932	1,857
Of which unfunded pension obligations	795	865	81	71	–	–	4	4	880	940
Of which funded pension obligations	234	138	758	720	59	58	1	1	1,052	917
Fair value of plan assets	234	138	661	605	51	52	1	1	947	796
Net obligation	795	865	178	186	8	6	4	4	985	1,061
Unrecognized actuarial gains (+)/losses (–)	–79	–25	–113	–114	–13	–9	–	–	–205	–148
Service cost not yet recognized	–	–	1	–	–	–	–	–	1	–
Not recognized as an asset in accordance with IAS 19.58	–	–	1	–	2	–	–	–	3	–
Balance sheet amount at Dec. 31	716	840	67	72	–3	–3	4	4	784	913
of which pension provision (+)	716	840	89	84	–	–	4	4	809	928
or pension asset (–)	–	–	–22	–12	–3	–3	–	–	–25	–15

Portfolio structure of plan assets

	Dec. 31, 2004	Dec. 31, 2003
Shares	46%	45%
Fixed-interest securities	41%	39%
Other	13%	16%
	100%	100%

Other plan assets comprise mainly property, insurance and cash and cash equivalents.

Movement in plan assets

in € million	2004	2003
Fair value of plan assets at the beginning of the fiscal year	796	653
Actual return from plan assets	70	37
Employers' contributions	114	171
Employees' contributions	11	12
Payments to beneficiaries	–30	–29
Asset transfers	–11	–
Other movements including effects of currency translation	–3	–48
Fair value of plan assets at the end of the fiscal year	947	796

The movements during the year in the balance sheet figures for pensions were as follows:

	Germany		Rest of Europe		USA		Other countries		Total	
in € million	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Balance sheet amount at Jan. 1	840	937	72	81	–3	–	4	5	913	1,023
Pension expense	68	77	40	27	1	6	1	1	110	111
Pension payments	–46	–43	–3	–4	–	–	–	–1	–49	–48
Contributions to external pension funds	–84	–131	–28	–32	–1	–8	–1	–	–114	–171
Transfers	–62	–	–15	–	–	–	–	–	–77	–
Effect of changes in exchange rates	–	–	1	–	–	–1	–	–1	1	–2
Balance sheet amount at Dec. 31	716	840	67	72	–3	–3	4	4	784	913
of which pension provision (+) or	716	840	89	84	–	–	4	4	809	928
pension asset (–)	–	–	–22	–12	–3	–3	–	–	–25	–15

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

	Germany		Rest of Europe		USA		Other countries		Total	
in € million	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Current service cost	24	24	16	16	1	4	–	–	41	44
Interest cost	51	53	39	41	4	4	1	1	95	99
Expected return on plan assets	–7	–	–37	–36	–4	–4	–	–	–48	–40
Amortization of gains (–)/losses (+)	–	–	14	6	–	2	–	–	14	8
Amortization of past service cost	–	–	1	–	–	–	–	–	1	–
Plan curtailments/settlements	–	–	7	–	–	–	–	–	7	–
	68	77	40	27	1	6	1	1	110	111

Actual income on plan assets in external pension funds was €70 million (2003: €37 million). This meant that actual income was significantly higher than expected income on plan assets of €48 million.

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

If the net cumulative unrecognized actuarial gains and losses exceed the greater of 10 percent of the defined benefit obligation and 10 percent of the fair value of the plan assets, the excess is amortized over the expected average remaining working lives of the employees participating in the plan (generally 15 years).

[29] Other provisions

in € million	Non-current 2004	Non-current 2003	Current 2004	Current 2003	Total 2004	Total 2003
Provisions for taxes	–	–	173	92	173	92
Obligations from delivery transactions	51	50	225	222	276	272
Warranty obligations and risks from transactions in course of completion	26	13	232	294	258	307
Obligations relating to personnel	52	33	323	334	375	367
Other obligations	24	16	128	93	152	109
Miscellaneous provisions	153	112*	908	943*	1,061	1,055
Restructuring schemes	24	28	26	69	50	97
Total other provisions	177	140	1,107	1,104	1,284	1,244

* Prior year figures restated.

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 comprise mainly provisions for anticipated losses on transactions in course of completion, litigation, guarantees and warranty obligations, as well as provisions for transaction and disposal costs.

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

The provisions for restructuring schemes comprise personnel costs and costs arising from the downsizing of production sites.

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

in € million	Jan. 1, 2004	Changes in Group structure*	Utilization	Release	Addition	Dec. 31, 2004
Provisions for taxes	92	–4	61	11	157	173
Obligations from delivery transactions	272	–32	136	30	202	276
Warranty obligations and risks from transactions in course of completion	307	–14	74	46	85	258
Obligations relating to personnel	367	–27	214	12	261	375
Other obligations	109	–7	39	48	137	152
Miscellaneous provisions	1,055	–80	463	136	685	1,061
Restructuring schemes	97	–6	38	3	–	50
Other provisions	1,244	–90	562	150	842	1,284

* Including currency adjustments.

[30] Financial debt

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

in € million	Non-current: Due in 1 to 5 years 2004	2003	Non-current: Due in more than 5 years 2004	2003	Current: Due within 1 year 2004	2003	Total 2004	2003
Subordinated bond	–	–	396	395	–	–	396	395
Convertible bond	487	–	–	–	–	–	487	–
Other bonds	1,302	1,772	–	147	137	403	1,439	2,322
Bank loans and overdrafts	45	34	–	13	168	227	213	274
	1,834	1,806	396	555	305	630	2,535	2,991

Of the bank loans and overdrafts, an amount of €8 million (2003: €8 million) is secured by mortgages. The weighted average interest rate for bank loans and overdrafts was 4.2 percent in 2004 (2003: 4.0 percent).

The bonds are analyzed as follows:

Fixed-interest bonds

Issuer	Nominal volume in relevant currency (ISO code)	EUR[2] in million	Average weighted residual term (in years)	Average weighted effective interest rate[1] in percent
Linde Finance B.V., Amsterdam	200 million CZK	7	1.22	6.2
Linde Finance B.V., Amsterdam	1,872 million EUR	1,858	4.48	6.2
Linde Finance B.V., Amsterdam	12,000 million JPY	86	1.86	0.8
Linde Finance B.V., Amsterdam	200 million PLN	52	1.12	12.8
Linde Finance B.V., Amsterdam	1,500 million SKK	43	3.11	8.0
Linde Finance B.V., Amsterdam	10 million USD	7	0.57	5.8
		2,053		

1) Effective interest rate in relevant currency.

2) Includes adjustments relating to hedging transactions.

Variable-interest bonds

Issuer	Nominal volume in relevant currency (ISO-Code)	EUR[2] million	Average weighted residual term (in years)	Average weighted effective interest rate[1] in percent
Linde Finance B.V., Amsterdam	500 million CZK	16	3.5	2.9
Linde Finance B.V., Amsterdam	155 million EUR	155	2.62	2.8
Linde Finance B.V., Amsterdam	6,560 million JPY	47	1.49	0.6
Linde Finance B.V., Amsterdam	70 million USD	51	1.18	2.7
		269		

1) Effective interest rate in relevant currency.

2) Includes adjustments relating to hedging transactions.

Subordinated bond

In June 2003, a subordinated bond for €400 million was issued. It has no final maturity date, although there is a right to call the loan from July 4, 2013. If the right to call the loan is not exercised on this date, the increased coupon will attract interest at a variable rate (3 month Euribor +3⅜ 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 5 years. If Linde AG resumes the coupon payments, those payments which have not previously been disbursed are made up.

Convertible bond

In May 2004, a convertible bond with a nominal value of €550 million was issued. It has a maturity period of 5 years and an interest rate of 1.25 percent. The conversion terms are described in more detail in Note [26] on equity.

[31] Liabilities from financial services

Liabilities from financial services comprise mainly obligations under finance leases of €411 million (2003: €386 million) from sale and leaseback transactions to refinance lease agreements with customers.

They also include guaranteed residuals of €54 million (2003: €59 million) given in the course of sales of leased equipment to leasing companies, where such guaranteed residual values exceed 10 percent of the fair value of the leased equipment.

Further obligations of €58 million (2003: €66 million) relating to the financing of the leased property have also been recognized by the Linde Group. These leased assets are recognized in the balance sheet due to the character of the lease agreement.

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

in € million	Dec. 31, 2004	Dec. 31, 2003
Total minimum lease payments (gross)	594	581
Due within one year	188	175
Due in one to five years	379	374
Due in more than five years	27	32
Present value of minimum lease payments	523	511
Due within one year	174	162
Due in one to five years	326	322
Due in more than five years	23	27
Finance charge included in the minimum lease payments	71	70

[32] Trade payables, Other liabilities

in € million	Non-current 2004	Non-current 2003	Current 2004	Current 2003	Total 2004	Total 2003
Percentage of completion (PoC)	–	–	495	483	495	483
Other	6	5	699	676	705	681
Trade payables	6	5	1,194	1,159	1,200	1,164
Advance payments received from customers	5	34	81	60	86	94
Taxes	15	2	180	172	195	174
Social security	–	–	47	48	47	48
Liabilities due to affiliated companies	–	–	12	6	12	6
Liabilities due to related companies	–	–	4	2	4	2
Sundry liabilities	36	26*	251	302	287	328
Other liabilities	56	62	575	590	631	652
	62	67	1,769	1,749	1,831	1,816

* Of which other liabilities of €15 million (2003: €12 million) due in more than 5 years.

Percentage of completion trade payables of €495 million (2003: €483 million) relate to advance payments received on construction contracts, where these exceed the state of completion of the contract.

Of the sundry liabilities, none (2003: none) are secured by mortgages.

[33] Deferred income

Deferred income comprises:

in € million	Non-current 2004	Non-current 2003	Current 2004	Current 2003	Total 2004	Total 2003
Deferred income from leases	72	82	105	96	177	178
Other deferred income	4	10	22	30	26	40
	76	92	127	126	203	218

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

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

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

in € million	Non-current 2004	Non-current 2003	Current 2004	Current 2003	Total 2004	Total 2003
Deferred income on sales with guaranteed residual values	53	64	65	58	118	122
Deferred income on sale and leaseback transactions	16	15	38	37	54	52
Miscellaneous	3	3	2	1	5	4
	72	82	105	96	177	178

OTHER INFORMATION

[34] Share option scheme

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

The aim of this share option scheme is to allow around 330 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 may be granted options within the next four years to subscribe to Linde shares in annual tranches, each with a term of seven years. The intention is to launch the scheme on a revolving basis each year, with Linde reserving the right to redefine the participants for each tranche of the scheme. The Supervisory Board determines the allocation of subscription rights to the members of the Executive Board of Linde AG. Otherwise, the Executive Board, with the approval of the Supervisory Board, determines the number of options to be issued.

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

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

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

As stated in Note [7] Accounting Policies, Linde AG will not be adopting IFRS 2 on accounting for share-based payment issued by the International Accounting Standards Board in February 2004 until the fiscal year 2005.

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

If the Standard had been applied in 2004, the following additional expense would have had to be recognized in the income statement. The table shows options based on the share option scheme introduced in 2002.

Option values

	Options issued Executive Board	Other management	Notional expense
1st tranche (2002)	240,000	760,000	€2.8 million
2nd tranche (2003)	240,000	777,600	€3.6 million
3rd tranche (2004)	240,000	764,500	€2.3 million

As at December 31, 2004, 26,100 of the options received had expired.

The calculation of the expense is based on the fair value of the subscription rights issued, using the Black-Scholes option price model. The fair value for the subscription rights on the issue date was calculated as being €9.84 for the first tranche, €7.16 for the second tranche and €7.92 for the third tranche. This was based on the following measurement parameters:

Black-Scholes option price model

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

[35] Derivative financial instruments

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

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

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

Currency risks

Linde generally enters into forward exchange transactions to hedge the exposure to risks arising from fluctuations in receivables, payables and liabilities denominated in foreign currencies as well as from outstanding contracts and anticipated transactions. If forecasted transactions are to be hedged, the rules for cash flow hedges are generally applied.

The change in the fair value of the derivatives is recognized in Cumulative changes in equity not recognized through the income statement. In 2004, the positive fair values of derivatives recognized in equity amounted to €4 million (2003: €2 million) and the negative fair values to €2 million (2003: €0 million).

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

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

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

Interest rate risks

The Group is refinanced mainly through the issue of bonds and medium-term notes in various currencies. Linde hedges the exposure to the resulting future interest rate and currency risks by entering into appropriate interest rate and combined interest rate/currency swaps. These economic hedges are reflected in the balance sheet by applying the rules for hedge accounting. Where future interest and capital cash flows are hedged, this gives rise to a cash flow hedge. The remeasurement to fair value of these swaps is recognized directly in Cumulative changes in equity not recognized through the income statement and disclosed separately. In 2004, the negative fair values of derivatives reported in this way amounted to €1 million (2003: €4 million).

Interest rate derivatives, which hedge the exposure to future changes in the fair value of liabilities as a result of interest rate and currency volatility, are accounted for under the rules for fair value hedges. In the 2004 fiscal year, the figure for positive fair values was €63 million (2003: €94 million), while negative fair values amounted to €28 million (2003: €34 million). In addition to hedging individual capital market liabilities, Linde 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.

Price change risks

To hedge against price change risks, a small number of electricity derivatives are used. The changes in the fair values of these derivatives are recognized directly in equity as cash flow hedges. In fiscal 2004, the total negative fair value of these derivatives was €4 million (2003: positive fair value of €2 million).

At December 31, 2004, Linde AG held derivative financial instruments to hedge against exposure to interest rate risks, currency risks and price change risks, which are shown as cash flow hedges, with a maximum period to maturity of 18 months (2003: 30 months).

Measurement information for financial instruments

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

Interest curves	EUR	USD	GBP	JPY	PLN	CZK	SKK
Interest for six months	2.23%	2.77%	4.8%	0.0%	6.5%	2.6%	3.4%
Interest for one year	2.36%	3.08%	4.8%	0.1%	6.4%	2.8%	3.3%
Interest for five years	3.19%	4.10%	4.9%	0.7%	6.1%	3.6%	3.9%
Interest for ten years	3.77%	4.72%	4.9%	1.5%	5.8%	4.1%	4.3%

The fair values thus determined are disclosed in the balance sheet under Other receivables and other assets or 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 are as follows:

Fair value of derivative financial instruments

	Non-current				Current			
	Due in 1 to 5 years		Due in over 5 years		Due within 1 year		Total	
in € million	2004	2003	2004	2003	2004	2003	2004	2003
Assets								
Forward exchange transactions*	4	–	–	–	40	30	44	30
Foreign currency options	–	–	–	–	1	–	1	–
Swap transactions	76	97	1	5	6	20	83	122
Interest rate options	2	3	–	1	–	–	2	4
Electricity derivatives	–	–	–	–	–	2	–	2
	82	100	1	6	47	52	130	158
Liabilities								
Forward exchange transactions*	1	1	–	–	27	24	28	25
Foreign currency options	–	–	–	–	–	–	–	–
Swap transactions	43	67	4	11	20	4	67	82
Interest rate options	2	–	–	1	–	–	2	1
Electricity derivatives	1	–	–	–	3	–	4	–
	47	68	4	12	50	28	101	108

Nominal amounts

	2004	2003	2004	2003	2004	2003	2004	2003
Assets								
Forward exchange transactions*	58	11	–	–	784	589	842	600
Foreign currency options	–	–	–	–	10	–	10	–
Swap transactions	1,245	1,441	125	67	28	259	1,398	1,767
Interest rate options	175	300	–	50	25	–	200	350
Electricity derivatives	–	5	–	–	–	13	–	18
	1,478	1,757	125	117	847	861	2,450	2,735
Liabilities								
Forward exchange transactions*	11	17	–	–	482	902	493	919
Foreign currency options	–	–	–	–	10	–	10	–
Swap transactions	593	913	95	420	200	164	888	1,497
Interest rate options	75	100	–	50	–	–	75	150
Electricity derivatives	12	–	–	–	18	–	30	–
	691	1,030	95	470	710	1,066	1,496	2,566

* Including embedded derivatives from hybrid contracts.

[36] Group cash flow statement

The cash flow statement shows the source and application of funds in the fiscal years 2004 and 2003.

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

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

The cash flows from investing and financing activities are determined on the basis of payments, whereas the cash flow from operating activities is derived indirectly from earnings 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.

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

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

[37] Segment information

Segment information by activity

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

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

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

The figures for the Gas and Engineering business segment have been shown for the first time as combined figures, to fairly reflect the close economic relationship between the two divisions. The prior year figures in the Corporate segment have been reduced by the amounts arising on consolidation relating to the Gas and Engineering business segment.

The Material Handling business segment comprises three divisions: Linde Material Handling, STILL and OM Pimespo. These develop, manufacture and sell forklift trucks and warehouse equipment. These divisions also offer a comprehensive range of service packages and financial services. The Linde Material Handling business segment also develops, manufactures and sells hydraulic components.

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

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

Intra-Group transactions are generally conducted at market prices. The capital expenditure relates to additions to intangible assets, tangible assets and leased 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 long-term segment assets are determined on the basis of the location of the company.

Reconciliation of segment assets/liabilities to balance sheet

in € million	Dec. 31, 2004	Dec. 31, 2003
Fixed assets	7,675	7,702
Inventories	942	1,107
Trade receivables	1,454	1,570
Other segment assets (excluding tax claims)	649	664
Securities, cash and cash equivalents	567	561
Segment assets	11,287	11,604
Deferred taxes and tax claims	304	311
Total balance sheet assets	11,591	11,915
Provisions (excluding pension and tax provisions)	1,111	1,152
Trade payables	1,200	1,164
Other segment liabilities	639	696
Segment liabilities	2,950	3,012
Pension provisions	840	983
Financial liabilities	3,058	3,502
Minority interests	38	35
Equity	4,043	3,851
Capital employed	7,979	8,371
Deferred taxes	294	266
Provisions for taxes	173	92
Tax liabilities	195	174
Total balance sheet equity and liabilities	11,591	11,915

[38] Employees

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

	2004	2003
Production	21,729	22,998
Sales and distribution	16,287	15,441
Research and development	1,440	1,482
Administration	5,148	5,423
	44,604	45,344
Trainees	932	934
	45,536	46,278

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

The Executive Board recommends that the annual financial statements of Linde AG, which show retained earnings of €149,159,218, be approved as presented.

The Executive Board recommends that the retained earnings of €149,159,218 for the year ended December 31, 2004 be applied as follows: payment of a dividend of €1.25 per share (2003: €1.13) on the 119,327,374 shares entitled to dividends.

[40] Related party transactions

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

The full list of Group shareholdings has been filed in the Commercial Register of the Local Courts (Amtsgerichte) of Wiesbaden, Munich, Aschaffenburg, Bad Hersfeld, Essen, Frankfurt, Hamburg, Reutlingen, Vechta and Würzburg.

The volume of transactions of the Linde Group with these related parties in fiscal 2004 was as follows:

Services provided by the Group to related parties:

in € million	2004	2003
Engineering services	1	2
Sale of Material Handling equipment	208	189
Sale of industrial gases	11	10
	220	201

Services provided by related parties to the Group:

in € million	2004	2003
Rental and lease agreements Material Handling	8	36
Services Material Handling	12	13
Power units Material Handling	29	23
Other services	101	31
	150	103

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

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

in € million	2004	2003
Linde Gas	6	4
Material Handling	48	35
	54	39

Amounts due to related parties can be analyzed as follows:

in € million	2004	2003
Linde Gas	9	5
Material Handling	5	8
	14	13

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

Supervisory Board

The emoluments of the Supervisory Board are determined at the shareholders' meeting based on a proposal from the Executive Board and Supervisory Board and set out in item 11 of the bylaws of Linde AG. Each member of the Supervisory Board receives annual fixed emoluments of €3,000. The variable remuneration for each member of the Supervisory Board is €600 for each €0.01 by which the dividend declared by the shareholders' meeting exceeds a dividend of €0.10 per share with full dividend entitlement distributed to the shareholders.

Accordingly, if a dividend of €1.25 is declared, the variable remuneration of each member of the Supervisory Board is €69,000. The Chairman of the Supervisory Board receives three times this amount, while each Deputy Chairman and each member of the Standing Committee receives one and a half times this amount. The Chairman of the Audit Committee receives an additional €30,000 and every other member of the Audit Committee receives €15,000. 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. Linde AG reimburses the members of the Supervisory Board for any necessary expenses incurred and the VAT on their emoluments. The company also pays the members of the Supervisory Board an attendance fee of €300 for their participation in an ordinary meeting of the Supervisory Board. In fiscal 2004, the total emoluments of the Supervisory Board for discharging their duties in the parent company and in the subsidiaries were €1,739,489 (2003: €1,543,491)*. Of this amount, €126,467 (2003: €87,085) relates to fixed emoluments and €1,592,490 (2003: €1,435,527) to variable emoluments. In the past two fiscal years, there have been no loans to members of the Supervisory Board. Moreover, the members of the Supervisory Board have received no emoluments or benefits for any personal services they have provided, such as consultancy or mediation services.

* Including VAT.

Executive Board

Emoluments of the Executive Board

in €	2004	2003
Fixed emoluments	2,690,738	2,839,632
Variable emoluments	5,744,627	4,090,214
Total cash emoluments	8,435,365	6,929,846

The fixed emoluments also include benefits in kind. The variable emoluments comprise a dividend-related bonus and a bonus which takes into account the achievement of expected returns on investment and of personal targets.

Under the share option scheme (Linde Management Incentive Program), 240,000 options with a fair value at the issue date of €7.92 per option (2003: €7.16) were granted in fiscal 2004, as in the previous year, to the members of the Executive Board. The total fair value of these options was €1,900,800 (2003: €1,718,400).

In the past two fiscal years, there have been no loans to members of the Executive Board.

Remuneration paid to former members of the Executive Board and their dependants amounted to €2,713,060 (2003: €3,402,688).

A provision of €32,579,626 (2003: €29,244,809) 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 €25,401,353 (2003: €23,890,455) was made.

Interests in share capital

Members of the Supervisory Board and the Executive Board of Linde AG hold shares and options amounting to less than 1 percent of issued share capital.

Members of the Supervisory Board and the Executive Board are required to disclose in accordance with § 15 a of the German Securities Trade Act their own transactions in the shares of Linde AG or in related financial instruments, if the minimum threshold is exceeded. During the fiscal year, Linde AG received one notification which it published immediately on the company's website.

[42] Declaration of compliance with the German Corporate Governance Code

On March 15, 2004, the Executive Board and the Supervisory Board of Linde AG approved the prescribed declaration pursuant to § 161 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 at Linde is set out in the Corporate Governance section of this report.

[43] Contingent liabilities and Other financial commitments

Contingent liabilities

in € million	Dec. 31, 2004	Dec. 31, 2003
Bills endorsed and discounted	25	16
Guarantees	70	97
Warranties	14	24
Securities for third-party liabilities	–	–
	109	137

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 in the past two years. Appropriate provisions have been made in the relevant Group companies for contingent financial commitments from other legal or arbitration proceedings.

Other financial commitments

in € million	Dec. 31, 2004	Dec. 31, 2003
Capital expenditure commitment	84	55
Obligations under non-cancelable operating leases	476	410
Other	73	78
	633	543

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

in € million	Dec. 31, 2004	Dec. 31, 2003
Nominal future minimum lease payments		
Due within one year	135	124
Due in one to five years	266	259
Due in more than five years	75	27
	476	410

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

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

	Procurement leases		Sale and leaseback subleases	
in € million	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003
Nominal future minimum lease payments (disbursements)				
Due within one year	81	78	54	46
Due in one to five years	154	177	112	82
Due in more than five years	71	27	4	–
	306	282	170	128
Nominal future minimum lease payments (receipts)				
Due within one year	–	–	51	44
Due in one to five years	–	–	102	77
Due in more than five years	–	–	4	–
	–	–	157	121

[44] Disclosures in accordance with § 292a HGB

The requirements set out in § 292a (1) German Commercial Code (HGB) for the preparation of the Group financial statements of Linde AG in accordance with International Financial Reporting Standards (IFRS) have been met.

The main differences between the accounting policies and consolidation methods used to comply with IFRS and the provisions of HGB are as follows:

Goodwill

Goodwill arising on the consolidation of companies acquired since 1995 is recognized as an asset in accordance with IAS 22 *Business Combinations* and amortized over its useful life. Under HGB, goodwill may be offset against retained earnings; the Linde Group availed itself of this provision until the end of 1999. For companies acquired after March 31, 2004, IFRS 3 *Business Combinations* was applied.

Development costs

In accordance with IAS 38 *Intangible Assets*, development costs are recognized as an intangible asset if manufacturing the products developed will generate future economic benefits for the Linde Group. Under HGB, intangible assets acquired for no consideration and internally-generated intangible assets may not be capitalized. All development costs are treated as a current expense.

Tangible assets

Under IFRS, movable tangible assets are depreciated using the straight-line method, instead of using the declining balance method which is also permitted under HGB; depreciation is based on the estimated useful life of the asset, rather than its tax life. Tax depreciation is not permitted in IFRS financial statements.

Purchase accounting

The assets and liabilities acquired on the purchase of companies are revalued as at the date of acquisition. Because of differences in depreciation periods and methods between HGB and IFRS (the declining balance method is no longer used), deviations have arisen in the net book values of the assets acquired and therefore adjustments have been required to the corresponding figures for goodwill.

Leases

The classification and accounting treatment of lease transactions in both IAS 17 *Leases* and HGB are based on economic rather than legal ownership. However, IFRS differs from HGB in the detail, i.e. it applies different criteria when determining economic ownership. Under international rules, the asset is recognized in the books of the company which carries both the risks and the rewards associated with the asset (risks and rewards approach).

Inventories

According to IAS 2 *Inventories*, inventories are stated at full absorption cost, whereas in the Linde Group under HGB they were measured at the direct costs of production until the end of 2001. In applying the lower of cost and net realizable value test for inventory valuation purposes, IFRS is influenced more by the sales market than is HGB. Therefore, it is possible that inventory valuations under IFRS may be higher than under HGB, with lower write-downs. Under IFRS, advance payments may not be offset against inventories, although this treatment is permitted under HGB.

Recognition of revenue (long-term contracts)

IAS 11 Construction Contracts requires revenue and profits for long-term contracts to be recognized by reference to the stage of completion of the contract (percentage of completion method).

Under HGB, however, revenue and profits are recognized only once the contract has been completed or identifiable parts of the contract have been delivered or services have been provided to the customer (completed contract method).

Derivative financial instruments

Under IAS 39 *Financial Instruments: Recognition and Measurement*, derivative financial instruments are accounted for at fair value, even if this exceeds cost.

The gain or loss arising from changes in the fair value of financial instruments used to hedge future cash flows is recognized directly in equity under Cumulative changes in equity not recognized through the income statement (cash flow hedges). The gain or loss arising on the settlement of these contracts is not included in net income until the due date of the underlying transaction. In contrast, the gain or loss from changes in the fair value of derivative financial instruments used to hedge the exposure to changes in the fair value of assets or liabilities is recognized immediately in net income (fair value hedges).

Under HGB, there is no mandatory approach for the recognition and measurement of derivative financial instruments, with the result that the measurement is based on the principles of historical cost, realization and unequal treatment of losses and income.

Securities

There is a fundamental difference between the accounting treatment of securities under IFRS as compared with HGB. According to IFRS, available-for-sale securities are accounted for at fair value. According to HGB, securities must not be reported at a value higher than acquisition cost (acquisition cost principle) and should be stated at the lower of cost and market value (principle of unequal treatment of losses and income).

Provisions for pensions

The provisions for pensions are calculated using the projected unit credit method in accordance with IAS 19 *Employee Benefits*, which – in contrast to the going concern method usually applied in Germany in accordance with § 6a of the German Income Tax Law (EStG) – takes into account expected future increases in pensions and salaries.

Other provisions

According to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, provisions are recognized when an external obligation exists, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount provided should be based on the most probable outcome. Provisions in the HGB financial statements are reported at a valuation which takes into account the concept of prudence. Expense provisions allowed under HGB are not permitted under IFRS.

[45] Significant Group companies

Affiliated companies

Business segment

Gas and Engineering	Country (registered office)	Group holding in %	Equity in € million
Linde Gas			
Linde Gas Austria	A	100.0	134
Linde Gas Pty. Ltd	AUS	100.0	46
Linde Gas Brazil	BR	100.0	67
PanGas	CH	100.0	150
Linde Gas Columbia	CO	100.0	33
Linde Technoplyn	CZ	100.0	199
AGA Linde Healthcare GmbH & Co. KG	D	100.0	2
Tega-Technische Gase und Gasetechnik GmbH	D	100.0	1
Linde Gas Denmark	DK	100.0	7
Abelló Linde Spain	E	74.8	88
Linde Gas France	F	99.8	142
Linde Gas Finland	FIN	100.0	113
Linde Gas Great Britain	GB	100.0	30
Linde Hellas E.P.E.	GR	100.0	26
Linde Gas Hungary AG	H	100.0	141
Linde Gas Italy	1	100.0	139
Linde Gas Mexico	MEX	100.0	39
Linde Gas Norway	N	100.0	49
nv Hoek Loos	NL	100.0	187
Linde Gas Poland	PL	99.9	78
Linde Gas Puerto Rico	PR	100.0	10
AGA S.A.	RA	100.0	19
Linde Gas Chile	RCH	100.0	38
Linde Gas Romania	RO	100.0	31
AGA AB	S	100.0	606
Singapore Syngas Pte. Ltd	SGP	100.0	66
Linde Gas USA	USA	100.0	430
AGA Gas C.A.	YV	100.0	16
Linde Engineering			
Linde Kryotechnik AG	CH	100.0	8
Linde-KCA-Dresden GmbH	D	100.0	48
Selas-Linde GmbH	D	100.0	5
Société d'Application des Techniques Linde S.A.R.L	F	100.0	5
Linde Impianti Italia S.p.A.	1	100.0	1
Linde Engineering USA	USA	100.0	13

Affiliated companies

Business segment

Material Handling	Country (registered office)	Group holding in %	Equity in € million
Linde Fördertechnik GmbH	A	100.0	10
Linde Materials Handling Pty. Ltd	AUS	100.0	–18
Linde Lansing Fördertechnik AG	CH	100.0	7
Linde-Xiamen Gabelstaplergesellschaft mbH	CN	100.0	27
Linde Material Handling Czech Republic	CZ	100.0	20
Linde Material Handling Ibérica, S.A.	E	100.0	27
Fenwick-Linde France	F	100.0	96
Linde Material Handling Great Britain	GB	100.0	102
Linde Güldner Italiana S.p.A.	1	100.0	14
Linde Milenz Truck A/B	S	100.0	13
Linde Lift Truck Corporation	USA	100.0	21
Linde Material Handling (Pty) Ltd	ZA	100.0	4
STILL N.V.	B	100.0	4
STILL GmbH	D	100.0	104
STILL WAGNER GmbH & Co KG	D	100.0	27
STILL, S.A.	E	100.0	12
STILL S.A.R.L.	F	100.0	41
STILL Materials Handling Ltd	GB	100.0	2
STILL ITALIA S.p.A.	1	100.0	9
STILL Intern Transport B.V.	NL	100.0	9
IBERCARRETILLAS, S.A.	E	100.0	6
OM Carrelli Elevatori S.p.A.	1	100.0	58
Other affiliated companies			
MATRA-WERKEGmbH	D	100.0	4
Linde Ladenbau GmbH & Co. KG	D	100.0	4
Linde Finance BV	NL	100.0	22

Associates

Business segment

Gas and Engineering	Country (registered office)	Group holding in %
Linde Gas		
HELISON PRODUCTION S.p.A.	DZ	51.0
Oy Innogas Ab	FIN	50.0
TLF Tjeldbergoddens Luftgassfabrik DA	N	37.8
Business segment Material Handling		
JULI Motorenwerk, k.s.	CZ	50.0
Linde Leasing GmbH	D	45.0
Lansing Linde Creighton Ltd	GB	49.0
Lansing Linde Sterling Ltd	GB	49.0
Lansing Linde Trifik Ltd	GB	32.1
Komatsu Forklift Co. Ltd	J	35.0
Linde High Lift Chile S.A.	RCH	45.0

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), previously known as International Accounting Standards (IAS). The Group management report includes an analysis of the net assets, financial position and results of operations of the Group, together with explanatory comments thereon, as required by the provisions of the German Commercial Code (HGB).

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

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

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

The Group financial statements, the Group management report and the audit report were discussed in detail in the presence of the auditors at the meeting of the Supervisory Board to approve the financial statements.

The outcome of the audit is presented by the Supervisory Board in its report on pages 10 to 13 of this annual report.

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

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

The auditors have issued the following auditors' report on the consolidated financial statements and the group management report:

AUDITORS' REPORT

"We have audited the consolidated financial statements, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the financial statements, of Linde Aktiengesellschaft, prepared by the Company for the business year from January 1, 2004 to December 31, 2004. The preparation and content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and the 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 it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the legal representatives of the Company, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Linde Group for the business year in accordance with International Financial Reporting Standards.

Our audit, which also extends to the Group management report prepared by the Executive Board for the business year from January 1, 2004 to December 31, 2004, has not led to any reservations. In our opinion, on the whole, the Group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the Group management report for the business year from January 1 to December 31, 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and a Group management report in accordance with German law."

Düsseldorf, February 28, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Rolf Nonnenmacher Wirtschaftsprüfer	Michael Gewehr Wirtschaftsprüfer

Audited consolidated financial statements of Linde Aktiengesellschaft as of and for financial year ended December 31, 2003 (IFRS)

Group income statement

	Note	2003	2002
		in € million	
Sales	[7]	8,992	8,726
Cost of sales	[8]	6,215	5,956*
Gross profit on sales		2,777	2,770
Marketing and selling expenses		1,297	1,317*
Research and development costs	[9]	172	171
Administration expenses		722	699
Other operating income	[10]	239	276
Other operating expenses	[10]	154	211
Amortization of goodwill		138	124
Special items	[11]		
Profit on disposal of an investment		–	165
Additional restructuring schemes		70	137
Transaction and disposal costs		50	–
Reorganization of Linde Material Handling Australia		20	–
Profits/losses on securities (contractual trust arrangement – Linde pension fund)		13	–29
Operating profit (EBIT)		406	523
Net interest		–130	–170
Income from associates		6	–
Other investment income		5	3
Financial result	[12]	–119	–167
Earnings before taxes on income		287	356
Taxes on income	[13]	178	115
Earnings after taxes on income		109	241
Minority interests	[14]	–1	–1
Net income		108	240
Earnings per share in €	[15]	0.91	2.01
Earnings per share in € – fully diluted –	[15]	0.91	2.01

* Prior year figures restated.

Group balance sheet

	Note	Dec. 31, 2003	Dec. 31, 2002
		in € million	
Assets			
Goodwill	[17]	2,892	3,021
Other intangible assets	[17]	252	225
Tangible assets	[18]	3,774	4,066
Investments in associates	[19]	144	62
Other financial assets	[19]	89	97
Leased assets	[20]	551	566
Fixed assets		7,702	8,037
Inventories	[21]	1,107	994
Receivables from financial services	[22]	190	178
Trade receivables	[22]	1,570	1,696
Other receivables and other assets	[22]	623	651
Securities	[23]	4	116
Cash and cash equivalents	[24]	557	364
Current assets		4,051	3,999
Deferred taxes	[13]	132	144
Prepaid expenses and deferred charges	[25]	30	26
Total assets		11,915	12,206
Equity and liabilities			
Capital subscribed		305	305
Capital reserve		2,595	2,595
Retained earnings		1,134	1,160
Cumulative changes in equity not recognized through the income statement		–183	26
Equity	[26]	3,851	4,086
Minority interests	[27]	35	33
Provisions for pensions and similar obligations	[28]	983	1,078
Other provisions	[29]	1,244	1,068
Provisions		2,227	2,146
Financial liabilities	[30]	2,991	3,294
Liabilities from financial services	[31]	511	499
Trade payables	[32]	1,164	969
Other liabilities	[32]	652	617
Liabilities		5,318	5,379
Deferred taxes	[13]	266	279
Deferred income	[33]	218	283
Total equity and liabilities		11,915	12,206

Statement of changes in Group equity

See Note [26]	Capital subscribed	Capital reserve	Retained earnings	Cumulative changes in equity not recognized through the income statement: Currency translation differences	Revaluation of securities at fair value	Derivative financial instruments	Total
				in € million			
As at Jan. 1, 2002	305	2,595	1,047	256	113	–3	4,313
Dividend payments			–135				–135
Change in currency translation differences				–233			–233
Financial instruments					–112	5	–107
Net income			240				240
Other changes			8				8
As at Dec. 31, 2002/Jan. 1, 2003	305	2,595	1,160	23	1	2	4,086
Dividend payments			–135				–135
Change in currency translation differences				–206			–206
Financial instruments					–1	–2	–3
Net income			108				108
Other changes			1				1
As at Dec. 31, 2003	305	2,595	1,134	–183	–	–	3,851

Group cash flow statement

in € million	2003	2002
Net income	108	240
Minority interests	1	1
Earnings after taxes on income	109	241
Adjustments to net income to calculate cash flow from operating activities:		
Amortization of intangible assets/depreciation of tangible assets	726	753
Depreciation of leased assets	185	160
Amortization of financial assets	2	6
Profit/loss on disposal of fixed assets	–26	–8
Change in leased assets	–170	–129
Profit/loss on equity method valuation	–6	–
Special items:		
Profit on disposal of an investment	–	–165
Additional restructuring schemes	70	137
Transaction and disposal costs	50	–
Reorganization of Linde Material Handling Australia	20	–
Profits/losses on securities (contractual trust arrangement – Linde pension fund)	–13	29
Changes in assets and liabilities, adjusted for the effects of changes in Group structure:		
Change in inventories	–144	27
Change in trade receivables	46	141
Change in other assets	16	–139
Change in provisions	135	–80
Change in trade payables	232	196
Change in other liabilities	49	–24
Cash flow from operating activities	1,281	1,145
Additions of subsidiaries	–8	–20
Payments for tangible and intangible assets	–601	–572
Payments for financial assets	–110	–46
Disposal of subsidiaries	12	–
Proceeds on disposal of tangible and intangible assets	56	75
Proceeds on disposal of financial assets	9	45
Payments for securities held as current assets	–13	–161
Proceeds on disposal of securities held as current assets	–	420
Cash flow from investing activities	–655	–259

Group cash flow statement

	2003	2002
	in € million	
Dividend payments to shareholders and minority interests	–135	–136
Other changes in minority interests	–	–12
Cash outflows for the repayment of long-term loans	–299	–508
Change in liabilities from financial services	9	–32
Cash flow from financing activities	–425	–688
Net cash inflow/outflow	201	198
Opening balance of cash and cash equivalents	364	178
Effects of changes in Group structure	1	2
Effects of currency translation	–9	–14
Closing balance of cash and cash equivalents	557	364
Additional information		
Income taxes paid	142	189
Interest paid	168	194
Distributions/dividends received	3	4

Segment information by activity

	Gas and Engineering											
	Linde Gas		Linde Engineering		Material Handling		Refrigeration		Corporate		Group	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	in € million											
Fixed assets	6,071	6,369	158	177	1,302	1,285	156	168	15	38	7,702	8,037
of which investments in associates accounted for under the equity method	32	41	–	–	105	12	–	2	7	7	144	62
Inventories	159	177	300	159	513	531	118	107	17	20	1,107	994
Trade receivables	674	642	112	162	610	653	242	253	–68	–14	1,570	1,696
Other segment assets (excluding tax claims)	106	173	49	45	112	126	15	36	382	475	664	855
Securities, cash and cash equivalents	–	–	743	596	–	–	–	–	–182	–116	561	480
Segment assets	7,010	7,361	1,362	1,139	2,537	2,595	531	564	164	403	11,604	12,062
Provisions (excluding pension and tax provisions)	406	345	127	121	244	203	79	79	296	219	1,152	967
Trade payables	229	235	667	423	266	273	72	69	–70	–31	1,164	969
Other segment liabilities	84	130	106	87	269	291	30	29	207	238	696	775
Segment liabilities	719	710	900	631	779	767	181	177	433	426	3,012	2,711
Income tax liabilities offset against income tax claims	–	–	–	–	–	–	–	–	221	361	221	361
Capital employed including pension provisions	5,946	6,256	472	502	1,728	1,810	348	370	–123	52	8,371	8,990
of which pension provisions	286	318	202	214	303	312	158	152	34	82	983	1,078
Sales to third parties	3,829	3,867	1,188	958	3,059	2,976	865	878	51	47	8,992	8,726
Sales to other segments	14	13	82	78	4	3	1	1	–101	–95	–	–
Segment sales	3,843	3,880	1,270	1,036	3,063	2,979	866	879	–50	–48	8,992	8,726
EBITDA before special items	1,014	1,034	81	76	464	433	38	32	–153	–138	1,444	1,437
Amortization of intangible assets (excluding goodwill amortization), depreciation of tangible assets and leased assets[2]	–416	–428	–20	–23	–308	–285	–24	–22	–5	–31	–773	–789
EBITA before special items	598	606	61	53	156	148	14	10	–158	–169	671	648
Special items (net)	–10	–	–	–	–60	–	–	–	–57	–1[4]	–127	–1
EBITA	588	606	61	53	96	148	14	10	–215	–170[4]	544	647
Financial result	–118	–148	–3	–4	–28	–39	–1	–7	31	31	–119	–167
of which profit/loss from associates	3	–	–	–	1	–2	–	–	2	2	6	–
EBTA	470	458	58	49	68	109	13	3	–184	–139	425	480
Amortization of goodwill	–101	–102	–4	–4	–23	–14	–10	–4	–	–	–138	–124
Earnings before taxes on income	369	356	54	45	45	95	3	–1	–184	–139	287	356
Return on capital employed (ROCE) before special items in %[1]	10.1	9.6	14.8	13.3	9.7	8.7	6.1	5.1	–	–	7.7	7.0
EBITA-Return on sales before special items in %	15.6	15.6	4.8	5.1	5.1	5.0	1.6	1.1	–	–	7.5	7.4
Cash flow from operating activities[3]	737	756	234	184	321	335	36	36	–47	–166	1,281	1,145
Capital expenditure (excluding financial assets and leased assets)	397	401	24	29	162	153	29	32	–19	–7	593	608
Number of employees at December 31	17,420	17,500	4,202	4,060	18,190	18,188	6,361	6,276	489	497	46,662	46,521

1) In the business segments and divisions, calculated as EBITA after adding back interest costs for pension provisions at 5.25% (2002: 5.75%) in relation to average capital employed; for the Group, earnings before taxes on income after adding back both interest costs for pension provisions and interest expenses in relation to average capital employed.

2) Before special items.

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

4) Includes special restructuring scheme costs for Gas and Engineering €54 million, Material Handling €62 million and Refrigeration €21 million.

Segment information by region

	2003	2002
	in € million	
Sales		
Germany	2,061	1,994
Other Europe	4,808	4,449
North America	1,087	1,152
South America	302	327
Asia	556	641
Australia/Africa	178	163
	8,992	8,726
Capital expenditure		
Germany	307	284
Other Europe	502	499
North America	54	63
South America	29	24
Asia	15	11
Australia/Africa	60	32
	967	913
Long-term segment assets		
Germany	1,426	1,302
Other Europe	5,264	5,518
North America	596	748
South America	180	199
Asia	116	167
Australia/Africa	120	103
	7,702	8,037

The long-term segment assets are the fixed assets of the Group.

Group summary of fixed assets

	Acquisition and manufacturing cost							Accumulated amortization/depreciation							Net book value	
	Jan. 1, 2003	Currency adjustments	Changes in Group structure	Additions	Transfers	Disposals	Dec. 31, 2003	Jan. 1, 2003	Currency adjustments	Changes in Group structure	Amortization/ depreciation for the year	Transfers	Disposals	Dec. 31, 2003	Dec. 31, 2003	Dec. 31, 2002
	in € million															
Goodwill	3,584	–27	–	21	2	2	3,578	563	–15	–	138	2	2	686	2,892	3,021
Capitalized development costs	227	–2	–	45	–	9	261	121	–1	–	38	–	9	149	112	106
Miscellaneous intangible assets	259	–5	–	57	–1	29	281	140	–2	–	33	–1	29	141	140	119
Other intangible assets	486	–7	–	102	–1	38	542	261	–3	–	71	–1	38	290	252	225
Land, freehold and leasehold, and buildings, including buildings on non-owned land	1,923	–69	5	31	14	34	1,870	837	–23	–1	60	1	23	851	1,019	1,086
Technical equipment and machinery	4,863	–212	3	129	75	46	4,812	2,908	–111	–	304	–	41	3,060	1,752	1,955
Fixtures, furniture and equipment	2,650	–126	1	175	–2	83	2,615	1,747	–87	–1	188	–8	72	1,767	848	903
Payments in advance and plant under construction	122	–6	7	135	–100	3	155	–	–	–	–	–	–	–	155	122
Tangible assets	9,558	–413	16	470	–13	166	9,452	5,492	–221	–2	552*	–7	136	5,678	3,774	4,066
Investments in associates	70	–4	–4	67	32	9	152	8	–1	–	1	–	–	8	144	62
Investments in affiliated companies	29	–	–12	36	–4	–	49	2	–1	–	1	–	–	2	47	27
Loans to associated companies	–	–	–	5	–	–	5	–	–	–	–	–	–	–	5	–
Investments in related companies	52	1	–	2	–28	2	25	1	1	–	–	–	–	2	23	51
Investment securities	5	–	–	–	–	–	5	1	–	–	–	–	–	1	4	4
Other loans	15	–2	–1	1	–	3	10	–	–	–	–	–	–	–	10	15
Other financial assets	101	–1	–13	44	–32	5	94	4	–	–	1	–	–	5	89	97
Leased assets	1,061	–21	2	263	12	246	1,071	495	–12	–	185	6	154	520	551	566
Fixed assets	14,860	–473	1	967	–	466	14,889	6,823	–252	–2	948	–	330	7,187	7,702	8,037

* Includes special depreciation of €35 million.

NOTES TO THE GROUP FINANCIAL STATEMENTS: GENERAL PRINCIPLES

[1] Basis of preparation

The consolidated financial statements of Linde AG at December 31, 2003 have been drawn up in accordance with International Financial Reporting Standards (IFRS).

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

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

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

[2] Principles of consolidation

Companies are consolidated using the purchase method, under which the book value of the investment in the subsidiary is offset against the proportion of the fair value of the net assets of the subsidiary at the date of acquisition that is held by the parent company. Differences arising which relate to hidden reserves or hidden charges are allocated to the appropriate asset heading. Any remaining positive balance is recognized as goodwill and amortized using the straight-line method over its expected useful life. The estimated useful life will not normally exceed 20 years, except in the Linde Gas division where the useful life of goodwill may be up to 40 years. Goodwill which arose prior to January 1, 1995 totaling €169 million continues to be offset against reserves under the option set out in IAS 22.99 et seq.

Consolidation based on the equity method follows the same principles.

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

Intra-Group profits and losses arising from intra-Group deliveries of fixed assets and inventories have also been eliminated. Intra-Group profits and losses of associated companies are not significant and have therefore not been eliminated.

[3] Scope of consolidation

The Group financial statements comprise Linde AG and all significant companies in which Linde AG has a direct or indirect majority holding or majority of the voting rights.

Companies which are of minor significance in terms of the Linde Group's net assets, financial position and results of operations, because they are dormant or inactive, have not been consolidated. Instead, they are reported in the Group financial statements at acquisition cost. Non-consolidated subsidiaries in 2003 contributed 0.3 percent of Group sales (2002: 0.5 percent) and comprised around 0.1 percent of Group equity (2002: 0.2 percent).

The equity method is applied to joint ventures and companies in which Linde AG holds, either directly or indirectly, 20 percent to 50 percent of the voting rights and where it is able to exert significant influence on financial and business policy.

The equity method is not applied where the company is relatively insignificant to the Group's net assets, financial position and results of operations. These companies are reported in the Group financial statements at acquisition cost.

The Linde Group comprises the following companies:

	As at Dec. 31, 2002	Additions	Disposals	As at Dec. 31, 2003
Consolidated subsidiaries	298	19	29	288
of which within Germany	32	–	5	27
of which outside Germany	266	19	24	261
Subsidiaries reported at acquisition cost	57	15	18	54
of which within Germany	15	2	1	16
of which outside Germany	42	13	17	38
Companies accounted for using the equity method	26	4	6	24
of which within Germany	5	–	1	4
of which outside Germany	21	4	5	20

The following major acquisitions were made during the year:

Acquisitions by business segment

	Group holding in %	Acquisition cost in k€	Date first consolidated
Gas and Engineering			
Hadjikyriakos Gas (Cyprus) Ltd.	100	3,900	01/2003
Material Handling			
Linde Material Handling Ceská republika s r.o.	100	4,601	07/2003

Companies included in the consolidation for the first time are either newly-acquired companies or Group companies previously disclosed as investments in affiliated companies.

A significant disposal was the 100 percent holding in Scientific Design Company, Inc., which was sold during the fiscal year and has been excluded from the consolidation since January 1, 2003.

The change in Group structure has not had a significant effect on the net assets, financial position and results of operations of the Linde Group.

The effect of the change on fixed assets was €14 million, on current assets €9 million and on liabilities €11 million.

As a result of their inclusion in the Linde consolidated financial statements, the following fully-consolidated subsidiaries are exempt under the provisions of § 264 b HGB (German Commercial Code) from the duty to disclose annual financial statements: AGA Linde Healthcare GmbH & Co. KG, Unterschleißheim, Linde Gas Produktionsgesellschaft mbH & Co. KG, Höllriegelskreuth, TV Kohlensäure Technik und Vertrieb GmbH + Co., Höllriegelskreuth, Unterbichler GmbH & Co. KG, Munich, Tega-Technische Gase und Gasetechnik GmbH & Co. KG, Hamburg, Hans-Joachim Schrader Industriefahrzeuge GmbH & Co., Essen, STILL WAGNER GmbH & Co. KG, Reutlingen, and Eisengießerei Dinklage GmbH & Co. KG, Dinklage.

A list of the complete shareholdings of the Linde Group is held in the Commercial Register of the Local Courts (Amtsgerichte) of Wiesbaden, Munich, Essen, Reutlingen, Vechta and Hamburg. Significant Group companies are listed in Note [46].

[4] Foreign currency translation

The annual financial statements of foreign subsidiaries, including hidden reserves and hidden charges revealed under purchase accounting, are translated in accordance with the functional currency concept set out in IAS 21 *The Effects of Changes in Foreign Exchange Rates.* All Linde Group companies are independent from a financial and economic point of view, so that the functional currency of each company corresponds to the national currency in which its financial statements are reported.

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

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

Goodwill arising on the consolidation of foreign companies is translated at historical rates and reported at acquisition cost less accumulated amortization.

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.

[5] Currencies

The following exchange rates have been used:

		Mid-rate on balance sheet date		Annual average rate	
Exchange rate €1 =	**ISO-Code**	**Dec. 31, 2003**	**Dec. 31, 2002**	**2003**	**2002**
Argentina	ARS	3.700400	3.526000	3.366075	3.114050
Australia	AUD	1.678800	1.850900	1.737596	1.736982
Brazil	BRL	3.643900	3.711200	3.478117	2.870900
China	CNY	10.267600	8.546000	9.213358	7.660198
Czech Republic	CZK	32.550000	31.520000	31.824667	30.787882
Denmark	DKK	7.444700	7.424800	7.430695	7.430517
Great Britain	GBP	0.707000	0.650500	0.691939	0.628817
Hungary	HUF	262.115000	236.065000	253.652922	243.016255
Malaysia	MYR	4.774100	3.975400	4.330633	3.610775
Mexico.	MXN	14.150000	10.960000	12.216275	9.164549
Norway	NOK	8.415000	7.287000	8.003918	7.509662
Poland	PLZ	4.725500	4.032900	4.409267	3.866372
Sweden	SEK	9.071000	9.182000	9.122656	9.161498
Switzerland	CHF	1.559000	1.452700	1.521100	1.466996
USA	USD	1.261000	1.047700	1.131140	0.945518

[6] 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 Financial Statements and Accounting for Investments in Subsidiaries*. The financial statements of associates which use differing accounting policies have been retained without adjustment because of their minor significance.

Revenue recognition

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

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

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

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

Cost of sales

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

Research and development costs

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

Intangible assets and tangible assets

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

Purchased and internally-generated intangible assets are stated at acquisition or production cost less straight-line amortization. Intangible assets are generally amortized over the period of any legal contract or over the estimated useful life of the asset.

Goodwill arising on the acquisition of companies after January 1, 1995 is recognized as an asset and amortized on a straight-line basis over its estimated useful life of between 10 and 20 years. The goodwill which arose on the acquisition of AGA in 2000 is amortized over a period of 40 years, in common with practice in this industry sector. The reason for this, apart from the strategic significance of the business acquisition, is the high level of customer loyalty and of capital tie-in over the long term. Amortization of goodwill is shown on a separate line in the income statement.

Development costs are capitalized at manufacturing cost if it is possible to identify the costs clearly and if the technical feasibility of the asset and the ability of Linde to sell it are assured. Moreover, the development activity must generate probable future economic benefits. Development costs are capitalized at manufacturing cost, which includes costs which are both directly and indirectly attributable to the development process. Capitalized development costs are amortized from the start of production on a straight-line basis over an estimated useful life of 5 years.

Costs incurred in connection with the acquisition and in-house development of internally used computer software, including the costs of bringing the software to an operational state, are capitalized and amortized on a straight-line basis over an estimated useful life of 3 to 8 years.

Tangible assets are reported at acquisition or manufacturing cost less accumulated depreciation, based on the estimated useful life of the asset. The manufacturing cost of internally-generated plant 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 administration expenses and a proportion of social costs. The acquisition/manufacturing cost is reduced by government grants. For certain tangible assets, where the purchase or manufacture takes more than one year, the borrowing costs during the construction period are also capitalized. Tangible assets are depreciated using the straight-line method. However, the declining balance method is still the main method used for the depreciation of tangible assets which were put into operation before January 1, 1998, although the straight-line method is adopted if this leads to higher levels of depreciation.

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

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

If significant events or market developments indicate the need for an adjustment to the estimated useful life of an asset or an impairment in its value, Linde reviews the recoverability of the capitalized book value of intangible assets (including capitalized development costs and goodwill) and tangible assets on the basis of estimated future cash flows, discounted at a rate appropriate to the risk (impairment test). If the net book value of the asset exceeds the total discounted cash flows, an impairment loss is recognized. When estimating future cash flows, current and expected future income levels and segment-specific, technological, economic and general developments are taken into account. If the reason for an impairment loss recognized in prior years no longer exists, the carrying amount of the asset is increased to the carrying amount that would have been determined (i.e. acquisition/manufacturing cost net of amortization or depreciation) had no impairment loss been recognized. The impairment test is carried out on an annual basis for goodwill with an estimated useful life of more than 20 years.

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, or at fair value if this is available. Associates are accounted for under the equity method.

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

Inventories

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

Long-term construction contracts

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

Receivables and other assets

Receivables and other assets are stated at face value or cost. Allowances are made for identifiable risks. Non-interest-bearing or low-interest receivables due in more than one year are discounted.

Derivative financial instruments

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

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

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

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

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

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

For further information about risk management and about the balance sheet effects of derivative financial instruments, see Note [35].

Deferred taxes

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

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

Provisions for pensions and similar obligations

The actuarial valuation of the provisions for pensions is based on the projected unit credit method set out in IAS 19 *Employee Benefits* for defined benefit commitments. This method takes into account not only vested future benefits and known pensions at the balance sheet date, but also expected future increases in salaries and pensions. The calculation of the provisions is determined using actuarial reports based on biometric accounting principles. Actuarial gains and losses are only recognized as income or expense if they exceed 10 percent of the defined benefit obligation. In this case, the actuarial gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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

Other provisions

In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, other provisions are recognized when Linde has a present obligation to a third party 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 recognized for all identifiable risks and liabilities of uncertain timing or amount. The amounts provided are the best estimate of the probable expenditure required to settle the obligation and are not offset against recourse claims. The settlement amount also includes potential cost increases at the balance sheet date.

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

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

Financial liabilities and liabilities

Financial liabilities are reported at amortized cost. 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 the lease transfers economic ownership to the lessee. All other lease transactions 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 net amount of future minimum lease payments due from the customer is disclosed under Receivables from financial services. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on Linde's net investment outstanding in respect of the finance lease.

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

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

Rental and lease payments made by Linde as lessee in respect of operating leases are recognized in income on a straight-line basis over the lease term.

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

Under ***short-term leases***, an agreement is made directly with the customer, but economic ownership remains with Linde. The assets are disclosed separately as leased assets in the balance sheet. Short-term agreements may be for periods from one day to one year.

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

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

In the course of its financial services business, Linde also sells industrial trucks to leasing companies, which subsequently enter into lease agreements directly with the end customer. If Linde guarantees residual values of more than 10 percent of the fair value of the asset, these sales are accounted for using the same rules as for operating leases. On the date of the sale, the vehicles are recognized as assets at manufacturing cost, and the difference between the cost of the asset and its guaranteed residual value is depreciated over the period to the first exercise date of the residual value guarantee. The sales revenue is deferred and the obligation out of the guarantee is shown under Liabilities from financial services.

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

NOTES TO THE GROUP INCOME STATEMENT

[7] Sales

Sales are analyzed by business segment and by region in the segment information, which forms part of the supplementary information described in the IFRS *Framework*. Sales are derived from the following activities:

in € million	2003	2002
Revenue from the sale of products and services	8,118	7,931
Revenue from long-term construction contracts	874	795
Sales	8,992	8,726

Revenue from long-term construction contracts for specific customers recognized under the percentage of completion method in 2003 amounted to €874 million (2002: €795 million).

[8] Cost of sales

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

During the financial year, a subsidiary adjusted the allocation of its costs so as to comply with Group guidelines. To ensure comparability, the prior year figure has been restated.

[9] Research and development costs

Research and development costs comprise not only research costs and non-capitalized development costs, but also amortization of capitalized development costs of €38 million (2002: €38 million).

[10] Other operating income and expenses

Other operating income

in € million	2003	2002
Profit on disposal of fixed and current assets	38	34
Ancillary revenues	21	22
Income from receivables written down	1	14
Exchange rate differences	73	55
Income from release of provisions	39	43
Miscellaneous operating income	67	108
Other operating income	239	276

Other operating expenses

in € million	2003	2002
Expenses related to pre-retirement part-time work schemes	12	14
Loss on disposal of fixed and current assets	7	13
Exchange rate differences	81	80
Allowances for doubtful debts, payment shortfalls, write-downs on other current assets	16	44
Miscellaneous operating expenses	38	60
Other operating expenses	154	211

[11] Special items

Profit for the 2003 fiscal year was affected by the following special items:

Costs of additional restructuring schemes

During the financial year, additional restructuring costs of €35 million were incurred to extend further our optimization program and ensure its success. These costs primarily concern reductions in personnel as a result of improvements in production processes and the amalgamation of administrative functions. €10 million relate to the Linde Gas division, €5 million to the Material Handling business segment and €20 million to Corporate.

Under the TRIM.100 program in the Material Handling business segment, we intend to focus on reducing parts manufacture, by contracting out the production of components where it does not require any special expertise. The reorganization of the component factories will mean that all the operational functions, from development to manufacture will be integrated. As a result, our production processes will be streamlined and it will be possible to increase standardization. Optimizing our production processes will create some overcapacity at a number of production sites. Special depreciation of €35 million was charged in respect of the capacity adjustment.

Transaction and disposal costs

A provision of €50 million has been established for transaction and disposal costs relating to the sale of the Refrigeration business segment and for divestment from peripheral activities. The provision takes sufficient account of the relevant contractual arrangements and of the adjustment mechanisms used to establish the price.

Reorganization of Linde Material Handling Australia

We have made a provision of €20 million for the cost of reorganizing our forklift truck activities in Australia. It became necessary to record this provision principally as a result of a reassessment of the contract portfolio and the reorganization of the overall sales and distribution structure.

Profits/losses on securities (contractual trust arrangement – Linde pension fund)

In 2003, Linde transferred fund assets to a trustee to set up the external funding of part of our pension obligations in Group companies in Germany, in accordance with the rules set out in IAS 19 *Employee Benefits.*

The period prior to the transfer of assets saw positive trends in the securities markets, with the result that it was possible in 2003 to reverse a proportion (€13 million) of the impairment loss of €29 million recognized in 2002.

[12] Financial result

in € million	2003	2002
Interest and similar income	74	65
of which from affiliated companies €0 million (2002: €1 million)		
Interest and similar charges	–204	–235
Net interest	–130	–170
Income from associates	6	–
Income from investments	3	3
of which from affiliated companies €0 million (2002: €1 million)		
Income from profit transfer agreements	3	2
Expense from loss sharing agreements	–1	–1
Amortization of financial assets and securities held as current assets	–	–1
Other investment income	5	3
Financial result	–119	–167

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.

[13] Taxes on income

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

in € million	2003	2002
Current taxes	172	170
Deferred taxes	6	–55
Taxes on income	178	115

The income tax expense disclosed for the fiscal year 2003 of €178 million is €64 million higher than the expected income tax expense of €114 million, a theoretical figure arrived at by applying the German tax rate of approximately 40 percent to Group earnings before taxes on income. The difference between the expected income tax expense and the figure disclosed is explained below:

in € million	**2003**	**2002**
Earnings before taxes on income	287	356
Income tax rate of Linde AG (including trade tax)	40%	39%
Expected income tax expense	114	137
Foreign tax rate differential	–33	–33
Non-tax deductible amortization of goodwill	40	32
Reduction in tax due to tax-free income	–11	–65
Increase in tax due to non-tax deductible expenses	29	21
Tax income and expense relating to a different period	19	–
Effects of changes in tax rate	1	4
Change in other permanent differences	19	18
Other	–	1
Income tax expense disclosed	178	115
Effective tax rate	62%	32%

In fiscal 2003, the corporation tax rate was 26.5 percent as a result of the German Flood Victim Solidarity Law. Taking into account an average rate for trade earnings tax and the solidarity surcharge rate, this gives a tax rate of around 40 percent for German companies. From fiscal 2004, the corporation tax rate will return to 25 percent, giving a combined total tax rate of around 39 percent for German companies. This gives rise to a tax expense of €1 million from the remeasurement of deferred taxation balances affected by the change in tax rate.

Under the law adopted in December 2003 to implement the protocol declaration of the German Federal Government on the mediation recommendation in respect of the Tax Relief Reduction Law (the Korb II Law), fundamental changes have been made to the exemption from taxation of profits on disposal from the sale of shares in companies, so that only 95 percent of the capital gains will be tax exempt, and to the system regarding the treatment of loss carryforwards under German tax law. In future, the utilization of tax losses in companies will be limited to the amount of 60 percent of the taxable income. The minimum level (known as the basic amount) up to which all losses may be utilized will be €1 million. The rules on minimum taxation will come into force on January 1, 2004 and will apply also to trade tax loss carryforwards. However, the loss carryforwards can still be used without any time limitation.

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

No deferred tax is calculated in respect of retained profits in subsidiaries of €1.334 billion (2002: €1.139 billion), as the profits are indefinitely reinvested in these operations or are not subject to taxation.

Deferred tax assets and liabilities:

in € million	2003 Deferred tax assets	2003 Deferred tax liabilities	2002 Deferred tax assets	2002 Deferred tax liabilities
Intangible assets and tangible assets	75	568	80	637
Financial assets	5	14	3	14
Current assets	101	169	124	163
Provisions	208	37	188	49
Liabilities	286	88	317	59
Tax loss carryforwards and tax credits	140	–	148	–
Valuation allowance	–73	–	–73	–
Amounts offset	–610	–610	–643	–643
	132	266	144	279

The carrying amount of deferred tax assets is reduced to the extent that it is no longer probable that the deferred tax asset will be utilized. A valuation allowance of €73 million (2002: €73 million) has therefore been recognized against the deferred tax assets to reduce the potential tax savings of €209 million (2002: €203 million), as it is not probable that the underlying tax loss carryforwards and tax credits of €199 million (2002: €182 million) and deductible temporary differences of €10 million (2002: €21 million) will be used. Of the total tax loss carryforwards and tax credits of €199 million (2002: €182 million), €78 million (2002: €84 million) may be carried forward for up to ten years and €121 million (2002: €98 million) may be carried forward for longer than ten years.

Tax loss carryforwards

in € million	2003	2002
May be carried forward for up to 10 years	101	97
May be carried forward for longer than 10 years	106	158
May be carried forward for an unlimited period	153	148
	360	403

[14] Minority interests

Included in the Earnings after taxes on income of the Linde Group is the profit attributable to minority shareholders of €1 million (2002: €1 million).

[15] Earnings per share

	2003	2002
Net income in € million	108	240
Weighted average number of shares outstanding	119,262,134	119,262,134
Effect of diluted subscription rights	48,139	–
Weighted average number of shares outstanding – fully diluted –	119,310,273	119,262,134
Earnings per share in €	0.91	2.01
Earnings per share in € – fully diluted –	0.91	2.01

[16] Other information on the Group income statement

in € million	2003	2002
Cost of raw materials, supplies and merchandise	3,587	3,543
Cost of external services	367	250
Cost of materials	3,954	3,793
Wages and salaries	1,735	1,725
Social security contributions	392	381
Pension costs and personnel welfare costs	146	126
of which pension costs €142 million (2002: €123 million)		
Personnel costs	2,273	2,232
Scheduled amortization/depreciation of		
Goodwill	114	118
Other intangible assets	71	66
Tangible assets	517	550
Leased assets	185	160
	887	894
Impairment/write-downs of		
Goodwill	24	6
Tangible assets	35	13
Financial assets	2	6
	61	25
Amortization, depreciation, impairment losses and write-downs	948	919

In 2003, there were impairment losses relating to goodwill of €15 million (2002: €6 million) in the Material Handling business segment, of €6 million (2002: €0 million) in the Refrigeration business segment and of €3 million (2002: €0 million) in the Linde Gas division. There were impairment losses relating to tangible assets in 2003 of €35 million in the Material Handling business segment and in 2002 of €13 million in the Linde Engineering division.

NOTES TO THE GROUP BALANCE SHEET

[17] Goodwill/Intangible assets

The total figure for goodwill includes the amortized goodwill arising on the acquisition of the AGA Group at a net book value of €2.566 billion (2002: €2.637 billion).

Included in Other intangible assets of €252 million (2002: €225 million) are capitalized development costs in the Material Handling business segment of €112 million (2002: €106 million) and concessions, industrial property rights, licenses and other intangible assets of €140 million (2002: €119 million).

Movements in intangible assets are set out in the Group summary of fixed assets.

[18] Tangible assets

An analysis of the tangible assets summarized under a single heading in the balance sheet and movements in tangible assets during the fiscal year are set out in the Group summary of fixed assets. In fiscal 2003, borrowing costs for construction periods over one year of €5 million (2002: €2 million) were capitalized, based on an interest rate of 4.75 percent (2002: 5.00 percent).

The acquisition/manufacturing cost of tangible assets was reduced in the fiscal year by grants of €1 million (2002: €5 million).

[19] Investments in associates/Other financial assets

An analysis of the financial assets under the above headings in the balance sheet is set out in the Group summary of fixed assets.

Major associates are listed in Note [46].

[20] Leased assets

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

	Operating leases as lessor		Sales with guaranteed residual values		Finance leases as lessee		Total	
in € million	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Land and buildings	–	–	–	–	19	22	19	22
Industrial trucks	339	292	153	213	8	4	500	509
Technical equipment	3	8	–	–	8	11	11	19
Fixtures, furniture and equipment	–	–	–	–	21	16	21	16
	342	300	153	213	56	53	551	566

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

This item also includes equipment sold to leasing companies but for which Linde guarantees a certain residual value.

Leased assets held under operating leases include, on the one hand, assets leased to customers of €146 million (2002: €136 million), financed principally using Linde's own resources. On the other hand, they include assets leased to customers of €196 million (2002: €164 million), which are refinanced by sale and leaseback transactions with leasing companies.

Future minimum lease payments to be received from customers under non-cancelable operating leases amount to €225 million (2002: €181 million) in aggregate. These are analyzed by due date as follows:

in € million	**Dec. 31, 2003**	**Dec. 31, 2002**
Future minimum lease payments to be received		
Due within one year	80	58
Due in one to five years	143	120
Due after more than five years	2	3
	225	181

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 totaled €56 million in 2003 (2002: €53 million); the corresponding depreciation charge was €10 million (2002: €9 million). The assets relate mainly to buildings leased by the STILL branches in Germany.

Contingent rents, mainly contingent on machine hours used, were recognized in income. The amounts were insignificant in the 2003 fiscal year.

An analysis of movements in leased assets is given in the Group summary of fixed assets.

[21] Inventories

in € million	Dec. 31, 2003	Dec. 31, 2002
Raw materials and supplies	189	197
Work in progress, goods and services	225	182
Finished goods	383	397
Merchandise	134	153
Payments in advance to suppliers	176	65
	1,107	994

Included in the total are inventories of €195 million (2002: €145 million) reported at their net realizable value. The write-down on the gross value was €39 million (2002: €33 million).

[22] Receivables and other assets

in € million	Dec. 31, 2003	Dec. 31, 2002
Receivables from financial services	190	178
Trade receivables		
From percentage of completion contracts	38	38
Receivables from affiliated companies	2	5
Receivables from related companies	36	57
Other trade receivables	1,494	1,596
Total trade receivables	1,570	1,696
Other receivables and other assets	623	651

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 disclosed as receivables.

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

in € million	Dec. 31, 2003	Dec. 31, 2002
Gross investment	217	206
Due within one year	72	64
Due in one to five years	142	140
Due in more than five years	3	2
Present value of minimum lease payments	190	178
Due within one year	63	55
Due in one to five years	125	122
Due in more than five years	2	1
Unearned finance income	27	28

Included in the gross investment are unguaranteed residual values accruing to the benefit of the lessor of €28 million (2002: €27 million).

The receivables include minimum lease payments relating to non-cancelable subleases of €189 million (2002: €179 million).

Contingent rents, mainly contingent on machine hours used, were recognized in income and were insignificant in the 2003 fiscal year.

Receivables from percentage of completion contracts

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

At the balance sheet date, costs incurred and profits recognized on long-term construction contracts amounted to €1.551 billion (2002: €958 million), offset against advances received of €1.996 billion (2002: €1.228 billion). These calculations give rise to receivables of €38 million (2002: €38 million) and liabilities of €483 million (2002: €308 million).

Customer retentions were immaterial.

Other receivables and other assets

Other receivables and other assets comprise the fair values of derivative financial instruments amounting to €158 million (2002: €173 million), interest accruals from swaps of €58 million (2002: €61 million), tax refund claims of €179 million (2002: €158 million) and other receivables from affiliated companies and related companies of €41 million (2002: €64 million).

Maturity table

in € million	Dec. 31, 2003	Dec. 31, 2002
Receivables from financial services	190	178
(of which due in more than one year)	(127)	(123)
Trade receivables		
From percentage of completion contracts	38	38
(of which due in more than one year)	(–)	(–)
Receivables from affiliated companies	2	5
(of which due in more than one year)	(–)	(–)
Receivables from related companies	36	57
(of which due in more than one year)	(–)	(–)
Other trade receivables	1,494	1,596
(of which due in more than one year)	(9)	(18)
Total trade receivables	1,570	1,696
(of which due in more than one year)	(9)	(18)
Other receivables and other assets	623	651
(of which due in more than one year)	(50)	(153)

[23] Securities

Only available-for-sale securities are included under this heading for both 2003 and 2002.

The decrease of €112 million to €4 million is due to the transfer of securities effected in 2003 to Linde Pensionsfonds e.V. The assets transferred to the pension fund are recognized as plan assets as defined by IAS 19 *Employee Benefits* and will be used for the external funding of a portion of our German pension obligations.

[24] Cash and cash equivalents

Cash and cash equivalents of €557 million comprise cash in hand, cash at banks and commercial papers. The cash at banks and commercial papers have a maturity of three months or less.

[25] Prepaid expenses and deferred charges

The whole amount is due within one year.

[26] Equity

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

Capital subscribed

The company's subscribed capital remains unchanged over the previous year at €305,311,063.04. At the balance sheet date, 119,262,134 shares have been issued at a par value of €2.56 per share. The shares are bearer shares.

Authorized capital at the balance sheet date remains unchanged at €120 million.

The Executive Board of Linde AG has been authorized to raise subscribed capital in three separate tranches (Authorized Capital I, Authorized Capital II, Authorized Capital III), each running concurrently up to May 16, 2005. These permit the Executive Board, subject to approval by the Supervisory Board, to increase subscribed capital by issuing new shares. Shareholders generally have subscription rights.

Under Authorized Capital I, the Executive Board is entitled to increase subscribed capital by up to €40 million against cash contributions. Shareholders' subscription rights may be excluded to an amount up to €3.5 million which may be issued as employee shares.

Under Authorized Capital II, subscribed capital may be increased by up to €40 million against cash contributions, whereby shareholders' subscription rights may be excluded for an amount of up to 10 percent of subscribed capital, provided the issue price of the new shares is not significantly lower than the share price traded on the stock exchange.

Under Authorized Capital III, the Executive Board may increase subscribed capital by up to €40 million against cash or non-cash contributions. Shareholders' subscription rights may be excluded if the capital increase by way of non-cash contributions is performed with the object of acquiring a company or a participating interest in a company.

Moreover, in all of the aforementioned instances, a proviso exists that enables the Executive Board to exclude subscription rights in the case of residual amounts and in those instances where convertible bonds or warrant-linked bonds had been issued.

The conditionally authorized capital is €105.36 million.

Conditionally authorized capital of €40 million (1999 conditionally authorized capital) and conditionally authorized capital of €50 million (2000 conditionally authorized capital) is available to give the holders/creditors of convertible bonds or warrant-linked bonds the option and/or conversion rights or to establish conversion obligations to new shares in the company. The bonds can be issued to a total nominal amount of €750 million and €1 billion, expiring on May 17, 2004 and May 16, 2005 respectively, with a maturity period up to a maximum of 20 years. The Executive Board has not yet exercised its option to issue these bonds.

Conditionally authorized capital of €15.36 million (2002 conditionally authorized capital) is available to operate the Linde Management Incentive Program (share option scheme).

The company is also authorized to acquire up to 10 percent of subscribed capital through the purchase of own shares expiring on October 31, 2004.

The German Securities Trade Act (WpHG) requires investors who have exceeded certain 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, has notified us in accordance with § 41(2), sentence 1, German Securities Trade Act that as of April 1, 2002 it holds 10.04 percent of the voting rights in Linde AG.

Deutsche Bank AG, Frankfurt am Main, has notified us in accordance with § 41(2), sentence 1, German Securities Trade Act that as of April 1, 2002 it holds 10.38 percent of the voting rights in Linde AG. These rights are fully attributed to Deutsche Bank AG under § 22(1), sentence 1, No. 1, German Securities Trade Act. In addition, it has notified us in accordance with §§ 21(1) and 24, German Securities Trade Act that its subsidiary DB Value GmbH, Norderfriedrichskoog, exceeded the thresholds of 5 percent and 10 percent of the voting rights in Linde AG on October 11, 2002 and now holds voting rights amounting to 10.0006 percent. Allianz Aktiengesellschaft, Munich, has notified us in accordance with § 41(2), sentence 1, German Securities Trade Act that as of April 1, 2002 it controls 12.62 percent of the voting rights in Linde AG. Allianz controls 12.55 percent of these voting rights in accordance with § 22(1), sentence 1, No. 1, German Securities Trade Act and 0.06 percent of the voting rights in accordance with § 22(1), sentence 1, No. 6, German Securities Trade Act. Allianz also notified us in accordance with § 41(2), sentence 1, German Securities Trade Act in conjunction with § 24 of the same Act, that Alico-Beteiligungsgesellschaft mit beschränkter Haftung, Munich, as of April 1, 2002 held 11.01 percent of the voting rights in Linde AG. Moreover, Allianz notified us in accordance with § 21(1) German Securities Trade Act in conjunction with § 24 of the same Act that AZ-LIN Vermögensverwaltungsgesellschaft mbH, Munich, exceeded the thresholds of 5 percent and 10 percent of the voting rights in Linde AG on August 20, 2002 and now holds voting rights of 11.01 percent. Allianz also informed us voluntarily that Alico-Beteiligungsgesellschaft mbH, Munich, still controls 11.01 percent of the voting rights in Linde AG. Since August 20, 2002, these voting rights have been fully attributed to Alico-Beteiligungsgesellschaft mbH in accordance with § 22(1), sentence 1, No. 1, German Securities Trade Act.

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 on consolidation for acquisitions up to and including December 31, 1994 and adjustments not recognized through the income statement arising from the application of IFRS for the first time.

Cumulative changes in equity not recognized through the income statement

This heading comprises the differences arising from the translation of the financial statements of foreign subsidiaries and the effects of the remeasurement of securities and derivative financial instruments after tax being accounted for in equity rather than being recognized through the income statement.

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

in € million	2003 Before tax	2003 Tax effect	2003 Net	2002 Before tax	2002 Tax effect	2002 Net
Movement in currency translation differences	–206	–	–206	–233	–	–233
Movement in unrealized profits/losses from revaluation of securities at fair value						
Movement in accumulated unrealized profits/losses	–	–	–	2	–1	1
Realized profits/losses	–2	1	–1	–113	–	–113
Unrealized profits/losses on available-for-sale securities	–2	1	–1	–111	–1	–112
Movement in unrealized profits/losses on derivative financial instruments						
Movement in accumulated unrealized profits/losses	–	–	–	5	–	5
Realized profits/losses	–2	–	–2	–	–	–
Unrealized profits/losses on derivative financial instruments	–2	–	–2	5	–	5

[27] Minority interests

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

	Dec. 31, 2003	Dec. 31, 2002
Abelló Linde S.A., Barcelona	20	16
Linde Process Plant Company Ltd, Dalian	4	3
Linde Carbonic (Shanghai) Company Ltd, Shanghai	3	2
Bretagne Manutention S.A., Pacé	3	3
Various other companies	5	9
	35	33

[28] Provisions for pensions and similar obligations

in € million	Dec. 31, 2003	Dec. 31, 2002
Provisions for pensions	928	1,023
Provisions for similar obligations	55	55
	983	1,078

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

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

The provisions for similar obligations relate to bridging benefit payments in Germany and termination indemnities outside Germany.

Occupational pension schemes can generally be either defined contribution or defined benefit schemes. In the case of defined contribution plans, the company incurs no obligation other than the payment of contributions to an external pension fund. The total of all pension costs relating to defined contribution schemes was €12 million in the fiscal year 2003 (2002: €6 million).

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

In 2003, operating assets were transferred to a trustee, Linde Pensionsfonds e. V., under a contractual trust arrangement (CTA) for the purpose of externally financing pension obligations in Germany. It is proposed that further transfers be made to the pension fund in the future. The establishment of a CTA is based on the model of an Anglo-American pension trust, while taking into account fiscal and labor legislation in Germany.

Pension plans financed via external pension funds also exist in other countries, principally in Great Britain, the Netherlands, the USA, Switzerland, Norway, Spain and Finland.

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

In addition to assumptions about life expectancy and disability, the following assumptions also play a part, depending on the economic situation in the particular country, so that for countries outside Germany weighted average figures by obligation are given:

	Germany		Other Europe		USA		Other countries	
	2003	2002	2003	2002	2003	2002	2003	2002
Discount rate	5.25%	5.75%	5.05%	5.20%	6.29%	6.70%	8.78%	8.70%
Expected return on assets	5.60%	–	6.00%	6.40%	7.12%	8.30%	10.00%	11.00%
Growth in future benefits	2.50%	2.75%	3.01%	2.70%	3.08%	4.00%	4.88%	5.90%
Growth in pensions	1.50%	1.75%	1.92%	1.90%	2.54%	3.00%	3.60%	3.50%

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 plan assets where these are held in an externally financed pension fund. If the plan assets exceed the obligations from the pension commitments, an asset is disclosed in accordance with IAS 19 *Employee Benefits.* According to IAS 19.58, an asset may arise where a defined benefit plan has been overfunded only if Linde, under its obligations as employer, has the right to receive a refund of the contributions in cash or to reduce future contributions. This did not apply in fiscal 2003.

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

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

A review as to whether actuarial gains and losses should be recognized is carried out on the basis of benefits plans, adopting the "corridor" approach.

Funding status of defined benefit pension obligations:

in € million	Germany 2003	Germany 2002	Other Europe 2003	Other Europe 2002	USA 2003	USA 2002	Other countries 2003	Other countries 2002	Total 2003	Total 2002
Actuarial present value of pension obligations (defined benefit obligation)	1,003	941	791	789	58	73	5	6	1,857	1,809
Of which unfunded pension obligations	865	941	71	69	–	–	4	5	940	1,015
Of which funded pension obligations	138	–	720	720	58	73	1	1	917	794
Fair value of plan assets	138	–	605	603	52	49	1	1	796	653
Net obligation	865	941	186	186	6	24	4	5	1,061	1,156
Unrecognized actuarial gains (+)/losses (–)	–25	–4	–114	–113	–9	–24	–	–	–148	–141
Not recognized as an asset in accordance with IAS 19.58	–	–	–	8	–	–	–	–	–	8
Balance sheet amount at Dec. 31	840	937	72	81	–3	–	4	5	913	1,023
Of which provisions for pensions	840	937	84	81	–	–	4	5	928	1,023
Of which plan assets (–)	–	–	–12	–	–3	–	–	–	–15	–

Portfolio structure of plan assets

	Dec. 31, 2003	Dec. 31, 2002
Shares	45%	39%
Fixed-interest securities	39%	51%
Other	16%	10%
	100%	100%

Other plan assets comprise mainly property, insurance and cash and cash equivalents.

Movement in plan assets

in € million	2003	2002
Fair value of plan assets at the beginning of the fiscal year	653	674
Actual return from plan assets	37	–47
Employers' contributions, transfer to German pension fund (CTA)	171	51
Employees' contributions	12	3
Payments to beneficiaries	–29	–32
Other movements including effects of currency translation	–48	4
Fair value of plan assets at the end of the fiscal year	796	653

The movements during the year in the balance sheet figures for pensions were as follows:

in € million	Germany 2003	Germany 2002	Other Europe 2003	Other Europe 2002	USA 2003	USA 2002	Other countries 2003	Other countries 2002	Total 2003	Total 2002
Balance sheet amount at Jan. 1	937	901	81	100	–	4	5	5	1,023	1,010
Pension expense	77	77	27	19	6	4	1	–	111	100
Pension payments	–43	–41	–4	–3	–	–	–1	–1	–48	–45
Contributions to external pension funds	–131	–	–32	–43	–8	–8	–	–	–171	–51
Not recognized as income in accordance with IAS 19.58	–	–	–	8	–	–	–	–	–	8
Effect of changes in exchange rates	–	–	–	–	–1	–	–1	1	–2	1
Balance sheet amount at Dec. 31	840	937	72	81	–3	–	4	5	913	1,023

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

in € million	Germany		Other Europe		USA		Other countries		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Current service cost	24	24	16	18	4	5	–	–	44	47
Interest cost	53	53	41	41	4	5	1	–	99	99
Expected return on plan assets	–	–	–36	–40	–4	–6	–	–	–40	–46
Amortization of gains (–)/losses (+)	–	–	6	–	2	–	–	–	8	–
	77	77	27	19	6	4	1	–	111	100

Actual income on plan assets in external pension funds was €37 million in fiscal 2003 (2002: actual losses of €47 million). This meant that there was only a slight difference between actual income and the expected income on plan assets in 2003 of €40 million.

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

If the net cumulative unrecognized actuarial gains and losses exceed the greater of 10 percent of the defined benefit obligation and 10 percent of the fair value of the plan assets, the excess is amortized over the expected average remaining working lives of the employees participating in the plan (generally 15 years).

[29] Other provisions

in € million	Jan. 1, 2003	Changes in Group structure*	Utilization	Release	Addition	Dec. 31, 2003
Provisions for taxes	101	–3	52	14	60	92
Obligations from delivery transactions	193	1	108	3	189	272
Warranty obligations and risks from transactions in course of completion	248	–16	47	23	145	307
Obligations relating to personnel	320	–1	169	12	229	367
Other obligations	96	4	95	19	123	109
Miscellaneous provisions	857	–12	419	57	686	1,055
Restructuring schemes	110	–	44	4	35	97
Other provisions	1,068	–15	515	75	781	1,244

* Including currency adjustments.

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

The provisions for warranty obligations and risks from transactions in course of completion comprise mainly provisions for anticipated losses on transactions in course of completion, litigation, guarantees and warranty obligations, as well as provisions for transaction and disposal costs.

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

The provisions for restructuring schemes comprise personnel costs and costs arising from the downsizing of production sites.

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

in € million	Due within 1 year		Due in more than 1 year		Total	
	2003	2002	2003	2002	2003	2002
Provisions for taxes	92	95	–	6	92	101
Miscellaneous provisions	1,026	800	29	57	1,055	857
Restructuring schemes	69	55	28	55	97	110
	1,187	950	57	118	1,244	1,068

[30] Financial liabilities

Financial liabilities comprise interest-bearing obligations of the Linde Group, analyzed as follows:

in € million	Due within 1 year		Due in 1 to 5 years		Due in more than 5 years		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Bonds	403	502	1,772	1,925	542	459	2,717	2,886
Commercial papers	–	55	–	–	–	–	–	55
Bank loans and overdrafts	227	228	34	112	13	13	274	353
	630	785	1,806	2,037	555	472	2,991	3,294

Of the bank loans and overdrafts, €8 million (2002: €12 million) are secured by mortgages. The weighted average interest rate for bank loans and overdrafts was 4.0 percent in 2003 (2002: 4.4 percent).

The bonds are analyzed as follows:

Issuer	Nominal volume in relevant currency	EUR[2]	Average weighted residual term	Average weighted effective interest rate[1]
	(ISO-Code)		(in years)	(in percent)
Linde Finance B.V., Amsterdam	1,250 million CZK	40	3.15	4.7
Linde Finance B.V., Amsterdam	2,446 million EUR	2,298	4.29	5.5
Linde Finance B.V., Amsterdam	7,000 million HUF	26	0.54	9.1
Linde Finance B.V., Amsterdam	19,560 million JPY	145	2.38	0.6
Linde Finance B.V., Amsterdam	325 million PLN	70	1.66	14.0
Linde Finance B.V., Amsterdam	2,500 million SKK	64	3.01	8.1
Linde Finance B.V., Amsterdam	80 million USD	63	2.12	2.1
AGA AB, Lidingö	11 million EUR	11	0.50	2.7
		2,717		

1) Effective interest rate in relevant currency.

2) Includes adjustments relating to hedging transactions.

The bonds include the 6.375 percent bond with a nominal value of €1 billion issued in 2000 under the €5-billion-Debt-Issuance-Program of Linde Finance B.V.

In June 2003, a subordinated bond for €400 million was issued. It has no final maturity date, although there is a right to call the loan from July 4, 2013. If the right to call the loan is not exercised on this date, the increased coupon will attract interest at a variable rate (3 month Euribor + 3⅜ 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 5 years. If Linde AG resumes the coupon payments, those payments which have not previously been disbursed are made up.

[31] Liabilities from financial services

Liabilities from financial services comprise mainly obligations under finance leases of €386 million (2002: €345 million) from sale and leaseback transactions to refinance lease agreements with customers.

They also include guaranteed residuals of €59 million (2002: €95 million) given in the course of sales of leased equipment to leasing companies, where such guaranteed residual values exceed 10 percent of the fair value of the leased equipment.

Further obligations of €66 million (2002: €59 million) relating to the financing of the leased property have also been recognized by the Linde Group. These leased assets are recognized in the balance sheet due to the character of the lease agreement.

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

in € million	Dec. 31, 2003	Dec. 31, 2002
Total minimum lease payments (gross)	581	558
Due within one year	175	175
Due in one to five years	374	352
Due in more than five years	32	31
Present value of minimum lease payments	511	499
Due within one year	162	157
Due in one to five years	322	315
Due in more than five years	27	27
Finance charge included in the minimum lease payments	70	59

[32] Trade payables, Other liabilities

	Due within 1 year		Due in 1 to 5 years		Due in more than 5 years		Total	
in € million	2003	2002	2003	2002	2003	2002	2003	2002
Trade payables								
Percentage of completion (PoC)	483	308	–	–	–	–	483	308
Other	676	658	5	3	–	–	681	661
	1,159	966	5	3	–	–	1,164	969
Advance payments received from customers	60	72	34	3	–	–	94	75
Liabilities from bills accepted and bills issued	3	4	–	–	–	–	3	4
Liabilities to affiliated companies	6	7	–	–	–	–	6	7
Liabilities to related companies	2	2	–	–	–	–	2	2
Sundry liabilities	519	417	16	90	12	22	547	529
Other liabilities	590	502	50	93	12	22	652	617
	1,749	1,468	55	96	12	22	1,816	1,586

Percentage of completion trade payables of €483 million (2002: €308 million) relate to advance payments received on construction contracts, where these exceed the stage of completion of the contract.

Sundry liabilities

Sundry liabilities comprise the following items:

in € million	Due within 1 year		Due in 1 to 5 years		Due in more than 5 years		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Taxes	172	119	2	6	–	–	174	125
Social security	48	33	–	–	–	–	48	33
Fair value of derivative financial instruments	97	54	8	63	3	6	108	123
Miscellaneous other liabilities	202	211	6	21	9	16	217	248
	519	417	16	90	12	22	547	529

Of the sundry liabilities, none (2002: €5 million) are secured by mortgages.

[33] Deferred income

Deferred income comprises:

in € million	Due within 1 year		Due in more than 1 year		Total	
	2003	2002	2003	2002	2003	2002
Deferred income from leases	96	120	82	108	178	228
Other deferred income	30	37	10	18	40	55
	126	157	92	126	218	283

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

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

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

in € million	Due within 1 year		Due in more than 1 year		Total	
	2003	2002	2003	2002	2003	2002
Deferred income on sales with guaranteed residual values	58	85	64	91	122	176
Deferred income on sale and leaseback transactions	37	33	15	16	52	49
Miscellaneous	1	2	3	1	4	3
	96	120	82	108	178	228

OTHER INFORMATION

[34] Share option scheme

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

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

The Supervisory Board determines the allocation of subscription rights to the members of the Executive Board of Linde AG. Otherwise, the Executive Board, with the approval of the Supervisory Board, determines the number of options to be issued.

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

The option conditions provide for a qualifying period for the share options of two years from their date of issue. At the end of this period, the options can be exercised during the entire option term, i.e. during the five years from the end of the qualifying period, excluding any blocked periods. These are the periods from three weeks before to two days after the public reporting dates of the company and the last two weeks before the end of the fiscal year until two days after the announcement of the annual results and 14 weeks before until the third banking day after the annual general meeting of shareholders. In order to meet the option entitlements of the option holders, Linde AG may elect to provide own shares which it has repurchased in the market, or to issue new shares out of the share capital conditionally authorized for this purpose or, instead of providing new shares, to make a payment in cash per option which represents the difference between the exercise price and the XETRA closing price of Linde shares on the exercise date. These arrangements allow for flexibility in the exercise of the subscription rights. It may make economic sense to use own shares where these are available rather than increasing share capital or making a payment in cash. Moreover, if Linde uses own shares, it can avoid diluting the equity of the company. The decisions as to how the option entitlements will be met will be made in each case by the appropriate executive bodies of the company, which will be directed solely by the interests of the shareholders and of the company. For share options issued to members of the Executive Board, it is envisaged that, with effect from the 2004 tranche, the Supervisory Board will be able to decide to restrict the exercise of options if there are exceptional unforeseen movements in the price of Linde shares.

Participation in the Linde Management Incentive Program requires no investment from the executives entitled to options. Instead, it is an additional component of their remuneration package. In February 2004, the International Accounting Standards Board published IFRS 2 on accounting for share-based payment. According to this, in future, the total value of share options granted to management will be determined at the issue date using an option price valuation model. The total value calculated of the share options at the issue date will then be allocated as a personnel expense over the period in which the company receives service in return from the employee. This period will generally be the same as the agreed qualifying period. The other side of the entry will be made directly in equity.

If the Standard as described above had been applied, the following additional expense would have had to be recognized in the income statement. The table shows options based on the share option scheme introduced in 2002.

	Options issue		
Option values	**Executive Board**	**Other management**	**Notional expense 2003**
1st tranche (2002)	240,000	760,000	€4.9 million
2nd tranche (2003)	240,000	777,600	€2.0 million

The calculation of the expense is based on the fair value of the subscription rights issued, using the Black-Scholes option price model. The fair value for the subscription rights on the issue date was calculated as being €9.84 for the first tranche and €7.16 for the second tranche. This was based on the following measurement parameters:

Black-Scholes option price model	1st tranche	2nd tranche
Date of valuation	July 22, 2002	June 6, 2003
Exercise price (€)	59.86	35.34
Expected share volatility (%)	21	32
Risk-free interest rate (%)	4.76	3.20
Term to end of performance period (years)	7	7
Expected dividend yield (%)	2.27	3.72

[35] Derivative financial instruments

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

The main derivatives used in the Linde Group are interest rate swaps, combined interest rate/currency swaps and forward exchange transactions. Occasionally, options are also used. The counterparties have first-class credit ratings. The creditworthiness of the contracting parties is constantly monitored and is subject to clearly defined limits. The Linde Group's exposure to the risk of counterparty default is negligible.

Currency risks

Linde generally enters into forward exchange transactions to hedge the exposure to risks arising from fluctuations in receivables, payables and liabilities denominated in foreign currencies as well as from outstanding contracts and anticipated transactions. If forecasted transactions are to be hedged, the rules for cash flow hedges are generally applied.

The change in the fair value of the derivatives is recognized in Cumulative changes in equity not recognized through the income statement. In 2003, the positive fair values of derivatives recognized in equity amounted to €2 million (2002: €5 million) and the negative fair values to €0 million (2002: €1 million).

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

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

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

Interest rate risks

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

Cumulative changes in equity not recognized through the income statement and disclosed separately. In 2003, the negative fair values of derivatives reported in this way amounted to €4 million (2002: €5 million).

Interest derivatives, which hedge the exposure to future changes in the fair value of liabilities as a result of interest and currency volatility, are accounted for under the rules for fair value hedges. In the 2003 fiscal year, the figure for positive fair values was €94 million (2002: €108 million), while negative fair values amounted to €34 million (2002: €43 million).

In addition to hedging individual capital market liabilities, Linde 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.

Price change risks

To hedge against price change risks, a small number of electricity derivatives are used. The changes in the fair values of these derivatives are recognized directly in equity as cash flow hedges. In fiscal 2003, the total positive fair value of these derivatives was €2 million (2002: €3 million).

At December 31, 2003, Linde AG held derivative financial instruments to hedge against exposure to interest rate risks, currency risks and price change risks, which are shown as cash flow hedges, with a maximum period to maturity of 30 months (2002: 42 months).

Measurement information for financial instruments

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

	EUR	USD	GBP	JPY	PLN	CZK	SKK
Interest for six months	2.2%	1.2%	4.2%	0.0%	5.4%	2.2%	5.7%
Interest for one year	2.3%	1.5%	4.4%	0.1%	5.6%	2.3%	5.6%
Interest for five years	3.7%	3.6%	5.0%	0.7%	6.6%	3.8%	5.2%
Interest for ten years	4.4%	4.7%	5.1%	1.4%	6.5%	4.6%	5.2%

The fair values thus determined are disclosed in the balance sheet under Other receivables and other assets or 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 are as follows:

in € million	Assets 2003	Assets 2002	Liabilities 2003	Liabilities 2002
Fair value of derivative financial instruments				
Forward exchange transactions	30	37	25	22
Foreign currency options	–	1	–	–
Swap transactions	122	130	82	99
Interest rate options	4	2	1	2
Electricity derivatives	2	3	–	–
	158	173	108	123
Nominal amounts				
Forward exchange transactions	600	727	919	408
Foreign currency options	–	40	–	20
Swap transactions	1,767	1,723	1,497	1,449
Interest rate options	350	75	150	25
Electricity derivatives	18	10	–	–
	2,735	2,575	2,566	1,902

[36] Group cash flow statement

The cash flow statement shows the source and application of funds in the fiscal years 2003 and 2002. In accordance with IAS 7 *Cash Flow Statements*, cash flows from operating activities are distinguished from cash flows from investing and financing activities.

The cash and cash equivalents disclosed in the cash flow statement comprise all cash and cash equivalents disclosed in the balance sheet, i.e. cash in hand, checks in hand, balances with the German Federal Bank, 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 earnings 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.

Interest paid, distributions received and income taxes paid included in the cash flow from operating activities have been disclosed separately. The change in leased assets as a result of additions and disposals has been disclosed under operating activities for the first time and the prior year figures have been restated to ensure comparability.

The investing activities comprise additions to tangible assets, financial assets and intangible assets. Also disclosed here are additions to capitalized development costs. For the first time in fiscal 2003, additions and disposals have been translated at average rates.

[37] Segment information

Segment information by activity

The different products supplied by the Gas and Engineering business segment, comprising the Linde Gas and Linde Engineering divisions, as well as those supplied by the Material Handling business segment and the Refrigeration business segment are reflected in the segment information by activity.

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

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

The **Material Handling** business segment comprises three divisions: **Linde Material Handling, STILL** and **OM Pimespo**. These develop, manufacture and sell forklift trucks and warehouse equipment. These divisions also offer a comprehensive range of service packages and financial services. The Linde Material Handling business segment also develops, manufactures and sells hydraulic components.

The **Refrigeration** business segment develops, manufactures and sells refrigerated and freezer display cases as well as non-refrigerated shop equipment for all trade sectors, and provides relevant services such as conception and design and after-sales services.

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

The same accounting policies as those used in the Group financial statements are also used in the business segments. Overhead costs incurred by the Corporate Center are not allocated to the segments. Intra-Group transactions are generally conducted at market prices.

The capital expenditure relates to additions to intangible assets and tangible assets.

In the Group and in the Material Handling business segment, the change in leased assets as a result of additions and disposals has been disclosed in Cash flow from operating activities for the first time and the prior year figures have been restated.

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 long-term segment assets are determined on the basis of the location of the company.

Reconciliation of segment assets/liabilities to balance sheet

in € million	Dec. 31, 2003	Dec. 31, 2002
Fixed assets	7,702	8,037
Inventories	1,107	994
Trade receivables	1,570	1,696
Other segment assets (excluding tax claims)	664	855
Securities, cash and cash equivalents	561	480
Segment assets	11,604	12,062
Deferred taxes and tax claims	311	144
Total balance sheet assets	11,915	12,206
Provisions (excluding pension and tax provisions)	1,152	967
Trade payables	1,164	969
Other segment liabilities	696	775
Segment liabilities	3,012	2,711
Provisions for pensions	983	1,078
Financial liabilities	3,502	3,793
Minority interests	35	33
Equity	3,851	4,086
Capital employed	8,371	8,990
Deferred taxes	266	279
Provisions for taxes	92	101
Tax liabilities	174	125
Total balance sheet equity and liabilities	11,915	12,206

[38] Employees

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

	2003	2002
Production	22,998	22,941
Sales and distribution	15,441	15,314
Research and development	1,482	1,434
Administration	5,423	5,567
	45,344	45,256
Trainees	934	941
	46,278	46,197

[39] Proposed appropriation of profit

The unappropriated profit of Linde AG at December 31, 2003 was €134,766,211. The Executive Board and the Supervisory Board will propose to the Shareholders' Meeting to be held on May 18, 2004 that this unappropriated profit be distributed in the form of a dividend of €1.13 per share (2002: €1.13) on the 119,262,134 shares entitled to dividends.

[40] 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 usual market conditions. Related companies which are controlled by the Linde Group or over which the Linde Group may exercise significant influence are disclosed in the list of shareholdings arranged by business segment. The list of shareholdings has been deposited in the Commercial Register of the Local Courts (Amtsgerichte) of Wiesbaden, Munich, Essen, Reutlingen, Vechta and Hamburg.

The volume of transactions of the Linde Group with these related parties in fiscal 2003 was as follows:

Services provided by the Group to related parties:

in € million	2003	2002
Engineering services	2	–
Sale of Material Handling equipment	107	188
Sale of industrial gases	7	3
Other services	3	8
	119	199

Services provided by related parties to the Group:

in € million	2003	2002
Rental and lease agreements Material Handling	36	32
Services Material Handling	13	8
Power units Material Handling	23	18
Other services	31	6
	103	64

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

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

Supervisory Board

The emoluments of the Supervisory Board are determined at the shareholders' meeting based on a proposal from the Executive Board and the Supervisory Board and set out in item 11 of the bylaws of Linde AG. Each member of the Supervisory Board receives annual fixed emoluments of €3,000. The variable remuneration for each member of the Supervisory Board is €600 for each €0.01 by which the dividend declared by the shareholders' meeting exceeds a dividend of €0.10 per share with full dividend entitlement distributed to shareholders.

Accordingly, if a dividend of €1.13 is declared, the variable remuneration of each member of the Supervisory Board is €61,800. The Chairman of the Supervisory Board receives three times this amount, while each Deputy Chairman and each member of the Standing Committee receives one and a half times this amount. It was resolved at the shareholders' meeting held on May 27, 2003 that the Chairman of the Audit Committee would receive an additional €30,000 and every other member of the Audit Committee would receive an additional €15,000. 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. Linde AG reimburses the members of the Supervisory Board for any necessary expenses incurred and the VAT on their emoluments. The company also pays the members of the Supervisory Board an attendance fee of €300 for their participation in an ordinary meeting of the Supervisory Board. In fiscal 2003, the total emoluments of the Supervisory Board were €1,543,491 (2002: €1,528,051)*. Of this amount, €87,085 (2002: €69,776) relates to fixed emoluments and €1,435,527 (2002: €1,437,394) to variable emoluments. In the past two fiscal years, there have been no loans to members of the Supervisory Board.

Executive Board

Emoluments of the Executive Board

in €	2003	2002
Fixed emoluments	2,839,632	2,952,079
Variable emoluments	4,090,214	4,389,891
Total cash emoluments	6,929,846	7,341,970

The fixed emoluments also include benefits in kind. The variable emoluments comprise a dividend-related bonus and a bonus which takes into account the achievement of expected returns on investment and of personal targets.

Under the share option scheme (Linde Management Incentive Program), 240,000 options with a fair value at the issue date of €7.16 per option (2002: €9.84) were granted in fiscal 2003 to the members of the Executive Board. The total fair value of these options was €1,718,400 (2002: €2,361,600).

In the past two fiscal years, there have been no loans to members of the Executive Board. Remuneration paid to former members of the Executive Board and their dependants amounted to €3,402,688 (2002: €2,834,610).

A provision of €29,244,809 (2002: €21,239,818) 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 €23,890,455 (2002: €17,919,765) was made.

Interests in share capital

Members of the Supervisory Board and the Executive Board of Linde AG hold shares and options amounting to less than 1 percent of issued share capital.

Members of the Supervisory Board and the Executive Board are required to disclose in accordance with § 15a of the German Securities Trade Act (WpHG) the purchase or sale of shares in Linde AG or of rights to subscribe to these shares if the minimum threshold is exceeded and the shares or options have not been acquired as part of their remuneration. During the fiscal year, one member of the Executive Board purchased 1,000 shares in Linde AG at a price of €34.87 per share and 1,000 shares at a price of €33.75 per share.

[42] Declaration of compliance with the German Corporate Governance Code

On June 23, 2003, the Executive Board and Supervisory Board of Linde AG approved the prescribed declaration pursuant to § 161 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 at Linde is set out in the Corporate Governance section of this report.

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* Incl. VAT.

[43] Contingent liabilities and other financial commitments

Contingent liabilities

in € million	Dec. 31, 2003	Dec. 31, 2002
Bills endorsed and discounted	16	20
Guarantees	97	71
Warranties	24	5
Sureties for third-party liabilities	–	12
	137	108

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 in the past two years. Appropriate provisions have been made in the relevant Group companies for contingent financial commitments from other legal or arbitration proceedings.

Other financial commitments

in € million	Dec. 31, 2003	Dec. 31, 2002
Capital expenditure commitment	55	31
Obligations under non-cancelable operating leases	410	387
Other	78	84
	543	502

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

in € million	Dec. 31, 2003	Dec. 31, 2002
Nominal future minimum lease payments		
Due within one year	124	114
Due in one to five years	259	213
Due in more than five years	27	60
	410	387

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

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

in € million	Procurement leases Dec. 31, 2003	Procurement leases Dec. 31, 2002	Sale-leaseback-sublease Dec. 31, 2003	Sale-leaseback-sublease Dec. 31, 2002
Nominal future minimum lease payments (disbursements)				
Due within one year	78	78	46	36
Due in one to five years	177	161	82	52
Due in more than five years	27	60	–	–
	282	299	128	88
Nominal future minimum lease payments (receipts)				
Due within one year	–	–	44	38
Due in one to five years	–	–	77	57
Due in more than five years	–	–	–	–
	–	–	121	95

[44] Events after the balance sheet date

On January 1, 2004, we hived off the Refrigeration business segment as planned into a new company, Linde Kältetechnik GmbH & Co. KG. This divestment increased our room for manoeuvre regarding the future strategic orientation of the business model and created the conditions necessary for the sale of the business segment.

On March 15, 2004, Linde signed an agreement containing details of the sale of the Refrigeration business segment to the US company United Technologies Corp. (UTC, Hartford, Connecticut). The sale price is €325 million. After deducting liabilities, the net proceeds are expected to be around €200 million.

The Refrigeration business segment offers the full range of goods and services, not only supplying refrigerated and frozen food display cases with appropriate refrigeration systems, but also delivering project planning solutions ready for immediate use, which comprise shopfitting planning, assembly, customer service and the remote monitoring of refrigerated units.

We set out below the principal figures relating to the Refrigeration business segment which Linde intends to relinquish:

Refrigeration business segment

in € million	2003	2002
Assets	652	637
Liabilities	454	448
Sales	866	879
Other income	9	22
Expenses	872	902
Earnings before taxes on income	3	–1
Income tax expense	3	4
Earnings after taxes on income	0	–5
Cash flow from operating activities	36	36
Cash flow from investing activities	–26	–28
Cash flow from financing activities	–9	–8

In addition to the tax claims, tax liabilities and tax provisions disclosed, current and deferred taxes are accounted for at Group level and in Linde AG which are not allocated to the Refrigeration business segment.

[45] Disclosures in accordance with § 292a HGB

The requirements set out in § 292a (1) German Commercial Code (HGB) for the preparation of the Group financial statements of Linde AG in accordance with International Financial Reporting Standards (IFRS) have been met.

The main differences between the accounting policies and consolidation methods used to comply with IFRS and the provisions of HGB are as follows:

Goodwill

Goodwill arising on the consolidation of companies acquired since 1995 is recognized as an asset in accordance with IAS 22 *Business Combinations* and amortized over its useful life. Under HGB, goodwill may be offset against retained earnings; the Linde Group availed itself of this provision until the end of 1999.

Development costs

In accordance with IAS 38 *Intangible Assets,* development costs are recognized as an intangible asset if manufacturing the products developed will generate future economic benefits for the Linde Group.

Under HGB, intangible assets acquired for no consideration and internally-generated intangible assets may not be capitalized. All development costs are treated as a current expense.

Tangible assets

Under IFRS, movable tangible assets are depreciated using the straight-line method, instead of using the declining balance method which is also permitted under HGB; depreciation is based on the estimated useful life of the asset, rather than its tax life. Tax depreciation is not permitted in IFRS financial statements.

Purchase accounting

The assets and liabilities acquired on the purchase of the holdings in AGA, PanGas and Hoek Loos were revalued as at the date of acquisition. Because of differences in depreciation periods and methods between HGB and IFRS (the declining balance method is no longer used), deviations have arisen in the net book values of the assets acquired and therefore adjustments have been required to the corresponding figures for goodwill.

Leases

The classification and accounting treatment of lease transactions in both IAS 17 *Leases* and HGB are based on economic rather than legal ownership. However, IFRS differs from HGB in the detail, i.e. it applies different criteria when determining economic ownership. Under international rules, the asset is recognized in the books of the company which carries both the risks and the rewards associated with the asset (risks and rewards approach).

Inventories

According to IAS 2 *Inventories,* inventories are stated at full absorption cost, whereas in the Linde Group under HGB they were measured at the direct costs of production until and including 2001. In applying the lower of cost and net realizable value test for inventory valuation purposes, IFRS is influenced more by the sales market than is HGB. Therefore, it is possible that inventory valuations under IFRS may be higher than under HGB, with lower write-downs. Under IFRS, advance payments may not be offset against inventories, although this treatment is permitted under HGB.

Recognition of revenue (long-term contracts)

IAS 11 *Construction Contracts* requires revenue and profits for long-term contracts to be recognized by reference to the stage of completion of the contract (percentage of completion method).

Under HGB, however, revenue and profits are recognized only once the contract has been completed or identifiable parts of the contract have been delivered or services provided to the customer (completed contract method).

Derivative financial instruments

Under IAS 39 *Financial Instruments: Recognition and Measurement,* derivatives are accounted for at fair value, even if this exceeds cost. The gain or loss arising from changes in the fair value of financial instruments used to hedge future cash flows is recognized directly in equity under Cumulative changes in equity not recognized through the income statement (cash flow hedges). The gain or loss arising on the settlement of these contracts is not included in net income until the due date of the underlying transaction. In contrast, the gain or loss from changes in the fair value of derivative financial instruments used to hedge the exposure to changes in the fair value of assets or liabilities is recognized immediately in net income (fair value hedges). Under HGB, there is no mandatory approach for the recognition and measurement of derivative financial instruments, with the result that the measurement is based on the principles of historical cost, realization and unequal treatment of losses and income.

Securities

There is a fundamental difference between the accounting treatment of securities under IFRS as compared with HGB. According to IFRS, available-for-sale securities are accounted for at fair value. According to HGB, securities must not be reported at a value higher than acquisition cost (acquisition cost principle) and should be stated at the lower of cost and market value (principle of unequal treatment of losses and income).

Provisions for pensions

The provisions for pensions are calculated using the projected unit credit method in accordance with IAS 19 *Employee Benefits,* which – in contrast to the going concern method usually applied in Germany in accordance with § 6a of the German Income Tax Law (EStG) – takes into account expected future increases in pensions and salaries.

Other provisions

According to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* provisions are recognized when an external obligation exists, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount provided should be based on the most probable outcome. Provisions in the HGB financial statements are reported at a valuation which takes into account the concept of prudence. Expense provisions allowed under HGB are not permitted under IFRS.

[46] Significant Group companies

Affiliated companies

Business segment

Gas and Engineering	Country (registered office)	Group holding in %	Equity in € million	Sales in € million	Earnings after tax in € million	Employees
Linde Gas						
Linde Gas Austria	A	100.0	127	114	19	342
Linde Gas Pty. Ltd.	AUS	100.0	46	39	10	128
Linde Gas Brazil	BR	100.0	59	107	5	719
PanGas	CH	100.0	150	103	16	366
Linde Gas Columbia	CO	100.0	29	36	7	250
Linde Technoplyn	CZ	100.0	175	125	28	764
AGA Linde Healthcare GmbH & Co. KG	D	100.0	2	56	12	133
Tega-Technische Gase und Gasetechnik GmbH	D	100.0	1	46	6	123
Linde Gas Denmark	DK	100.0	8	41	3	141
Abelló Linde Spain	E	74.8	77	100	19	371
Linde Gas France	F	99.9	124	207	19	784
Linde Gas Finland	FIN	100.0	112	121	20	354
Linde Gas Great Britain	GB	100.0	30	51	4	236
Linde Gas Ungarn AG	H	100.0	123	87	22	524
Linde Gas Italy	I	100.0	134	109	3	252
Linde Gas Mexico	MEX	100.0	37	48	6	413
Linde Gas Norway	N	100.0	46	104	19	283
nv Hoek Loos	NL	100.0	198	247	25	984
Linde Gas Poland	PL	99.9	55	73	6	777
Linde Gas Puerto Rico	PR	100.0	11	31	–	219
AGA S.A.	RA	100.0	18	20	3	242
Linde Gas Chile	RCH	100.0	38	26	5	194
Linde Gas Romania	RO	100.0	19	33	6	216
AGA AB	S	100.0	614	282	100	1,018
Linde Gas USA	USA	100.0	121	739	31	2,596
AGA Gas C.A	YV	100.0	21	18	5	152

Affiliated companies

Business segment

Gas and Engineering	Country (registered office)	Group holding in %	Equity in € million	Sales in € million	Earnings after tax in € million	Employees
Linde Engineering						
Linde Kryotechnik AG	CH	100.0	8	33	3	72
Linde-KCA-Dresden GmbH	D	100.0	47	125	3	530
Selas-Linde GmbH	D	100.0	4	53	6	77
Société d'Application des Techniques Linde S.A.R.L.	F	100.0	5	6	–	10
Linde Impianti Italia S.p.A.	I	100.0	2	64	1	25
Linde Engineering USA	USA	100.0	22	167	–14	481
Material Handling						
Linde Fördertechnik GmbH	A	100.0	9	45	1	120
Linde Materials Handling Pty. Ltd.	AUS	100.0	–10	49	–18	203
Linde Lansing Fördertechnik AG	CH	100.0	9	31	–	128
Linde-Xiamen Gabelstaplergesellschaft mbH	CN	100.0	28	86	2	1,115
Linde Material Handling Czech Republic	CZ	100.0	17	52	3	280
Linde Material Handling Ibérica, S.A.	E	100.0	24	112	5	245
Fenwick-Linde France	F	100.0	94	530	18	2,094
Linde Material Handling Great Britain	GB	100.0	91	486	20	1,670
Linde Güldner Italiana S.p.A.	I	100.0	21	84	1	100
Linde Milenz Truck A/B	S	100.0	11	48	3	134
Linde Lift Truck Corporation	USA	100.0	22	92	2	178
STILL N.V.	B	100.0	4	36	–1	115
STILL GmbH	D	100.0	87	616	11	3,223
STILL WAGNER GmbH & Co KG	D	100.0	26	108	2	576
STILL, S.A.	E	100.0	11	44	–	109
STILL S.A.R.L.	F	100.0	45	231	–	1,077
STILL Materials Handling Ltd.	GB	100.0	–3	38	1	74
STILL ITALIA S.p.A.	I	100.0	13	49	2	83
STILL Intern Transport B.V.	NL	100.0	7	46	1	201
OM Carrelli Elevatori S.p.A.	I	100.0	58	195	–16	943

Affiliated companies

Business segment

Refrigeration	Country (registered office)	Group holding in %	Equity in € million	Sales in € million	Earnings after tax in € million	Employees
Linde Kältetechnik Ges.m.b.H	A	100.0	10	53	1	265
Seral do Brasil S.A. – Indústria Metalúrgica	BR	100.0	–	19	–4	303
LKS KälteSchweiz AG	CH	100.0	15	57	2	287
Linde Refrigeration Czech Republic	CZ	100.0	28	95	4	763
Linde Refrigeration France	F	100.0	21	89	6	315
Linde Refrigeration and Retail Systems Ltd	GB	100.0	–	122	1	476
Linde Refrigeration Italy	I	100.0	27	89	2	365
Other affiliated companies						
MATRA-WERKE GmbH	D	100.0	4	51	2	90
Linde Finance BV	NL	100.0	16	–	4	3

Associates

Business segment

Gas and Engineering	Country (registered office)	Group holding in %
Linde Gas		
CO2 Colombiano Ltda.	CO	50.0
Oy Innogas Ab	FIN	50.0
TLF Tjeldbergoddens Luftgassfabrik DA	N	37.8
Material Handling		
JULI Motorenwerk, k.s.	CZ	50.0
Linde Leasing GmbH	D	45.0
Linde Castle Ltd.	GB	49.0
Linde Creighton Ltd.	GB	49.0
Linde Sterling Ltd.	GB	49.0
Linde Trifik Ltd.	GB	32.1
Komatsu Forklift Co. Ltd.	J	35.0
Linde High Lift Chile S.A.	RCH	45.0

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), previously known as International Accounting Standards (IAS). The Group management report includes an analysis of the net assets, financial position and results of operations of the Group, together with explanatory comments thereon, as required by the provisions of the German Commercial Code (HGB).

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

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

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

The Group financial statements, the Group management report and the audit report were discussed in detail in the presence of the auditors at the meeting of the Supervisory Board to approve the financial statements.

The outcome of the audit is presented by the Supervisory Board in its report on pages 12 to 15 of this annual report.

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

Hero Brahms
Member of the Executive Board
of Linde AG

The auditors have issued the following auditor's report on the consolidated financial statements and the group management report:

AUDITORS' REPORT

"We have audited the consolidated financial statements, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the financial statements, of Linde Aktiengesellschaft, prepared by the Company for the business year from January 1, 2003 to December 31, 2003. The preparation and content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and the 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 it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the legal representatives of the Company, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Linde Group for the business year in accordance with International Financial Reporting Standards.

Our audit, which also extends to the management report of the Group and the Company prepared by the Executive Board for the business year from January 1, 2003 to December 31, 2003, has not led to any reservations. In our opinion, on the whole, the management report of the Group and the Company provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the Group management report for the business year from January 1, 2003 to December 31, 2003 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and a Group management report in accordance with German law."

Wiesbaden, March 15, 2004

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Rolf Nonnenmacher Wirtschaftsprüfer	Michael Gewehr Wirtschaftsprüfer

Audited unconsolidated annual financial statements of Linde Aktiengesellschaft as of and for financial year ended December 31, 2005 (HGB)

BALANCE SHEET OF LINDE AG

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

INCOME STATEMENT OF LINDE AG

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

SUMMARY OF FIXED ASSET MOVEMENTS IN LINDE AG

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

SUMMARY OF FIXED ASSET MOVEMENTS IN LINDE AG

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

NOTES TO THE FINANCIAL STATEMENTS OF LINDE AG

General information

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

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

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

Accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE BALANCE SHEET

[1] Fixed assets

Movements in fixed assets are shown on the preceding pages.

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

[2] Inventories

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

[3] Receivables and other assets

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

[4] Securities

These comprise commercial papers, as in the previous year.

[5] Cash and cash equivalents

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

[6] Prepaid expenses

Prepaid expenses comprise mainly the discount on the convertible bond.

[7] Equity

Capital subscribed

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition, Allianz AG, Munich, informed us in writing on November 22, 2005 in accordance with §21(1) WpHG and §24 WpHG that the share of voting rights in Linde AG held by AZ-Argos 19 AG, trading in future under the name Allianz Deutschland AG, Königinstrasse 28, 80802 Munich, had, as a result of the restructuring of the group, exceeded the 5 percent and 10 percent thresholds on November 17, 2005 and now amounted to 11.34 percent. These voting rights are attributable to AZ-Argos 19 AG in accordance with

§22(1), sentence 1, No. 1 WpHG. Allianz AG also notified us that the share of voting rights in Linde AG held by Allianz AG, Königinstrasse 28, 80802 Munich, had not changed sufficiently to require notification.

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

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

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

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

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

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

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

[8] Special tax-allowable reserves

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

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

[9] Provisions for pensions and similar obligations

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

[10] Other provisions

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

Other provisions include amounts put aside for

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

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

[11] Liabilities

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

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

NOTES TO THE INCOME STATEMENT

[12] Sales

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

Analysis by division

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

Analysis by geographical region

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

[13] Other operating income

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

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

[14] Other operating expenses

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

[15] Investment income

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

[16] Profit on disposal of investments

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

[17] Remeasurement of pensions

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

SUPPLEMENTARY INFORMATION ON THE NOTES

[18] Contingent liabilities and Other financial commitments

Contingent liabilities

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

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

Other financial commitments

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

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

[19] Auditors' fees and services

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

[20] Cost of materials

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

[21] Personnel expenses

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

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

[22] Employees

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

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

[23] Share option scheme

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

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

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

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

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

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

Option values

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

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

[24] Derivative financial instruments

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

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

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

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

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

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

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

Currency risks

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

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

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

Interest rate risks

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

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

Measurement information for financial instruments

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

Interest curves

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

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

Fair value of derivative financial instruments – Assets

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

Fair value of derivative financial instruments – Liabilities

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

Nominal amounts – Assets

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

Nominal amounts – Liabilities

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

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

Supervisory Board

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

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

Executive Board

Emoluments of the Executive Board

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

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

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

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

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

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

[26] Declaration of compliance with the Corporate Governance Code

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

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

[27] Proposed appropriation of profits of Linde AG

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

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

Wiesbaden, February 22, 2006

Linde Aktiengesellschaft
The Executive Board

Linde AG Financial Statements 2005
Management Report

CORPORATE ORGANIZATION

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

SALES AND INCOMING ORDERS

In fiscal 2005, Linde AG achieved sales of €3.089 billion, 34.6 percent up on the prior year figure of €2.295 billion. Of these sales, 43 percent (2004: 55 percent) were to customers in Germany. Exports accounted 57 percent (2004: 45 percent) of sales, with 67 percent (2004: 74 percent) relating to Europe, 16 percent (2004: 13 percent) relating to the Asia/Pacific region, 7 percent (2004: 9 percent) relating to America and 10 percent (2004: 4 percent) relating to Africa. Incoming orders for Linde AG in fiscal 2005 were 3.593 billion (2004: 2.725 billion), which represents an increase of 31.9 percent.

RESULTS OF OPERATIONS

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

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

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

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

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

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

Results of operations (summary)

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

NET ASSETS AND FINANCIAL POSITION

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

Fixed assets rose by €687 million to €7.359 billion. There were additions of €1.190 billion and write-ups of €5 million, set against disposals of €396 million and amortization and depreciation of €112 million. Included in additions to Investments in affiliated companies of €1.045 billion was the contribution in kind to the newly-formed Linde Beteiligungs und Verwaltungsgesellschaft mbH. The percentage of total assets comprised by fixed assets was 89 per- cent (2004: 89 percent). The main component of fixed assets is financial assets, due to the function of Linde AG as the holding company of the Linde Group. Total equity increased by €157 million to €3.785 billion as a result of the rise in net income, the transfer to revenue reserves and the issue of new shares. The equity ratio, based on total assets, fell from 48.6 percent to 45.9 percent. Total provisions amounted to €1.422 billion, €367 million higher than in the prior year. This increase was due in part to the remeasurement of pension provisions and obligations relating to pre-retirement part-time work to conform with international standards, as a result of which there were additions to provisions of €286 million.

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

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

RESEARCH AND DEVELOPMENT

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

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

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

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

CORPORATE RESPONSIBILITY

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

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

Long-term objectives

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

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

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

Our tasks for 2006 include:

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

Quality, safety and environmental protection

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

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

Audits

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

Social commitment

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

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

HSE and personnel data

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

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

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

Employees

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

Employees by division

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

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

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

Training

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

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

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

Pensions

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

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

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

Linde Corporate Health Insurance Scheme

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

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

Thank you to our employees

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

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

RISK REPORT

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

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

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

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

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

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

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

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

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

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

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

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

Market risk

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

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

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

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

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

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

Production risk

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

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

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

Research and development risk

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

We ensure the success of our products and services in the market by conducting constant market surveys, on which we base the extensive development of products and technologies, applying rigorous project management to all our research and development projects and setting up central decision groups across the brands in the Material Handling business segment.

Financial risk

The term financial risk encompasses for us, above all, liquidity, market and credit risks. These risks arise from operating activities and lead to appropriate interest-rate and currency hedging transactions, funding decisions and changes in the value of financial items in the balance sheet.

Our mandatory risk policy guideline systematically controls these financial risks. This sets out the type of financial instruments that may be used, the limits for individual transactions and a list of banks with which we have agreements. To manage credit risk, we rely mainly on the credit ratings of the counterparties and we limit the extent and duration of any commercial transactions to be concluded accordingly. Regular reviews are performed by an independent supervisory unit to ensure compliance with all the limits set.

The principle of functional separation between the front, middle and back offices must be observed and monitored throughout the risk management process. This means that there is a strict personal and organizational separation between the completion of a commercial transaction and its processing and verification. We use a treasury management system to implement, record and measure our trans-actions. The operations in the Treasury department are subject to regular reviews by our internal and external auditors, generally once a year.

The basic risk strategies for interest, currency and liquidity management are determined by the Treasury committee, under the overall control of the Chief Financial Officer, which meets at least once a month.

We make financing and hedging decisions on the basis of our financial and liquidity forecasts, which include all the main business units. Our multi-currency rolling 15-month forecast is embedded in our financial reporting system, which is also used for financial control purposes, ensuring a consistent basis for the figures provided.

Business and financing activities which are not in the local currency inevitably lead to foreign currency cash flows. The Group guideline states that the individual business units must monitor the resulting risks themselves and agree appropriate hedging transactions with the Group Treasury, provided that no country-specific restrictions or other reasons not to hedge apply. Specific risks are aggregated by currency and the resulting net position per currency for the Linde Group is determined in each case. Furthermore, we regularly run value at risk scenarios on the net position. Hedging decisions are made according to the risk strategies of the Treasury committee. Forward exchange deals, currency swaps and simple currency options are all used here. The main currencies are USD, GBP, CHF and some Eastern European currencies (PLN, HUF, CZK). Translation risks have not been hedged in 2005.

In the Gas and Engineering business segment, we also use financial instruments to hedge against exposure to changes in the price of electricity.

In our project business in the Linde Engineering division, foreign currency risks are reduced as much as possible by natural hedges, for example by purchasing supplies and services in the currency of the contract. Any foreign currency amounts exceeding these figures are immediately hedged fully when they arise.

Interest rate risks arising from the different maturities of borrowings on the capital market are centrally managed by Linde. Here, we use simple interest rate derivatives, such as interest rate and cross-currency swaps, as well as interest rate options. At December 31, 2005, around 25 percent of the Group's exposure was financed at variable rates.

Project risk

The Linde Engineering division is subject to special risks as a result of its project activities, which involve the design and construction of turnkey plants. The main potential areas of risk lie in the costing and economic handling of these highly complex major projects which generally run for a period of several years. Specific risks include unexpected technical problems, unforeseeable developments at the project locations, problems with our partners or subcontractors and logistical difficulties. The handling of the project may also be affected by disruption to our own production of individual central components of major plants. Each of these individual components can lead to significant additional costs or contract penalties. We counter these risks with strict project and risk management systems. We are constantly developing the internal tools we have at our disposal, adapting them to meet ever-increasing requirements.

Personnel risk

Our future economic success depends considerably on the dedication, motivation and abilities of our employees. We therefore set great store by winning the long-term commitment of our qualified employees and senior managers and by attracting and integrating new employees into our company. We offer our employees a wide range of qualifications and opportunities for professional development, performance-related pay and attractive social benefits. We encourage promotion from the ranks of our own junior managers to more senior management positions, and therefore conduct detailed analyses of our personnel requirements and focus on our succession planning.

IT risk

The management of the Linde Group depends to a great extent on complex information technology. The IT systems are maintained and optimized by using qualified internal and external experts.

We employ various technical and organizational measures to counter the risks arising from unauthorized data retrieval and data misuse or data loss. Our technical preventive measures include for example the use of virus scanners, firewall systems and access and data retrieval controls.

Legal risk

In the course of our business activities, we are exposed to liability risks. The risks may arise from potential claims for damages relating to product liability (where the Healthcare segment in particular with its pharmaceutical products has an increased level of risk), or from the infringement of legal conditions. In addition to applying high quality and safety standards to avoid claims, we take out insurance to limit the potential consequences if a loss occurs.

Since the year 2002, the gases industry has been faced with actions for compensation, relating to health damage which is alleged to have been caused by the use of asbestos or certain welding materials. These are principally class actions in the United States, a few of which have been brought against American companies in the Linde Group. Based on our current judgment, the risk of these actions affecting the Linde Group is low, but cannot be completely discounted. Our defense against these claims is being coordinated by our central legal department.

External risk

Linde may be exposed to external risks arising from constant changes in its political, legal and social environment. As we engage in economic activity in countries where there are some political and legal uncertain-ties, we are exposed to the corresponding risks, which might manifest themselves in the form of potential state control, restrictions on capital transfers or even expropriation. Potential natural disasters and terrorist attacks also pose a theoretical, if not very probable, risk to the net assets, financial position and results of operations of the Linde Group.

Overall risk

There were no significant risks for Linde AG and the Linde Group in the 2005 fiscal year. Seen from today's position, no risks have been identified which could endanger the continued existence of the company as a going concern in the future or which could have a significant adverse effect on the net assets, financial position and results of operations of the company.

EVENTS AFTER THE BALANCE SHEET DATE

Sale of Ladenbau GmbH & Co. KG

In December 2005, Linde AG sold its subsidiary Linde Ladenbau GmbH & Co. KG to Dolma Holding AG, an association of three shop-fitting firms with its registered office in Schlossrued in the Swiss canton of Aargau. The legal transfer of Linde Ladenbau GmbH & Co. KG took place on January 27, 2006.

Linde makes a friendly bid for BOC

In January 2006, Linde AG submitted an informal friendly bid for the British gases company BOC Group plc. As this report went to press, it was uncertain whether this preliminary approach would lead to a formal takeover bid and whether the deal would take place.

OUTLOOK

Macroeconomic trends: Slight cooling of the economy expected

The financial policies of many industrialized countries will be quite restrictive in the coming year, as a result of the increased debt burden. Japan in particular will continue to consolidate its finances due to its high budget deficit. In the United States, the costs of repairing the damage caused in 2005 by hurricanes off the coast of Florida will not be felt until the current year and might adversely affect America's consolidation policy scheduled for the years 2006 and 2007. We expect the financial costs of clearing the flood damage to continue until 2007. Moreover, in the past year, the US Federal Reserve Bank increased its base rate to a level which is virtually neutral in terms of the effect on the economic trend, so we assume that with further increases in interest rates there is no chance of a boost to the economy from this side. Overall, there will be a slight cooling in macroeconomic demand in the United States.

In the eurozone, we anticipate that the coming year will see a fairly neutral course in terms of financial policy. Some EU Member States, including Germany and Italy, will again exceed the 3 percent cap for their budget deficit set out in the Maastricht Treaty. In most European countries, the interest burden will not initially be reduced. Therefore, the pressure will increase to consolidate the budgets.

Given this general situation, growth in the global economy will probably slow down slightly overall in 2006.

Germany: Recovery in the domestic economy

In the coming year, the economic upturn in Germany will accelerate slightly thanks to positive signals from abroad. We are, however, not yet expecting a high level of dynamism. One of the reasons for the anticipated positive business trends is Germany's standing as a strong export nation. Nevertheless, it is likely that the rise in exports will slow down a little overall, due to the deceleration in the growth of the world economy. Leading economic research institutes are forecasting an increase in economic output for the current year of 1.4 to 1.5 per-cent, after 0.9 percent in the past year. While wages are only set to rise at a moderate rate, increases in the price of fuel, particularly crude oil, will result in private households having less purchasing power. In the course of the current year, this dampening effect should weaken and the German domestic market should recover slightly. To summarize, a stronger domestic economy should more than compensate for a slight weakening of exports compared to the previous year and lead to faster growth in the German economy. We do not, however, anticipate a fundamental turnaround in the job market, despite these positive signs.

Given these macroeconomic trends, we assume that sales and earnings of Linde AG in the current year will be higher than in 2005.

In the Linde Gas division, we anticipate a further increase in sales in 2006, thanks to continuing high levels of growth, especially in the Healthcare segment, and our strong market position in Germany. Earnings will be at a similar level to those in 2005.

Plant construction will continue to expand in most parts of the world in the current fiscal year. The Linde Engineering division will once again be a player here, due to a broad range of products and many years of experience in handling major projects. As a result of this good starting position, and the fact that the final account is due to be issued on some major projects in fiscal 2006, earnings will be slightly higher than in 2005.

The year 2005 was a record year in the entire industrial truck industry, so it is anticipated that fiscal 2006 will see a moderate slowdown in the markets. Nevertheless, we are expecting a slight increase in sales in 2006 in Linde Material Handling, while earnings remain at the same level as in 2005.

Dividends

We pursue an earnings-oriented dividend policy and align dividends with future earnings trends.

AUDITORS' REPORT

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report of Linde Aktiengesellschaft, Wiesbaden, for the year ended December 31, 2005. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report, based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of Linde Aktiengesellschaft in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Düsseldorf, February 22, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Rolf Nonnenmacher Wirtschaftsprüfer	Michael Gewehr Wirtschaftsprüfer

Unaudited consolidated financial statements of The BOC Group plc as of and for the three months ended March 31, 2006 (IFRS)

GROUP INCOME STATEMENT

6 MONTHS TO 31 MARCH 2006

	6 months to 31 Mar 2006			6 months to 31 Mar 2005			Year to 30 Sep 2005		
	Before excep and certain re-meas items	Excep and certain re-meas items	After excep and certain re-meas items	Before excep and certain re-meas items	Excep and certain re-meas items	After excep and certain re-meas items	Before excep and certain re-meas items	Excep and certain items re-meas	After excep and certain re-meas items
	£million	£million	£million	£million	£million	£million	£million	£million	£million
Group revenue	1,986.8	–	1,986.8	1,948.7	–	1,948.7	3,754.7	–	3,754.7
Restructuring	–	(5.3)	(5.3)	–	–	–	–	(22.8)	(22.8)
Profit on disposal of business	–	–	–	–	91.1	91.1	–	102.3	102.3
Profit on disposal of investments	–	–	–	–	10.5	10.5	–	10.5	10.5
Cost of sales and other net operating expenses	(1,748.0)	(24.6)	(1,772.6)	(1,715.1)	–	(1,715.1)	(3,314.2)	–	(3,314.2)
Group operating profit	238.8	(29.9)	208.9	233.6	101.6	335.2	440.5	90.0	530.5
Finance costs	(33.7)	8.2	(25.5)	(39.0)	2.3	(36.7)	(81.9)	8.3	(73.6)
Finance income	13.9	–	13.9	15.4	–	15.4	34.3	–	34.3
Net finance income from pensions	11.9	–	11.9	9.7	–	9.7	19.2	–	19.2
Share of post tax profits of joint ventures and associates	32.9	(0.6)	32.3	30.4	–	30.4	66.7	–	66.7
Profit before taxation	263.8	(22.3)	241.5	250.1	103.9	354.0	478.8	98.3	577.1
Taxation	(62.3)	3.2	(59.1)	(57.9)	(17.7)	(75.6)	(102.3)	(31.8)	(134.1)
Profit for the period	201.5	(19.1)	182.4	192.2	86.2	278.4	376.5	66.5	443.0
Profit attributable to equity shareholders	183.5	(18.5)	165.0	165.9	50.2	216.1	335.7	38.1	373.8
Profit attributable to minority interests	18.0	(0.6)	17.4	26.3	36.0	62.3	40.8	28.4	69.2
Profit for the period	201.5	(19.1)	182.4	192.2	86.2	278.4	376.5	66.5	443.0
Earnings per share									
– basic			32.9p			43.7p			75.5p
– diluted			32.6p			43.6p			75.3p
Dividends									
– proposed (£million)			81.6			78.6			204.1
– paid (£million)			81.6			78.6			204.1
– proposed per share			16.3p			15.9p			41.2p
– paid per share			16.3p			15.9p			41.2p
Revenue including share of joint ventures and associates	2,465.2	–	2,465.2	2,331.2	–	2,331.2	4,605.0	–	4,605.0
Operating profit including share of joint ventures and associates	303.4	(30.7)	272.7	291.1	101.6	392.7	566.2	90.0	656.2

GROUP INCOME STATEMENT

3 MONTHS TO 31 MARCH 2006

	3 months to 31 Mar 2006			3 months to 31 Mar 2005		
	Before excep and certain re-meas items	Excep and certain re-meas items	After excep and certain re-meas items	Before excep and certain re-meas items	Excep and certain re-meas items	After excep and certain re-meas items
	£million	£million	£million	£million	£million	£million
Group revenue	1,013.3	–	1,013.3	968.1	–	968.1
Restructuring	–	(5.3)	(5.3)	–	–	–
Profit on disposal of business	–	–	–	–	91.1	91.1
Profit on disposal of investments	–	–	–	–	10.5	10.5
Cost of sales and other net operating expenses	(893.0)	(19.1)	(912.1)	(853.8)	–	(853.8)
Group operating profit	120.3	(24.4)	95.9	114.3	101.6	215.9
Finance costs	(16.6)	4.4	(12.2)	(20.8)	2.6	(18.2)
Finance income	7.3	–	7.3	8.7	–	8.7
Net finance income from pensions	6.0	–	6.0	4.8	–	4.8
Share of post tax profits of joint ventures and associates	15.7	–	15.7	15.8	–	15.8
Profit before taxation	132.7	(20.0)	112.7	122.8	104.2	227.0
Taxation	(31.5)	2.4	(29.1)	(25.5)	(17.6)	(43.1)
Profit for the period	101.2	(17.6)	83.6	97.3	86.6	183.9
Profit attributable to equity shareholders	92.7	(17.0)	75.7	83.2	50.6	133.8
Profit attributable to minority interests	8.5	(0.6)	7.9	14.1	36.0	50.1
Profit for the period	101.2	(17.6)	83.6	97.3	86.6	183.9
Earnings per share						
– basic			15.0p			27.0p
– diluted			14.8p			26.9p
Dividends						
– proposed (£million)			–			–
– paid (£million)			81.6			78.6
– proposed per share			–			–
– paid per share			16.3p			15.9p
Revenue including share of joint ventures and associates	1,241.1	–	1,241.1	1,151.9	–	1,151.9
Operating profit including share of joint ventures and associates	152.4	(24.5)	127.9	143.6	101.6	245.2

GROUP BALANCE SHEET

At 31 March 2006

	At 31 Mar 2006	At 31 Mar 2005	At 30 Sep 2005
	£ million	£ million	£ million
Non-current assets:			
Goodwill	141.6	143.7	140.2
Intangible assets	83.9	74.7	88.5
Property, plant and equipment	2,640.3	2,368.7	2,549.8
Investment property	–	11.2	11.1
Investment in joint ventures and associates	696.2	600.7	635.2
Other investments	10.9	12.7	14.6
Other receivables	19.0	16.3	18.4
Retirement benefit assets	163.6	107.8	136.7
Deferred tax assets	18.0	19.0	31.4
Derivative financial instruments	7.3	–	–
	3,780.8	3,354.8	3,625.9
Current assets:			
Inventories	312.9	289.1	306.3
Trade and other receivables	772.0	675.6	710.5
Other investments	16.7	16.4	16.4
Derivative financial instruments	7.4	–	–
Cash and deposits	512.9	334.6	191.0
	1,621.9	1,315.7	1,224.2
Total assets	5,402.7	4,670.5	4,850.1
Current liabilities:			
Borrowings and finance leases	(680.3)	(239.9)	(259.2)
Derivative financial instruments	(10.0)	–	–
Trade and other payables	(696.1)	(638.9)	(741.1)
Provisions	(36.8)	(25.0)	(30.4)
Current tax liabilities	(120.2)	(129.3)	(154.4)
	(1,543.4)	(1,033.1)	(1,185.1)
Net current assets	78.5	282.6	39.1
Total assets less current liabilities	3,859.3	3,637.4	3,665.0
Non-current liabilities:			
Borrowings and finance leases	(682.1)	(872.9)	(771.5)
Derivative financial instruments	(1.7)	–	–
Other payables	(42.4)	(23.3)	(35.8)
Provisions	(85.6)	(64.6)	(90.6)
Retirement benefit obligations	(470.3)	(525.4)	(542.5)
Deferred tax liabilities	(210.2)	(190.2)	(184.2)
	(1,492.3)	(1,676.4)	(1,624.6)
Net assets	2,367.0	1,961.0	2,040.4
Total shareholders' equity	2,236.2	1,779.9	1,930.1
Minority interest in equity	130.8	181.1	110.3
Total equity	2,367.0	1,961.0	2,040.4

GROUP CASH FLOW STATEMENT

6 Months to 31 March 2006

	6 months to 31 Mar 2006	6 months to 31 Mar 2005	Year to 30 Sep 2005
	£ million	£ million	£ million
Profit before taxation	241.5	354.0	577.1
Adjusted for:			
Finance costs	25.5	36.7	73.6
Finance income	(13.9)	(15.4)	(34.3)
Net finance income from pensions	(11.9)	(9.7)	(19.2)
Exceptional and certain re-measurement operating items	29.9	(101.6)	(90.0)
Depreciation and amortisation	150.0	149.2	291.1
Net retirement benefits charge less contributions	(10.7)	(6.6)	(15.7)
Share of profit after tax of joint ventures and associates	(32.3)	(30.4)	(66.7)
Changes in working capital and other items	(86.4)	(114.1)	(34.3)
Exceptional cash flows	(6.9)	(10.1)	(16.9)
Dividends from joint ventures and associates	18.5	16.3	51.1
Tax paid	(61.4)	(52.6)	(118.4)
Net cash flow from operating activities	241.9	215.7	597.4
Purchases of property, plant and equipment	(206.0)	(146.8)	(331.8)
Sales of property, plant and equipment	15.0	7.2	23.4
Sales of investment property	17.0	–	–
Purchases of intangible fixed assets	(5.1)	(10.4)	(23.3)
Net sales/(purchases) of current asset investments	0.1	3.5	4.7
Net sales/(purchases) of trade and other investments	1.1	26.9	26.6
Acquisition of businesses	(11.6)	(31.7)	(54.8)
Disposal of businesses	11.4	219.0	200.8
Receipt from capital restructuring of joint venture	–	–	17.0
Net (investments in)/repayments from joint ventures and associates	(24.9)	(29.7)	(34.2)
Net cash flow from investing activities	(203.0)	38.0	(171.6)
Net interest paid	(40.5)	(38.3)	(65.2)
Dividends paid to minorities in subsidiaries	(7.5)	(7.6)	(66.4)
Equity dividends paid	(81.6)	(78.6)	(204.1)
Issues of shares	109.1	13.4	9.6
Net increase/(decrease) in debt	60.2	(32.3)	(129.8)
Net cash flow from financing activities	39.7	(143.4)	(455.9)
Net increase/(decrease) in cash and cash equivalents	78.6	110.3	(30.1)
Cash and cash equivalents at start of period	182.1	224.6	224.6
Exchange	8.0	(5.3)	(12.4)
Cash and cash equivalents at end of period	268.7	329.6	182.1
Cash and cash equivalents comprise:			
Cash at bank and in hand	507.9	316.8	177.8
Bank overdrafts repayable on demand	(244.2)	(5.0)	(8.9)
Deposits with original maturity of less than 90 days	5.0	17.8	13.2
	268.7	329.6	182.1

GROUP CASH FLOW STATEMENT

3 Months to 31 March 2006

	3 months to 31 Mar 2006	3 months to 31 Mar 2005
	£ million	£ million
Profit before taxation	112.7	227.0
Adjusted for:		
Finance costs	12.2	18.2
Finance income	(7.3)	(8.7)
Net finance income from pensions	(6.0)	(4.8)
Exceptional and certain re-measurement operating items	24.4	(101.6)
Depreciation and amortisation	75.6	74.1
Net retirement benefits charge less contributions	(8.0)	(3.6)
Share of profit after tax of joint ventures and associates	(15.7)	(15.8)
Changes in working capital and other items	2.6	(2.0)
Exceptional cash flows	(5.9)	(3.8)
Dividends from joint ventures and associates	16.3	15.0
Tax paid	(46.2)	(38.5)
Net cash flow from operating activities	154.7	155.5
Purchases of property, plant and equipment	(105.2)	(79.5)
Sales of property, plant and equipment	12.4	3.1
Purchases of intangible fixed assets	(2.6)	(7.8)
Net sales/(purchases) of current asset investments	(0.6)	2.1
Net sales/(purchases) of trade and other investments	1.0	17.8
Acquisition of businesses	(2.5)	(24.0)
Disposal of businesses	–	195.6
Net (investments in)/repayments from joint ventures and associates	(8.3)	(37.1)
Net cash flow from investing activities	(105.8)	70.2
Net interest paid	(15.5)	(16.6)
Dividends paid to minorities in subsidiaries	(6.6)	(5.9)
Equity dividends paid	(81.6)	(78.6)
Issues of shares	81.9	12.7
Net increase/(decrease) in debt	52.9	(22.3)
Net cash flow from financing activities	31.1	(110.7)
Net increase in cash and cash equivalents	80.0	115.0
Cash and cash equivalents at start of period	181.3	222.2
Exchange	7.4	(7.6)
Cash and cash equivalents at end of period	268.7	329.6
Cash and cash equivalents comprise:		
Cash at bank and in hand	507.9	316.8
Bank overdrafts repayable on demand	(244.2)	(5.0)
Deposits with original maturity of less than 90 days	5.0	17.8
	268.7	329.6

STATEMENT OF RECOGNISED INCOME AND EXPENSE

6 Months to 31 March 2006

	6 months to 31 Mar 2006	6 months to 31 Mar 2005	Year to 30 Sep 2005
	£ million	£ million	£ million
Actuarial gain/(loss) recognised on the pensions schemes	75.9	(4.2)	(13.9)
Movement on tax relating to actuarial gain/(loss) on pensions	(24.5)	1.9	1.7
Net investment hedges	2.5	–	–
Cash flow hedges	0.9	–	–
Credit in respect of employee share options	6.1	6.6	14.0
Tax on share options	18.1	0.7	3.3
Exchange translation effect on:			
– results for the period	1.3	(7.4)	9.5
– foreign currency net investments	41.6	(16.5)	74.6
Net profit/(loss) recognised directly in equity	121.9	(18.9)	89.2
Profit for the period	182.4	278.4	443.0
Total recognised income and expense for the period	304.3	259.5	532.2
Attributable to:			
Equity shareholders	282.0	200.9	457.5
Minority interests	22.3	58.6	74.7
	304.3	259.5	532.2

There were no material differences between reported profits and losses and historical cost profits and losses on ordinary activities before tax for any of the above periods.

The movement in total equity is shown in note 8.

NOTES TO THE ACCOUNTS

1. Basis of preparation

From 1 October 2005 The BOC Group plc reports its Group consolidated results in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, with the exception of IAS 34 (Interim Financial Reporting) which is not mandatory. On 12 January 2006 BOC announced annual and quarterly results for the financial year to 30 September 2005 restated under IFRS. This announcement is available on The BOC Group website www.boc.com

The results for the 6 months to 31 March 2006 have been prepared in accordance with the Group's accounting policies set out in the announcement of restated results on 12 January 2006. These policies are based on the IFRS that are expected to apply to The BOC Group's Report and Accounts for the year ending 30 September 2006. The basis of preparation is in accordance with the requirements of the FSA's listing rules.

Financial information for the year to 30 September 2005 and the 6 months to 31 March 2005 is presented on an IFRS restated basis as published in the announcement on 12 January 2006. Appropriate reconciliations from UK GAAP to IFRS are included in this announcement.

In addition to presenting information on an IFRS GAAP basis, BOC also presents additional information on a non-GAAP basis in order to give a better understanding of the underlying business performance. The two additional components in arriving at non-GAAP information are:

a) the exclusion of exceptional and certain re-measurement items, and

b) the presentation of the results of BOC's share of its joint ventures and associates.

Where financial information is presented excluding exceptional and certain re-measurement items, this is referred to as 'adjusted'. Where financial information includes BOC's share of its joint ventures and associates, this is referred to as 'total'. This non-GAAP basis is consistent with how BOC manages its businesses.

The 2005 full Group accounts, which were prepared in accordance with UK GAAP, received an unqualified audit report and have been delivered to the Registrar of Companies.

The financial results presented in this announcement are unaudited.

2. Exchange rates

The majority of the Group's operations are located outside the UK and operate in currencies other than sterling. The income statement and other period statements of the Group's overseas operations are translated at average rates of exchange for the period. Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the period end.

The rates of exchange to sterling for the currencies which principally affected the Group's results were as follows:

	6 months to 31 Mar 2006	6 months to 31 Mar 2005	Year to 30 Sep 2005
Average rates:			
– US dollar	1.75	1.88	1.85
– Australian dollar	2.36	2.45	2.41
– Japanese yen	204.84	197.40	198.20
– South African rand	11.10	11.31	11.54
Period end rates:			
– US dollar	1.73	1.89	1.77
– Australian dollar	2.43	2.44	2.32
– Japanese yen	204.66	202.11	200.51
– South African rand	10.69	11.76	11.25

3. Segmental information

a) Revenue, by business and geography, for the 6 months to 31 March 2006 was as follows:

	6 months to 31 Mar 2006			6 months to 31 Mar 2005			Year to 30 Sep 2005		
	Group revenue	Share of revenue of joint ventures and associates	Total revenue incl share of joint ventures and associates	Group revenue	Share of revenue of joint ventures and associates	Total revenue incl share of joint ventures and associates	Group revenue	Share of revenue of joint ventures and associates	Total revenue incl share of joint ventures and associates
	£million	£million	£million	£million	£million	£million	£million	£million	£million
Business analysis:									
Process Gas Solutions	659.1	192.1	851.2	546.2	156.7	702.9	1,126.7	339.6	1,466.3
Industrial and Special Products	806.5	129.9	936.4	722.3	115.8	838.1	1,469.2	252.5	1,721.7
BOC Edwards	334.5	108.9	443.4	305.5	100.1	405.6	625.5	200.5	826.0
Afrox hospitals	–	47.5	47.5	221.7	9.9	231.6	217.4	57.7	275.1
Gist	186.7	–	186.7	153.0	–	153.0	315.9	–	315.9
	1,986.8	478.4	2,465.2	1,948.7	382.5	2,331.2	3,754.7	850.3	4,605.0
Geographical analysis:									
Europe	717.8	–	717.8	645.3	–	645.3	1,300.8	–	1,300.8
Americas	591.8	115.2	707.0	502.2	78.8	581.0	1,040.4	181.7	1,222.1
Africa	184.3	47.5	231.8	371.2	9.9	381.1	528.3	57.7	586.0
Asia	265.6	261.7	527.3	224.9	247.5	472.4	455.1	497.1	952.2
South Pacific	227.3	54.0	281.3	205.1	46.3	251.4	430.1	113.8	543.9
	1,986.8	478.4	2,465.2	1,948.7	382.5	2,331.2	3,754.7	850.3	4,605.0

b) Revenue, by business and geography, for the 3 months to 31 March 2006 was as follows:

	3 months to 31 Mar 2006			3 months to 31 Mar 2005		
	Group revenue	Share of revenue of joint ventures and associates	Total revenue incl share of joint ventures and associates	Group revenue	Share of revenue of joint ventures and associates	Total revenue incl share of joint ventures and associates
	£million	£million	£million	£million	£million	£million
Business analysis:						
Process Gas Solutions	334.8	86.8	421.6	274.1	75.4	349.5
Industrial and Special Products	412.0	62.8	474.8	353.4	54.6	408.0
BOC Edwards	176.3	53.2	229.5	152.7	48.7	201.4
Afrox hospitals	–	25.0	25.0	114.5	5.1	119.6
Gist	90.2	–	90.2	73.4	–	73.4
	1,013.3	227.8	1,241.1	968.1	183.8	1,151.9
Geographical analysis:						
Europe	358.1	–	358.1	325.6	–	325.6
Americas	305.5	48.6	354.1	249.1	36.6	285.7
Africa	95.1	25.0	120.1	186.3	5.1	191.4
Asia	141.3	129.2	270.5	106.0	121.7	227.7
South Pacific	113.3	25.0	138.3	101.1	20.4	121.5
	1,013.3	227.8	1,241.1	968.1	183.8	1,151.9

c) Group operating profit and total adjusted operating profit by business for the 6 months to 31 March 2006 were as follows:

	6 months to 31 Mar 2006			
	Group operating profit	Adjusted for exceptional and certain re-measurement items	Share of adjusted operating profit of joint ventures and associates	Total adjusted operating profit
	£million	£million	£million	£million
Process Gas Solutions	79.6	(9.5)	26.8	115.9
Industrial and Special Products	135.5	(2.1)	12.1	149.7
BOC Edwards	5.5	(3.5)	17.5	26.5
Afrox hospitals	–	–	8.2	8.2
Gist	13.8	(0.2)	–	14.0
Corporate	(25.5)	(14.6)	–	(10.9)
	208.9	(29.9)	64.6	303.4

	6 months to 31 Mar 2005			
	Group operating profit	Adjusted for exceptional and certain re-measurement items	Share of adjusted operating profit of joint ventures and associates	Total adjusted operating profit
	£million	£million	£million	£million
Process Gas Solutions	74.7	–	25.0	99.7
Industrial and Special Products	137.6	10.5	14.4	141.5
BOC Edwards	4.4	–	15.4	19.8
Afrox hospitals	118.7	91.1	2.7	30.3
Gist	12.2	–	–	12.2
Corporate	(12.4)	–	–	(12.4)
	335.2	101.6	57.5	291.1

	Year to 30 Sep 2005			
	Group operating profit	Adjusted for exceptional and certain re-measurement items	Share of adjusted operating profit of joint ventures and associates	Total adjusted operating profit
	£million	£million	£million	£million
Process Gas Solutions	155.0	–	51.6	206.6
Industrial and Special Products	281.4	23.7	32.0	289.7
BOC Edwards	(13.8)	(22.8)	32.1	41.1
Afrox hospitals	116.2	89.1	10.0	37.1
Gist	24.6	–	–	24.6
Corporate	(32.9)	–	–	(32.9)
	530.5	90.0	125.7	566.2

d) Group operating profit and total adjusted operating profit by business for the 3 months to 31 March 2006 were as follows:

	3 months to 31 Mar 2006			
	Group operating profit	Adjusted for exceptional and certain re-measurement items	Share of adjusted operating profit of joint ventures and associates	Total adjusted operating profit
	£million	£million	£million	£million
Process Gas Solutions	41.4	(3.9)	14.0	59.3
Industrial and Special Products	66.9	(2.1)	5.3	74.3
BOC Edwards	2.4	(3.5)	9.1	15.0
Afrox hospitals	–	–	3.7	3.7
Gist	5.4	(0.2)	–	5.6
Corporate	(20.2)	(14.7)	–	(5.5)
	95.9	(24.4)	32.1	152.4

	3 months to 31 Mar 2005			
	Group operating profit	Adjusted for exceptional and certain re-measurement items	Share of adjusted operating profit of joint ventures and associates	Total adjusted operating profit
	£million	£million	£million	£million
Process Gas Solutions	37.1	–	13.1	50.2
Industrial and Special Products	70.3	10.5	7.5	67.3
BOC Edwards	2.6	–	7.2	9.8
Afrox hospitals	107.3	91.1	1.5	17.7
Gist	6.1	–	–	6.1
Corporate	(7.5)	–	–	(7.5)
	215.9	101.6	29.3	143.6

e) Group operating profit and total adjusted operating profit by geography for the 6 months to 31 March 2006 were as follows:

	6 months to 31 Mar 2006			
	Group operating profit	Adjusted for exceptional and certain re-measurement items	Share of adjusted operating profit of joint ventures and associates	Total adjusted operating profit
	£million	£million	£million	£million
Europe	50.5	(19.4)	–	69.9
Americas	49.0	(3.7)	11.6	64.3
Africa	35.0	(1.4)	8.3	44.7
Asia	29.0	(5.3)	43.7	78.0
South Pacific	45.4	(0.1)	1.0	46.5
	208.9	(29.9)	64.6	303.4

	6 months to 31 Mar 2005			
	Group operating profit	Adjusted for exceptional and certain re-measurement items	Share of adjusted operating profit of joint ventures and associates	Total adjusted operating profit
	£million	£million	£million	£million
Europe	77.5	–	–	77.5
Americas	44.4	10.5	11.1	45.0
Africa	146.8	91.1	2.7	58.4
Asia	27.0	–	41.7	68.7
South Pacific	39.5	–	2.0	41.5
	335.2	101.6	57.5	291.1

	Year to 30 Sep 2005			
	Group operating profit	Adjusted for exceptional and certain re-measurement items	Share of adjusted operating profit of joint ventures and associates	Total adjusted operating profit
	£million	£million	£million	£million
Europe	142.4	(5.6)	–	148.0
Americas	80.8	6.5	25.9	100.2
Africa	169.4	89.1	10.4	90.7
Asia	55.6	–	79.6	135.2
South Pacific	82.3	–	9.8	92.1
	530.5	90.0	125.7	566.2

f) Group operating profit and total adjusted operating profit by geography for the 3 months to 31 March 2006 were as follows:

	3 months to 31 Mar 2006			
	Group operating profit	Adjusted for exceptional and certain re-measurement items	Share of adjusted operating profit of joint ventures and associates	Total adjusted operating profit
	£million	£million	£million	£million
Europe	15.3	(18.6)	–	33.9
Americas	28.7	(0.6)	6.2	35.5
Africa	15.1	(1.4)	3.7	20.2
Asia	15.4	(3.7)	22.4	41.5
South Pacific	21.4	(0.1)	(0.2)	21.3
	95.9	(24.4)	32.1	152.4

	3 months to 31 Mar 2005			
	Group operating profit	Adjusted for exceptional and certain re-measurement items	Share of adjusted operating profit of joint ventures and associates	Total adjusted operating profit
	£million	£million	£million	£million
Europe	36.1	–	–	36.1
Americas	27.7	10.5	5.9	23.1
Africa	119.1	91.1	1.5	29.5
Asia	14.4	–	21.4	35.8
South Pacific	18.6	–	0.5	19.1
	215.9	101.6	29.3	143.6

4. Exceptional and certain re-measurement items

	6 months to 31 Mar 2006	6 months to 31 Mar 2005	Year to 30 Sep 2005
	£million	£million	£million
Included within operating profit:			
Costs of proposed take-over	(16.8)	–	–
Restructuring	(5.3)	–	(22.8)
Profit on disposal of businesses	–	91.1	102.3
Profit on disposal of investments	–	10.5	10.5
IAS 39 fair value movements and hedge ineffectiveness on financial instruments relating to operating activities	(7.8)	–	–
	(29.9)	101.6	90.0
Included within finance costs and finance income:			
Foreign exchange on non-permanent intercompany loans	3.1	2.3	8.3
IAS 39 fair value movements and hedge ineffectiveness on financial instruments relating to financing activities	5.1	–	–
	8.2	2.3	8.3
Included within share of post tax profits of joint ventures and associates:			
IAS 39 fair value movements and hedge ineffectiveness on financial instruments relating to operating activities	(0.6)	–	–
	(0.6)	–	–
Total exceptional and certain re-measurement items	(22.3)	103.9	98.3

Costs of proposed take-over are those costs arising directly as a result of the pre-conditional offer from Linde.

Restructuring costs of £5.3 million includes continuation of the BOC Edwards' restructuring programme started last year.

Following the adoption of IAS 39 (Financial instruments: Recognition and measurement), with effect from 1 October 2005, fair value movements relating to financial instruments (including embedded derivatives) recorded at fair value that are not in hedging relationships, and hedge ineffectiveness on financial instruments, are recognised in the income statement. These items are reported in 'exceptional and certain re-measurement items' to help provide the user of the information with a better understanding of the underlying business performance.

For the same reason, foreign exchange gains and losses on non-permanent intercompany loans, which under IAS 21 (The effects of changes in foreign exchange rates) are recognised in the income statement, are also reported as 'exceptional and certain re-measurement items'.

5. Earnings per share

	6 months to 31 Mar 2006	6 months to 31 Mar 2005	Year to 30 Sep 2005
	pence	pence	pence
Statutory earnings per share:			
– Basic	32.9	43.7	75.5
– Diluted	32.6	43.6	75.3
Adjusted earnings per share:			
– Basic	36.6	33.6	67.8
– Diluted	36.3	33.5	67.6

	6 months to 31 Mar 2006	6 months to 31 Mar 2005	Year to 30 Sep 2005
	£million	£million	£million
Amounts used in computing the earnings per share:			
Earnings attributable to ordinary shareholders for the period	165.0	216.1	373.8
Adjustment for exceptional and certain re-measurement items	18.5	(50.2)	(38.1)
Adjusted earnings attributable to ordinary shareholders for the period	183.5	165.9	335.7

	6 months to 31 Mar 2006	6 months to 31 Mar 2005	Year to 30 Sep 2005
	£million	£million	£million
Average number of 25p ordinary shares:			
Average issued share capital	507.1	499.5	500.4
Less: average own shares held in trust	(5.0)	(5.3)	(5.4)
Basic	502.1	494.2	495.0
Add: dilutive share options	3.9	1.1	1.6
Diluted	506.0	495.3	496.6

6. Tax

	6 months to 31 Mar 2006	6 months to 31 Mar 2005	Year to 30 Sep 2005
	£million	£million	£million
Profit before tax	241.5	354.0	577.1
Share of tax and minority interest of joint ventures and associates	15.3	13.0	29.7
Total profit before tax	256.8	367.0	606.8
Total exceptional and certain re-measurement items	22.5	(103.9)	(98.3)
Total adjusted profit before tax	279.3	263.1	508.5
Tax	59.1	75.6	134.1
Share of tax of joint ventures and associates	14.3	13.0	29.7
Total tax	73.4	88.6	163.8
Tax on total exceptional and certain re-measurement items	3.4	(17.7)	(31.8)
Total adjusted tax	76.8	70.9	132.0
Effective rate of total tax on total profit before tax	28.6%	24.1%	27.0%
Effective rate of total adjusted tax on total adjusted profit before tax	27.5%	26.9%	26.0%
Overseas tax included in total tax	61.8	71.3	137.9

7. Net borrowings

The Group's net borrowings comprise:

	At 31 Mar 2006	At 31 Mar 2005	At 30 Sep 2005
	£million	£million	£million
Cash and deposits	512.9	334.6	191.0
Borrowings repayable within one year	(680.3)	(239.9)	(259.2)
Borrowings repayable in more than one year	(682.1)	(872.9)	(771.5)
Net borrowings	(849.5)	(778.2)	(839.7)

Following the adoption of IAS 39 (Financial instruments: Recognition and measurement) with effect from 1 October 2005, accrued interest payable on borrowings is recognised as part of borrowings rather than as a separate liability. The amount of interest payable included within net borrowings above at 31 March 2006 was £26.9 million.

Following the adoption of IAS 32 (Financial instruments: Disclosure and presentation) with effect from 1 October 2005, cash and deposits can only be offset with borrowings when there is both a legally enforceable right to offset the asset and liability and where there is the intention to settle on a net basis. This is a presentational issue only and has no impact on the overall liabilities or the finance costs of the Group.

8. Movement in total equity

	6 months to 31 Mar 2006	6 months to 31 Mar 2005	Year to 30 Sep 2005
	£million	£million	£million
Total recognised income and expense for the period	304.3	259.5	532.2
Dividends to equity shareholders	(81.6)	(78.6)	(204.1)
Dividends to minority shareholders	(7.5)	(7.6)	(67.4)
	215.2	173.3	260.7
Shares issued	99.0	14.2	32.6
Consideration paid for the purchase of own shares held in an ESOP trust	(14.7)	(7.1)	(8.2)
Consideration received for the sale of own shares held in an ESOP trust	21.2	2.2	4.0
Acquisition of minority interests	–	(72.6)	(76.7)
Capital contributions by / (repayments to) minority shareholders in subsidiaries	5.7	4.2	(18.8)
Net increase in total equity for the period	326.4	114.2	193.6
Total equity – at 1 October as previously reported	2,040.4	1,846.8	1,846.8
Adoption of IAS 32 and IAS 39	0.2	–	–
Total equity – at 1 October including IAS 32 and IAS 39	2,040.6	1,846.8	1,846.8
Total equity – at period end	2,367.0	1,961.0	2,040.4
Attributable to:			
Equity shareholders	2,236.2	1,779.9	1,930.1
Minority interests	130.8	181.1	110.3
	2,367.0	1,961.0	2,040.4

9. Contingent liabilities

There has been no material change in contingent liabilities and legal proceedings since 30 September 2005.

10. Reconciliation of equity from UK GAAP to IFRS at 31 March 2005

The transition to IFRS had the following impact on equity at 31 March 2005

	At 31 Mar 2005 £million
Total capital and reserves – UK GAAP	1,919.5
Goodwill	49.0
Share based payments	3.6
Pensions	(31.5)
Short-term employee benefits	(7.3)
Development costs	5.3
Deferred taxation	(39.6)
Adjustment on disposal of subsidiary	68.3
Other	(6.3)
Total IFRS adjustments	41.5
Total equity IFRS restated	1,961.0

Audited consolidated financial statements of The BOC Group plc as of and for the financial year ended September 30, 2005 (UK-GAAP)

REPORT BY THE INDEPENDENT AUDITORS

To the members of The BOC Group plc

Independent auditors' report to the members of The BOC Group plc

We have audited the financial statements which comprise the Group profit and loss account, the Group balance sheet, the Group cash flow statement, the total recognised gains and losses, the movement in shareholders' funds, the balance sheet of The BOC Group plc, Group undertakings, accounting policies and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the report on remuneration ('the auditable part').

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the report on remuneration.

Our responsibility is to audit the financial statements and the auditable part of the report on remuneration in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the report on remuneration have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the report of the directors is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the financial highlights, chairman's statement, chief executive's review, board of directors, executive management board, Group five year record, Group profile, strategy, employees, social, environmental and ethical performance, research and development and information technology, risk factors, operating review, financial review, the unaudited part of the report on remuneration, responsibility of the directors, shareholder information, cross reference to Form 20-F and glossary of terms.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the report on remuneration. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the report on remuneration are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group at 30 September 2005 and of the profit and cash flows of the Group for the year then ended; the financial statements have been properly prepared in accordance with the Companies Act 1985; and those parts of the report on remuneration required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London, England
28 November 2005

GROUP PROFIT AND LOSS ACCOUNT
Years ended 30 September

		2005			2004			2003		
	Notes	Before exceptional items £ million	Exceptional items £ million	After exceptional items £ million	Before exceptional items £ million	Exceptional items £ million	After exceptional items £ million	Before exceptional items £ million	Exceptional items £ million	After exceptional items £ million
Turnover, including share of joint ventures and associates	1	4,605.0	–	4,605.0	4,599.3	–	4,599.3	4,323.2	–	4,323.2
Less: Share of turnover of joint ventures		727.8	–	727.8	647.0	–	647.0	544.3	–	544.3
Share of turnover of associates		122.5	–	122.5	66.9	–	66.9	60.6	–	60.6
Turnover of subsidiary undertakings		3,754.7	–	3,754.7	3,885.4	–	3,885.4	3,718.3		3,718.3
Cost of sales	2(a)	(2,161.6)	–	(2,161.6)	(2,181.7)	–	(2,181.7)	(2,136.2)	(1.7)	(2,137.9)
Gross profit		1,593.1	–	1,593.1	1,703.7	–	1,703.7	1,582.1	(1.7)	1,580.4
Net operating expenses	2(a)	(1,156.5)	(20.7)	(1,177.2)	(1,239.3)	(14.8)	(1,254.1)	(1,174.7)	(58.5)	(1,233.2)
Operating profit of subsidiary undertakings		436.6	(20.7)	415.9	464.4	(14.8)	449.6	407.4	(60.2)	347.2
Share of operating profit of joint ventures		107.1	–	107.1	99.4	(2.6)	96.8	86.8	(6.8)	80.0
Share of operating profit of associates		20.5	–	20.5	13.1		13.1	11.4		11.4
Total operating profit including share of joint ventures and associates		564.2	(20.7)	543.5	576.9	(17.4)	559.5	505.6	(67.0)	438.6
Profit/(loss) on termination/disposal of businesses – continuing operations	2(b)	–	98.1	98.1	–	(79.5)	(79.5)	–	–	–
Profit on disposal of fixed assets – continuing operations	2(b)	–	10.5	10.5	–	4.9	4.9	–	–	–
Profit on ordinary activities before interest		564.2	87.9	652.1	576.9	(92.0)	484.9	505.6	(67.0)	438.6
Interest on net debt	3	(76.7)	–	(76.7)	(88.4)	–	(88.4)	(96.1)	–	(96.1)
Interest on pension scheme liabilities	8(a)	(128.9)	–	(128.9)	(117.4)	–	(117.4)	(110.2)	–	(110.2)
Expected return on pension scheme assets	8(a)	147.1	–	147.1	133.2	–	133.2	119.6	–	119.6
Other net financing income		18.2	–	18.2	15.8	–	15.8	9.4	–	9.4
Profit on ordinary activities before tax		505.7	87.9	593.6	504.3	(92.0)	412.3	418.9	(67.0)	351.9
Tax on profit on ordinary activities	4(a)	(131.5)	(28.4)	(159.9)	(146.2)	44.5	(101.7)	(121.4)	25.0	(96.4)
Profit on ordinary activities after tax		374.2	59.5	433.7	358.1	(47.5)	310.6	297.5	(42.0)	255.5
Minority interests equity		(40.0)	(26.7)	(66.7)	(46.6)		(46.6)	(36.8)	0.4	(36.4)
Profit for the financial year		334.2	32.8	367.0	311.5	(47.5)	264.0	260.7	(41.6)	219.1
Dividends	9	(204.1)	–	(204.1)	(197.3)		(197.3)	(192.1)	–	(192.1)
Retained profit for the financial year		130.1	32.8	162.9	114.2	(47.5)	66.7	68.6	(41.6)	27.0
Earnings per 25p Ordinary share	10									
– basic		67.5p	6.6p	74.1p	63.2p	(9.7)p	53.5p	52.9p	(8.4)p	44.5p
– diluted		67.3p	6.6p	73.9p	63.1p	(9.6)p	53.5p	52.9p	(8.4)p	44.5p

All turnover and operating profit arose from continuing operations.

Acquisitions in 2005 were not material.

GROUP BALANCE SHEET
At 30 September

	Notes	2005 £ million	2004 £ million
Fixed assets			
Intangible assets	11	142.6	174.9
Tangible assets	12	2,639.9	2,618.4
Investment in joint ventures			
– share of gross assets		1,102.2	996.1
– share of gross liabilities		(810.7)	(737.4)
		291.5	258.7
– loans to joint ventures		225.0	199.3
Investment in associates			
– share of net assets		80.7	52.4
– loans to associates		2.1	3.3
Other investments		14.6	34.5
Investments	13	613.9	548.2
		3,396.4	3,341.5
Current assets			
Stocks	14	306.3	284.4
Debtors falling due within one year	15(a)	710.4	705.6
Debtors falling due after more than one year	15(b)	17.0	16.3
Investments	16	16.4	20.8
Cash at bank and in hand	17	191.0	228.2
		1,241.1	1,255.3
Creditors: amounts falling due within one year			
Borrowings and finance leases	18(a)	(259.2)	(262.1)
Other creditors	18(b)	(898.3)	(872.6)
		(1,157.5)	(1,134.7)
Net current assets		83.6	120.6
Total assets less current liabilities		3,480.0	3,462.1
Creditors: amounts falling due after more than one year			
Borrowings and finance leases	19(a)	(771.5)	(928.5)
Other creditors	19(b)	(30.8)	(34.7)
		(802.3)	(963.2)
Provisions for liabilities and charges			
Deferred tax	22	(241.9)	(253.0)
Other	22	(118.9)	(92.2)
Total provisions for liabilities and charges		(360.8)	(345.2)
Total net assets excluding pension assets and liabilities		2,316.9	2,153.7
Pension assets	8(a)	88.7	68.9
Pension liabilities	8(a)	(352.5)	(344.5)
Total net assets including pension assets and liabilities		2,053.1	1,878.1

	Notes	2005 £ million	2004 £ million
Capital and reserves			
Equity called up share capital	23	125.6	124.7
Share premium account	24(a)	406.6	374.9
Revaluation reserves	24(a)	26.3	30.1
Profit and loss account	24(a)	1,369.5	1,181.5
Pensions reserves	24(a)	(221.7)	(253.6)
Joint ventures' reserves	24(a)	253.9	238.0
Associates' reserves	24(a)	32.3	26.0
Own shares	24(a)	(50.5)	(46.3)
Equity shareholders' funds		1,942.0	1,675.3
Minority shareholders' equity interests		111.1	202.8
Total capital and reserves		2,053.1	1,878.1

The financial statements were approved by the board of directors on 28 November 2005 and are signed on its behalf by:

A E Isaac Director **A M Ferguson** Director

GROUP CASH FLOW STATEMENT
Years ended 30 September

	Notes	2005 £ million	2004 £ million	2003 £ million
Net cash inflow from operating activities	27(a)	665.5	758.5	700.1
Dividends from joint ventures and associates				
Dividends from joint ventures		47.8	69.0	31.7
Dividends from associates		3.3	10.1	3.3
Dividends from joint ventures and associates		51.1	79.1	35.0
Returns on investments and servicing of finance				
Interest paid		(83.5)	(83.3)	(94.4)
Interest received		18.6	13.9	16.6
Dividends paid to minorities in subsidiaries		(66.4)	(19.3)	(12.4)
Interest element of finance lease rental payments		(0.3)	(2.5)	(4.2)
Returns on investments and servicing of finance		(131.6)	(91.2)	(94.4)
Tax paid		(118.4)	(98.2)	(90.7)
Capital expenditure and financial investment				
Purchases of tangible fixed assets		(353.0)	(244.6)	(281.4)
Sales of tangible fixed assets		22.6	39.7	37.0
Purchases of intangible fixed assets		(0.6)	(0.2)	(1.2)
Net sales/(purchases) of current asset investments		4.7	(0.9)	16.6
Purchases of trade and other investments		(3.4)	(3.8)	(3.3)
Sales of trade and other investments		30.0	5.6	5.3
Capital expenditure and financial investment		(299.7)	(204.2)	(227.0)
Acquisitions and disposals				
Acquisitions of businesses	28(a)	(57.1)	(50.9)	(135.5)
Net cash acquired with subsidiaries		2.3	2.8	–
Disposals of businesses	28(a)	224.1	98.3	3.9
Net cash disposed of with subsidiaries		(23.3)	–	(0.1)
Receipts from capital restructuring of joint ventures[1]		17.0	53.0	–
Investments in joint ventures		(8.4)	(12.9)	–
Divestments/repayments from joint ventures		–	–	12.4
Investments in associates		(37.1)	(3.9)	(8.4)
Divestments/repayments from associates		11.3	6.1	9.4
Acquisitions and disposals		128.8	92.5	(118.3)
Equity dividends paid		(204.1)	(197.3)	(192.1)
Net cash inflow before use of liquid resources and financing		91.6	339.2	12.6
Management of liquid resources				
Net sales/(purchases) of short-term investments		14.3	(20.8)	16.2
Financing				
Issue of shares[2]		9.6	12.4	(2.6)
Decrease in debt	27(d)	(165.7)	(180.7)	(128.7)
Net cash outflow from financing		(156.1)	(168.3)	(131.3)
(Decrease)/increase in cash		(50.2)	150.1	(102.5)

1) Receipts from capital restructuring of joint ventures relates to amounts received from Japan Air Gases Ltd. This has no impact on BOC's effective shareholding.

2) Issue of shares in 2005 is net of an outflow of £18.8 million for the 10 per cent buy back of shares in African Oxygen Limited relating to minority shareholders. This has no impact on BOC's effective shareholding.

A reconciliation of the movement in cash to the movement in net debt in the year is given in note 27(b).

Liquid resources are defined as short-term deposits.

TOTAL RECOGNISED GAINS AND LOSSES
Years ended 30 September

	Notes	2005 £ million	2004 £ million	2003 £ million
Parent[1]	24(b)	298.4	11.4	218.6
Subsidiary undertakings		57.4	269.8	(0.4)
Joint ventures		6.8	(13.1)	(0.2)
Associates		4.4	(4.1)	1.1
Profit for the financial year		367.0	264.0	219.1
Actuarial loss recognised on the pension schemes		(12.4)	(2.2)	(17.5)
Movement on deferred tax relating to actuarial loss on pensions		(6.7)	(8.1)	2.0
Movement on current tax relating to actuarial loss on pensions		8.4	3.2	
Unrealised profit on disposal of a subsidiary		–	–	8.2
Exchange translation effect on:				
– results for the year of subsidiaries		7.6	0.2	8.0
– results for the year of joint ventures		1.4	(0.7)	0.2
– results for the year of associates		0.4	(0.1)	(0.2)
– foreign currency net investments in subsidiaries		64.7	(76.1)	15.3
– foreign currency net investments in joint ventures		6.0	(21.5)	9.6
– foreign currency net investments in associates		0.7	(2.8)	(1.4)
Total recognised gains and losses for the financial year	24(a)	437.1	155.9	243.3

1) In accordance with the concession granted under the Companies Act 1985, the profit and loss account of The BOC Group plc has not been presented separately in these financial statements.

2) There were no material differences between reported profits and losses and historical cost profits and losses on ordinary activities before tax for 2005, 2004 and 2003.

3) Profit attributable to the parent company includes dividends received from subsidiaries, joint ventures and associates, often through intermediate holding companies. These dividends may include the distribution of earnings of previous periods. As a result, the relationship of profit between parent, subsidiaries, joint ventures and associates may show fluctuations from year to year.

4) Excluding the amounts recognised above, a current tax charge of £(5.8) million (2004: £6.7 million credit, 2003: £9.7 million credit) has been recognised directly in the Group reserves.

MOVEMENT IN SHAREHOLDERS' FUNDS
Years ended 30 September

	2005 £ million	2004 £ million	2003 £ million
Profit for the financial year	367.0	264.0	219.1
Dividends	(204.1)	(197.3)	(192.1)
	162.9	66.7	27.0
Other recognised gains and losses	70.1	(108.1)	24.2
Reversal of goodwill in total recognised gains and losses on disposal of subsidiaries	1.0	15.3	(4.2)
Shares issued	32.6	8.7	3.7
Consideration paid for the purchase of own shares held in an ESOP trust	(8.2)	–	(7.5)
Consideration received for the sale of own shares held in an ESOP trust	4.0	2.5	1.2
Credit in respect of employee share schemes	4.3	3.5	0.7
Net increase/(decrease) in shareholders' funds for the financial year	266.7	(11.4)	45.1
Shareholders' funds at 1 October	1,675.3	1,686.7	1,641.6
Shareholders' funds at 30 September	1,942.0	1,675.3	1,686.7

BALANCE SHEET OF THE BOC GROUP PLC
At 30 September

	Notes	2005 £ million	2004 £ million
Fixed assets			
Tangible assets	12(e)	14.9	11.3
Investments	13(d)	3,165.8	2,982.6
		3,180.7	2,993.9
Current assets			
Debtors falling due within one year	15(a)	153.0	320.4
Cash at bank and in hand	17	44.3	80.8
		197.3	401.2
Creditors: amounts falling due within one year			
Borrowings and finance leases	18(a)	(107.2)	(252.1)
Other creditors	18(b)	(1,005.4)	(1,004.1)
		(1,112.6)	(1,256.2)
Net current liabilities		(915.3)	(855.0)
Total assets less current liabilities		2,265.4	2,138.9
Creditors: amounts falling due after more than one year			
Borrowings and finance leases	19(a)	(677.0)	(674.5)
Other creditors	19(b)	(0.2)	(3.2)
		(677.2)	(677.7)
Total net assets		1,588.2	1,461.2
Capital and reserves			
Equity called up share capital	23	125.6	124.7
Share premium account	24(b)	406.6	374.9
Other reserves	24(b)	336.4	336.4
Profit and loss account	24(b)	769.6	671.0
Own shares	24(b)	(50.0)	(45.8)
Total capital and reserves		1,588.2	1,461.2

The financial statements were approved by the board of directors on 28 November 2005 and are signed on its behalf by:

A E Isaac Director **A M Ferguson** Director

ACCOUNTING POLICIES

General

- **Basis of preparation** These financial statements are based on the historical cost accounting convention in accordance with the Companies Act 1985 and comply with all applicable UK accounting standards.

  UK accounting standards differ in certain respects from those generally accepted in the US and the major effects of these differences in the determination of net income and shareholders' funds are shown in note 30 to the financial statements. Disclosure requirements of both the UK and US are incorporated throughout the notes to these financial statements.

- **Basis of consolidation** The Group accounts include the accounts of the parent undertaking and of all subsidiaries, joint ventures and associates.

  The results of businesses acquired during the year are included from the effective date of acquisition. The results of businesses disposed of during the year are included up to the date of relinquishing control. Material, separately identifiable business segments disposed of are analysed as discontinued operations and prior years' analyses are restated to reflect those businesses as discontinued.

- **Accounting policies** These accounts have been prepared on an accounting basis consistent with that applied in the financial year ended 30 September 2004.

- **Exchange** Profit and loss and other period statements of the Group's overseas operations are translated at average rates of exchange for the financial year. Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the financial year end. Assets or liabilities swapped into other currencies are accounted for in those currencies. Exchange differences are dealt with as a movement in reserves where they arise from:

  i) the translation of the opening net assets of overseas operations;

  ii) the retranslation of retained earnings of overseas operations from average to closing rates of exchange; and

  iii) the translation or conversion of foreign currency borrowings taken to hedge overseas assets.

  All other exchange differences are taken to the profit and loss account. The principal exchange rates affecting the Group are shown in the financial review on page 63.

Revenue recognition

Turnover is based on the invoiced value of the sale of goods and services, and includes the sales value of long-term contracts appropriate to the state of completion. It excludes sales between Group undertakings,VAT and similar sales-based taxes. Turnover for goods and services is recognised when the significant risks and rewards of ownership are transferred to the customer. This is determined to be when delivery has occurred, title of the goods has passed to the purchaser, and where the price is fixed or determinable and reflects the commercial substance of the transaction. Sales returns are not a significant business issue in the industries in which the Group operates.

Revenue on long-term supply contracts with customers generally contains two elements:

i) a fixed charge for the use of production or storage facilities. This is recognised on a straight line basis over the period of the contract. Where the charge is in respect of production facilities, it will also typically include the supply of a specified volume of product;

ii) a variable charge for the supply of product, or the supply of product in excess of a specified contract volume. This is recognised when the risks and rewards of ownership are transferred to the customer.

Profit on long-term contracts is recognised on a percentage of completion basis. Provision is made for all losses incurred together with any foreseeable or anticipated future losses.

Retirement benefits

Retirement benefits are accounted for under FRS17.

For defined benefit schemes the regular service cost of providing retirement benefits to employees during the year is charged to operating profit in the year. The full cost of providing amendments to benefits in respect of past service is also charged to operating profit in the year.

A credit representing the expected return on the assets of the retirement benefit schemes during the year is included within other net financing income. This is based on the market value of the assets of the schemes at the start of the financial year.

A charge representing the expected increase in the liabilities of the retirement benefit schemes during the year is included within other net financing income. This arises from the liabilities of the schemes being one year closer to payment.

Differences between actual and expected returns on assets during the year are recognised in the statement of total recognised gains and losses in the year, together with differences arising from changes in assumptions.

For defined contribution schemes the cost of providing benefits is charged to operating profit as incurred.

Research and development

Revenue expenditure on research and development is written off when incurred.

Operating leases

The cost of operating leases is written off on the straight line basis over the period of the lease.

Intangible fixed assets

- Goodwill Goodwill arising on the acquisition of a business, being the excess of the fair value of the purchase price over the fair value of the net assets acquired, is capitalised and amortised on a straight line basis over its useful economic life, generally up to a maximum period of 20 years.

  An impairment review is carried out at the end of the first full financial year following acquisition. Any impairment in the value of goodwill, calculated by discounting estimated future cash flows, is dealt with in the profit and loss account in the period in which it arises. Negative goodwill, being the excess of the fair value of the net assets acquired over the fair value of the purchase price, is capitalised and amortised on a straight line basis, generally over a period equivalent to the realisation of the non-monetary assets acquired.

  Goodwill, both positive and negative, arising on acquisitions before 30 September 1998 was taken to reserves and has not been reinstated on the balance sheet. This is in line with the relevant accounting standard on goodwill, FRS10. This goodwill will remain in reserves until such time as it becomes impaired or the business or businesses to which it relates are disposed of, at which time it will be taken to the profit and loss account or statement of total recognised gains and losses where appropriate.

- Intangibles Other material intangible assets acquired, such as patents and trademarks, are capitalised and written off on the straight line basis over their effective economic lives.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. No depreciation is charged on freehold land or construction in progress.

Depreciation is charged on all other fixed assets on the straight line basis to write them down to their residual values over the effective lives. Straight line depreciation rates vary according to the class of asset, but are typically:

	Per annum
Freehold property	2%–4%
Leasehold property (or at higher rates based on the life of the lease)	2%–4%
Plant and machinery	3%–10%
Cylinders	4%–10%
Motor vehicles	7%–20%
Computer hardware and major software	15%–25%

- Until 30 September 1999, land and buildings were revalued periodically. Following the adoption of FRS15, land and buildings are no longer revalued. At 1 October 1999, the net book value of assets previously revalued is regarded as the historical cost.
- Interest costs on major fixed asset additions are capitalised during the construction period and written off as part of the total cost.
- Where finance leases have been entered into, the capital element of the obligations to the lessor are shown as part of borrowings and the rights in the corresponding assets are treated in the same way as owned fixed assets.
- Any impairment in the value of fixed assets, calculated by comparing the carrying value against the higher of the net realisable value or value in use, is dealt with in the profit and loss account in the period in which it arises.

Investments

Investments which are held for the long term and in which the Group has a participating interest and exercises joint control with one or more other parties are treated as joint ventures and accounted for on the gross equity method. Investments which are held for the long term and in which the Group has a participating interest and exercises significant influence are treated as associates and accounted for on the equity method. In both cases, the Group's share of the results of the investment is included in the profit and loss account, and the Group's share of the net assets is included in investments in the balance sheet. Other investments are shown on the balance sheet at cost less any provision for impairment.

Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost where appropriate includes a proportion of overhead expenses. Work in progress is stated at cost less progress payments received or receivable. Cost is arrived at principally on the average and 'first-in, first-out' (FIFO) basis. The amount of long-term contracts, net of amounts transferred to cost of sales and after deducting foreseeable losses and payments on account, is included in stocks as long-term contract amounts.

Deferred tax

The Group provides for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition for tax purposes. Deferred tax assets are only recognised where it is more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Provisions

Provisions are made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. Restructuring provisions are made for direct expenditures of a business reorganisation where the plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the balance sheet date. Provisions for warranties are based on contractual arrangements with customers and experience of product performance.

Financial instruments

The Group uses financial instruments, including interest rate and currency swaps, to raise finance for its operations and to manage the risks arising from those operations. All transactions are undertaken only to manage interest and currency risk associated with the Group's underlying business activities and the financing of those activities. The Group does not undertake any trading activity in financial instruments.

- **Foreign exchange transaction exposures** The Group generally hedges actual and forecast foreign exchange exposures up to two years ahead. Forward contracts are used to hedge the forecast exposure and any gains or losses resulting from changes in exchange rates on contracts designated as hedges of forecast foreign exchange are deferred until the financial period in which they are realised. If the contract ceases to be a hedge, any gains and losses are recognised through the profit and loss account.

- **Balance sheet translation exposures** A large proportion of the Group's net assets are denominated in currencies other than sterling. Where practicable and cost effective the Group hedges these balance sheet translation exposures by borrowing in relevant currencies and markets and by the use of currency swaps. Currency swaps are used only as balance sheet hedging instruments, and the Group does not hedge the currency translation of its profit and loss account. Exchange gains and losses arising on the notional principal of these currency swaps during their life and at termination or maturity are dealt with as a movement in reserves. If the swap ceases to be a hedge of the underlying transaction, any gains or losses are recognised in the profit and loss account.

- **Interest rate risk exposures** The Group hedges its exposure to movements in interest rates associated with its borrowings primarily by means of interest rate swaps and forward rate agreements. Interest payments and receipts on these agreements are included with net interest payable. They are not revalued to fair value and are not shown on the Group balance sheet at the balance sheet date.

1. Segmental information

a) *Turnover (including share of joint ventures and associates)*

	Continuing operations						
	Process Gas Solutions £ million	Industrial and Special Products £ million	BOC Edwards £ million	Afrox hospitals £ million	Gist £ million	Total Group by origin £ million	Total Group by destination £ million
2005							
Europe	332.3	467.0	185.6	–	315.9	1,300.8	1,252.1
Americas	631.5	322.3	268.3	–	–	1,222.1	1,188.8
Africa	38.6	272.3	–	275.1	–	586.0	583.4
Asia/Pacific	463.9	660.1	372.1	–	–	1,496.1	1,580.7
Turnover	1,466.3	1,721.7	826.0	275.1	315.9	4,605.0	4,605.0
2004							
Europe	292.8	449.1	189.5	–	293.2	1,224.6	1,162.7
Americas	523.4	422.6	272.3	–	–	1,218.3	1,171.6
Africa	36.1	230.8	–	432.1	–	699.0	699.4
Asia/Pacific	422.9	679.8	354.7	–	–	1,457.4	1,565.6
Turnover	1,275.2	1,782.3	816.5	432.1	293.2	4,599.3	4,599.3
2003							
Europe	278.3	430.0	154.3	–	291.8	1,154.4	1,137.4
Americas	517.5	461.7	259.6	–	–	1,238.8	1,191.5
Africa	30.8	201.3	–	353.4	–	585.5	588.0
Asia/Pacific	416.1	658.2	270.2	–	–	1,344.5	1,406.3
Turnover	1,242.7	1,751.2	684.1	353.4	291.8	4,323.2	4,323.2

1) Inter segment turnover is not material.

2) The Afrox hospitals business was accounted for as a subsidiary company until March 2005 and thereafter as an associated company, following the disposal of BOC's controlling interest.

b) *Business analysis*

	Continuing operations						
	Process Gas Solutions £ million	Industrial and Special Products £ million	BOC Edwards £ million	Afrox hospitals £ million	Gist £ million	Corporate £ million	Total Group £ million
2005							
Total operating profit before exceptional items[1]	207.2	289.4	38.1	37.2	24.5	(32.2)	564.2
Operating exceptional items[1]	–	–	(20.7)	–	–	–	(20.7)
Operating profit	207.2	289.4	17.4	37.2	24.5	(32.2)	543.5
Profit on disposal of businesses	–	13.2	–	84.9	–	–	98.1
Profit on disposal of fixed assets	–	10.5	–	–	–	–	10.5
Capital employed[2]	1,795.6	948.9	549.2	25.0	46.9	(81.2)	3,284.4
Capital expenditure[3]	203.8	124.5	33.2	12.4	18.5	4.9	397.3
Depreciation and amortisation[3]	147.3	95.5	38.9	6.7	12.4	1.1	301.9

	Continuing operations						
	Process Gas Solutions £ million	Industrial and Special Products £ million	BOC Edwards £ million	Afrox hospitals £ million	Gist £ million	Corporate £ million	Total Group £ million
2004							
Total operating profit before exceptional items[1]	190.3	269.5	47.8	59.8	25.1	(15.6)	576.9
Operating exceptional items[1]	(0.8)	(15.6)	(1.0)	–	–	–	(17.4)
Operating profit	189.5	253.9	46.8	59.8	25.1	(15.6)	559.5
Loss on disposal of business	–	(79.5)	–	–	–	–	(79.5)
Profit on disposal of fixed assets	4.9	–	–	–	–	–	4.9
Capital employed[2]	1,625.2	943.9	548.1	162.5	6.9	(66.2)	3,220.4
Capital expenditure[3]	100.1	99.4	30.1	17.5	9.0	–	256.1
Depreciation and amortisation[3]	156.0	101.5	40.1	12.3	12.9	1.2	324.0
2003							
Total operating profit before exceptional items[1]	184.0	242.7	18.5	46.1	29.2	(14.9)	505.6
Operating exceptional items[1]	(6.9)	(4.5)	(10.6)	–	–	(45.0)	(67.0)
Operating profit	177.1	238.2	7.9	46.1	29.2	(59.9)	438.6
Capital employed[2]	1,822.9	1,158.1	596.1	167.2	0.8	(88.0)	3,657.1
Capital expenditure[3]	93.1	105.2	37.6	17.8	22.3	5.2	281.2
Depreciation and amortisation[3]	165.8	101.2	39.1	9.8	15.8	1.7	333.4

1) Including share of joint ventures and associates.

2) Capital employed comprises the capital and reserves of the Group, its long-term liabilities and all current borrowings net of cash and deposits.

3) Subsidiary undertakings only.

4) Net interest and net borrowings are managed centrally and are not directly attributable to individual business segments or regions.

5) The Afrox hospitals business was accounted for as a subsidiary company until March 2005 and thereafter as an associated company, following the disposal of BOC's controlling interest.

c) *Regional analysis*

	Europe £ million	Americas £ million	Africa £ million	Asia/Pacific £ million	Total Group £ million
2005					
Total operating profit before exceptional items[1]	143.7	100.0	91.3	229.2	564.2
Operating exceptional items[1]	(5.1)	(15.6)	–	–	(20.7)
Operating profit	138.6	84.4	91.3	229.2	543.5
Profit on disposal of businesses	–	13.2	84.9	–	98.1
Profit on disposal of fixed assets	–	10.5	–	–	10.5
Capital employed[2]	774.2	1,143.2	203.4	1,163.6	3,284.4
Capital expenditure[3]	105.1	133.0	45.8	113.4	397.3
2004					
Total operating profit before exceptional items[1]	155.4	77.4	108.9	235.2	576.9
Operating exceptional items[1]	–	(14.8)	–	(2.6)	(17.4)
Operating profit	155.4	62.6	108.9	232.6	559.5
Loss on disposal of business	–	(79.5)	–	–	(79.5)
Profit on disposal of fixed assets	4.9	–	–	–	4.9
Capital employed[2]	796.6	992.9	335.4	1,095.5	3,220.4
Capital expenditure[3]	72.3	71.8	44.2	67.8	256.1

	Europe £ million	Americas £ million	Africa £ million	Asia/Pacific £ million	Total Group £ million
2003					
Total operating profit before exceptional items[1]	144.3	91.8	85.0	184.5	505.6
Operating exceptional items[1]	(7.3)	(49.1)	–	(10.6)	(67.0)
Operating profit	137.0	42.7	85.0	173.9	438.6
Capital employed[2]	866.2	1,225.0	321.5	1,244.4	3,657.1
Capital expenditure[3]	102.7	79.1	36.7	62.7	281.2

1) Including share of joint ventures and associates.

2) Capital employed comprises the capital and reserves of the Group, its long-term liabilities and all current borrowings net of cash and deposits.

3) Subsidiary undertakings only.

4) Net interest and net borrowings are managed centrally and are not directly attributable to individual business segments or regions.

5) The Afrox hospitals business was accounted for as a subsidiary company until March 2005 and thereafter as an associated company, following the disposal of BOC's controlling interest.

d) *Joint ventures and associates – business analysis*

	Joint ventures			Associates			
	Process Gas Solutions £ million	Industrial and Special Products £ million	BOC Edwards £ million	Process Gas Solutions £ million	Industrial and Special Products £ million	BOC Edwards £ million	Afrox hospitals £ million
2005							
Turnover[1]	287.9	244.9	195.0	51.7	7.6	5.5	57.7
Operating profit before exceptional items[1]	44.6	31.6	30.9	8.9	0.5	1.2	9.9
Operating exceptional items[1]	–	–	–	–	–	–	–
Operating profit	44.6	31.6	30.9	8.9	0.5	1.2	9.9
Capital employed[2]	116.7	67.0	107.8	42.7	5.0	2.2	30.8
Capital expenditure	192.2	17.8	54.3	2.2	1.6	–	17.8
Group share	106.3	8.2	26.4	0.6	0.5	–	2.0
Other partners	85.9	9.6	27.9	1.6	1.1	–	15.8
Depreciation and amortisation[1]	32.7	10.3	11.2	2.8	0.6	0.1	0.8
2004							
Turnover[1]	230.0	238.9	178.1	36.3	7.7	5.5	17.4
Operating profit before exceptional items[1]	40.8	30.4	28.2	6.3	0.7	1.4	4.7
Operating exceptional items[1]	(0.8)	(0.8)	(1.0)	–	–	–	–
Operating profit	40.0	29.6	27.2	6.3	0.7	1.4	4.7
Capital employed[2]	89.5	69.3	99.9	35.3	4.9	2.5	9.7
Capital expenditure	58.5	15.5	30.1	2.1	2.7	0.1	–
Group share	25.7	7.4	14.8	0.6	0.7	–	–
Other partners	32.8	8.1	15.3	1.5	2.0	0.1	–
Depreciation and amortisation[1]	27.0	10.2	10.1	2.7	0.5	0.1	1.0

1) Group share.

2) Capital employed comprises the Group's share of the net assets of joint ventures or associates.

3) The decrease in capital employed of joint ventures in 2004 is principally due to the acquisition of an additional 30 per cent ownership interest in the Cantarell joint venture (see note 28a)).

4) The Afrox hospitals business was accounted for as a subsidiary company until March 2005 and thereafter as an associated company, following the disposal of BOC's controlling interest.

	Joint ventures			Associates			
	Process Gas Solutions £ million	Industrial and Special Products £ million	BOC Edwards £ million	Process Gas Solutions £ million	Industrial and Special Products £ million	BOC Edwards £ million	Afrox hospitals £ million
2003							
Turnover[1]	191.9	221.6	130.8	30.9	8.6	5.7	15.4
Operating profit before exceptional items[1]	39.0	25.6	22.2	5.8	0.7	1.4	3.5
Operating exceptional items[1]	(2.5)	(1.8)	(2.5)	–	–	–	–
Operating profit	36.5	23.8	19.7	5.8	0.7	1.4	3.5
Capital employed[2]	183.8	108.2	118.0	40.8	7.2	3.3	8.3
Capital expenditure	40.7	10.5	20.7	8.0	1.1	0.4	–
Group share	17.7	5.1	10.3	2.5	0.3	0.2	–
Other partners	23.0	5.4	10.4	5.5	0.8	0.2	–
Depreciation and amortisation[1]	28.0	10.1	9.6	5.4	1.2	0.6	0.7

1) Group share.

2) Capital employed comprises the Group's share of the net assets of joint ventures or associates.

e) *Joint ventures and associates – regional analysis*

	Joint ventures		Associates		
	Americas £ million	Asia/Pacific £ million	Americas £ million	Africa £ million	Asia/Pacific £ million
2005					
Turnover[1]	140.2	587.6	41.5	57.7	23.3
Operating profit before exceptional items[1]	24.1	83.0	3.7	10.2	6.6
Operating exceptional items[1]	–	–	–	–	–
Operating profit	24.1	83.0	3.7	10.2	6.6
Capital employed[2]	(10.8)	302.3	16.0	31.6	33.1
Capital expenditure	103.2	161.1	0.1	17.8	3.7
Group share	64.0	76.9	–	2.0	1.1
Other partners	39.2	84.2	0.1	15.8	2.6
2004					
Turnover[1]	87.6	559.4	26.5	17.4	23.0
Operating profit before exceptional items[1]	17.2	82.2	1.1	4.7	7.3
Operating exceptional items[1]	–	(2.6)	–	–	–
Operating profit	17.2	79.6	1.1	4.7	7.3
Capital employed[2]	(30.0)	288.7	12.5	9.7	30.2
Capital expenditure	6.0	98.1	0.1	–	4.8
Group share	2.4	45.5	–	–	1.3
Other partners	3.6	52.6	0.1	–	3.5
2003					
Turnover[1]	68.0	476.3	19.1	15.4	26.1
Operating profit before exceptional items[1]	19.1	67.7	(0.7)	3.5	8.6
Operating exceptional items[1]	–	(6.8)	–	–	–
Operating profit	19.1	60.9	(0.7)	3.5	8.6
Capital employed[2]	26.5	383.5	13.1	8.3	38.2
Capital expenditure	13.8	58.1	6.0	–	3.5
Group share	5.4	27.7	1.8	–	1.2
Other partners	8.4	30.4	4.2	–	2.3

1) Group share.

2) Capital employed comprises the Group's share of the net assets of joint ventures or associates.

3) The decrease in capital employed of joint ventures in 2004 is principally due to the acquisition of an additional 30 per cent ownership interest in the Cantarell joint venture (see note 28a)).

4) The Afrox hospitals business was accounted for as a subsidiary company until March 2005 and thereafter as an associated company, following the disposal of BOC's controlling interest.

f) Significant country analysis

	UK			US		
	2005 £ million	2004 £ million	2003 £ million	2005 £ million	2004 £ million	2003 £ million
Turnover[1]	993.2	973.9	914.3	887.1	959.7	1,013.5
Total operating profit before exceptional items[1]	85.5	112.9	110.4	41.7	21.5	31.3
Operating exceptional items[1]	(5.1)	–	(5.0)	(15.6)	(14.8)	(48.9)
Operating profit	80.4	112.9	105.4	26.1	6.7	(17.6)
Profit/(loss) on disposal of business	–	–	–	13.2	(79.5)	–
Profit on disposal of fixed assets	–	4.9	–	10.5	–	–
Capital employed[2]	530.2	575.8	629.5	932.1	820.7	1,039.5
Capital expenditure[3]	93.1	60.7	92.4	115.5	56.2	71.0

1) Including share of joint ventures and associates.

2) Capital employed comprises the capital and reserves of the Group, its long-term liabilities and all current borrowings net of cash and deposits.

3) Subsidiary undertakings only.

2. Profit and loss

a) Analysis of costs

	2005 £ million	2004 £ million	2003 £ million
i) Expense category			
Cost of sales	(2,161.6)	(2,181.7)	(2,137.9)
Distribution costs	(316.3)	(317.7)	(321.7)
Administrative expenses[1]	(861.0)	(936.6)	(913.2)
Income from other fixed asset investments	0.1	0.2	1.7
Net operating expenses	(1,177.2)	(1,254.1)	(1,233.2)

	Continuing operations before exceptional items £ million	Exceptional items[2] £ million	Total £ million
ii) 2005 analysis			
Cost of sales	(2,161.6)	–	(2,161.6)
Distribution costs	(316.3)	–	(316.3)
Administrative expenses[1]	(840.3)	(20.7)	(861.0)
Income from other fixed asset investments	0.1	–	0.1
Net operating expenses	(1,156.5)	(20.7)	(1,177.2)
iii) 2004 analysis			
Cost of sales	(2,181.7)	–	(2,181.7)
Distribution costs	(317.7)	–	(317.7)
Administrative expenses[1]	(921.8)	(14.8)	(936.6)
Income from other fixed asset investments	0.2	–	0.2
Net operating expenses	(1,239.3)	(14.8)	(1,254.1)

	Continuing operations before exceptional items £ million	Exceptional items[2] £ million	Total £ million
iv) 2003 analysis			
Cost of sales	(2,136.2)	(1.7)	(2,137.9)
Distribution costs	(318.6)	(3.1)	(321.7)
Administrative expenses[1]	(857.8)	(55.4)	(913.2)
Income from other fixed asset investments	1.7	–	1.7
Net operating expenses	(1,174.7)	(58.5)	(1,233.2)

1) Included in total administrative expenses is research and development expenditure of £43.2 million (2004: £41.6 million, 2003: £39.9 million).

2) All exceptional items arose in continuing operations.

b) Exceptional items analysis

	2005 £ million	2004 £ million	2003 £ million
Charged in arriving at operating profit			
Restructuring costs	(6.8)	(17.4)	(23.8)
Impairment of goodwill	(13.9)	–	–
Litigation settlement	–	–	(43.2)
Total operating exceptional items	(20.7)	(17.4)	(67.0)

i) Restructuring costs and impairment of goodwill

£20.7 million has been charged in 2005 for restructuring in BOC Edwards. This comprises goodwill impairment of £13.9 million and severance costs. Savings of approximately £5 million are targeted from this restructuring during 2006.

In 2004 following the sale of the packaged gas business in the US, costs of £14.8 million were incurred to restructure the footprint of the remaining business in the US. This covered the severance costs and other costs of restructuring those functions which are shared by BOC's businesses in the US. Restructuring costs in 2004 also included a charge of £2.6 million (2003: £8.3 million) relating to the integration of BOC's gases business and part of the Air Liquide business in Japan to form Japan Air Gases.

The restructuring costs in 2003 related to various programmes including programmes under the business initiative announced in August 2001. The major programmes covered investments in information management systems, the restructuring of BOC Edwards' manufacturing capacity and restructuring to deliver operational efficiencies in Process Gas Solutions and Industrial and Special Products. These programmes were completed in 2004.

Cash flow from operating activities includes an outflow of £16.9 million (2004: £11.9 million, 2003: £28.3 million) in respect of the various restructuring programmes.

ii) Litigation settlement

An action was filed in the US against The BOC Group Cash Balance Retirement Plan (the Plan). It was alleged that the Plan improperly calculated lump sum distributions from the Plan in violation of the Employee Retirement Income Security Act. In November 2003, the parties reached an agreement to settle at US$69 million (£43.2 million).The settlement was approved by the court in March 2004. The full amount was provided in 2003 as an exceptional item. The settlement is being paid out of Plan assets.

	2005 £ million	2004 £ million	2003 £ million
Credited/(charged) after operating profit			
Profit on disposal of businesses – continuing operations	98.1	–	–
Loss on disposal of business – continuing operations	–	(79.5)	–
Profit on disposal of fixed assets – continuing operations	10.5	4.9	–
Total non-operating exceptional items	108.6	(74.6)	–

iii) Disposal of businesses

The sale of Afrox Healthcare Limited in South Africa was completed on 22 March 2005. African Oxygen Limited, BOC's subsidiary in South Africa, retains a significant interest in the hospitals business through a 20 per cent holding in the new company. The gain on disposal was £84.9 million.

The sale of the packaged gas business in the US was completed on 30 July 2004. The loss on disposal of £79.5 million in 2004 included the write-off of the assets associated with the business, severance and other disposal costs. It also included a goodwill write-off of £19.9 million, of which £15.3 million had been written off to reserves in the years up to, and including, 1998 in accordance with prevailing UK GAAP at that time. Part of the consideration was payable subject to certain conditions and accordingly was not recognised in 2004. This remaining consideration was received in November 2005 and has been recognised in 2005 as an exceptional item.

iv) Profit on disposal of fixed assets

The sale of an investment in the US in 2005 resulted in a profit of £10.5 million, which has been accounted for as an exceptional item. The sale of property in the UK in 2004 resulted in a profit of £4.9 million, which was accounted for as an exceptional item.

c) Fees to auditors

	2005 £ million	2004 £ million	2003 £ million
Audit fees (Parent £0.3 million, 2004: £0.4 million, 2003: £0.4 million)	2.2	2.5	2.0
Non-audit fees			
Tax services			
– advisory	1.0	0.7	0.8
– compliance	0.2	0.4	0.8
Audit related services[1)]	1.9	0.9	0.5
Other services (expatriate administration services)[2)]	1.1	1.1	1.4
Total non-audit fees	4.2	3.1	3.5
Total fees paid to auditors	6.4	5.6	5.5

1) Audit related services include advice associated with the implementation of Section 404 of the US Sarbanes-Oxley Act 2002 and International Financial Reporting Standards. These services are treated as non-audit services in 2005.

2) The expatriate administration contract was signed in June 2001 for a five year period following a competitive tender process.

3) The audit fees for the Afrox hospitals business are £0.4 million for 2005. These fees are not included in the above figures for 2005 following the disposal by BOC's South African subsidiary of its majority shareholding in Afrox Healthcare Limited in March 2005.

BOC operates a number of policies designed to ensure auditor independence and objectivity. The audit committee is responsible for overseeing implementation of these policies including the review of all expenditure related to non-audit services. The audit committee, by delegation to the chairman of the audit committee, approves in advance any non-audit services and has approved a policy that prevents the use of the auditor for any services that could threaten the independence or objectivity of the audit.

3. Interest on net debt

	2005 £ million	2004 £ million	2003 £ million
Interest payable on borrowings totally repayable within five years	52.5	55.9	48.0
Interest payable on all other borrowings	30.5	35.9	46.5
Interest payable and similar charges	83.0	91.8	94.5
Interest capitalised	(1.1)	(0.1)	(0.8)
Interest payable (net of interest capitalised)	81.9	91.7	93.7
Interest receivable and similar income	(34.3)	(21.2)	(17.9)
Interest (net)	47.6	70.5	75.8
Share of interest of joint ventures (net)	25.1	17.0	19.3
Share of interest of associates (net)	4.0	0.9	1.0
Total interest on net debt	76.7	88.4	96.1
Interest payable on finance leases	0.7	1.7	3.5
Interest payable on borrowings repayable by instalments	7.0	10.0	14.1

Share of interest of joint ventures and associates is after deducting interest capitalised of £1.8 million (2004: £0.5 million, 2003: £0.1 million).

4. Tax

a) *Tax on profit on ordinary activities*

	2005 £ million	2004 £ million	2003 £ million
Current tax:			
Payable in the UK			
Corporation tax at 30% (2004: 30%, 2003: 30%)	116.6	79.8	85.7
Double tax relief	(84.1)	(52.9)	(57.5)
	32.5	26.9	28.2
Payable overseas			
US – Federal tax at 35% (2004: 35%, 2003: 35%)	(3.2)	0.1	0.2
– State and local taxes	–	0.1	(0.3)
Australia at 30% (2004: 30%, 2003: 30%)	20.7	23.2	16.4
South Africa at 29% (2004: 30%, 2003: 30%)	58.3	35.5	26.0
Japan at 42% (2004: 42%, 2003: 42%)	16.8	14.1	11.3
Other countries	40.9	14.3	35.6
	133.5	87.3	89.2
Total current tax	166.0	114.2	117.4
Deferred tax:			
Origination and reversal of timing differences	(6.1)	(12.4)	(20.9)
Effect of change in tax rate on opening liability	–	(0.1)	(0.1)
Total deferred tax[1)]	(6.1)	(12.5)	(21.0)
Tax on profit on ordinary activities	159.9	101.7	96.4
Analysis of charge in the year by entity type			
Subsidiary undertakings	130.2	75.9	77.9
Share of joint ventures	26.1	23.5	16.0
Share of associates	3.6	2.3	2.5
Tax on profit on ordinary activities	159.9	101.7	96.4

1) The deferred tax includes a credit of £4.7 million (2004: £13.5 million, 2003: £18.5 million) relating to subsidiary undertakings. The balance relates to the Group’s share of joint ventures and associates.

The tax charge includes a credit of £7.7 million for operating exceptional items (2004: £18.9 million, 2003: £25.0 million) and a charge of £36.1 million for non-operating exceptional items (2004: £25.6 million credit, 2003: £nil).The effective rate of tax on adjusted profit was 26.0 per cent (2004: 29.0 per cent, 2003: 29.0 per cent).The total rate of tax was 26.9 per cent (2004: 24.7 per cent, 2003: 27.4 per cent).

b) Deferred tax

i) Deferred tax UK GAAP

	2005 £ million	2004 £ million	2003 £ million
Analysis			
Arising from accelerated depreciation allowances	271.6	312.2	346.5
Other timing differences	(27.7)	(34.2)	(43.7)
Tax losses and other credits available	(8.3)	(30.8)	(30.2)
	235.6	247.2	272.6
Movement during the year[1]			
At 1 October 2004	247.2	272.6	283.9
Exchange adjustment	6.6	(3.8)	5.7
Arising during the year	(4.7)	(13.5)	(18.5)
Transfers to current tax	(14.4)	(0.2)	(1.0)
Acquisitions/(disposals) of businesses	–	–	(18.7)
Other movements	0.9	(7.9)	21.2
At 30 September 2005	235.6	247.2	272.6
The balance at 30 September 2005 is shown in:			
Provisions for liabilities and charges (note 22)	241.9	253.0	279.2
Less: Debtors falling due after more than one year (note 15 b))	6.3	5.8	6.6
	235.6	247.2	272.6

1) Subsidiary undertakings only.

ii) Deferred tax – US GAAP

For US GAAP reporting, the Group follows SFAS 109, Accounting for Income Taxes, in respect of deferred taxation. SFAS 109 requires deferred tax to be fully provided on all temporary differences.

The table below provides a reconciliation of deferred taxes from a UK GAAP basis to a US GAAP basis at 30 September 2005.

	UK GAAP £ million	Adjustments to US GAAP £ million	US GAAP £ million
Accelerated capital allowances	271.6	–	271.6
Other temporary differences	(27.7)	(6.3)	(34.0)
Tax losses and other credits available	(8.3)	–	(8.3)
	235.6	(6.3)	229.3

1) The UK deferred tax balance of £235.6 million does not include the deferred tax asset of £98.4 million relating to the Group's net pension liabilities. As required by the applicable UK GAAP accounting standard, FRS17, this asset is set against the relevant retirement benefit liability to show the net position (see note 8 a)). If it was included above, it would be wholly reversed in the adjustments to US GAAP.

	US GAAP £ million
Movement during the year	
At 1 October 2004	237.0
Exchange adjustment	8.0
Arising during the year[2)]	22.2
Transfers to current tax	(14.4)
Acquisitions/(disposals) of businesses	–
Other movements[3)]	(23.5)
At 30 September 2005	229.3

2) The amount arising during the year includes a charge of £28.5 million in respect of the undistributed earnings of foreign subsidiaries and joint ventures.

3) This mainly relates to the deferred tax on an additional minimum pension liability under US GAAP. See note 8 c) and 30 f).

The components of deferred tax assets/(liabilities) at 30 September 2005 were:

	2005 £ million	2004 £ million
Long-term		
Asset	156.9	153.6
Liability	(370.8)	(383.9)
Net liability	(213.9)	(230.3)
Short-term		
Asset	26.8	19.1
Liability	(42.2)	(25.8)
Net (liability)/asset	(15.4)	(6.7)
Total deferred tax assets	183.7	172.7
Total deferred tax liabilities	(413.0)	(409.7)
	(229.3)	(237.0)

c) *Factors affecting the current and total tax charge for the period*

The table set out below provides a reconciliation between the UK corporation tax rate and the Group's total tax rate, and between the UK corporation tax rate and the effective tax rate on adjusted profit, computed by taking the various elements of the tax reconciliation as a percentage of the profit before tax and the adjusted profit before tax.

	Reconciliation of total tax rate			Reconciliation of effective tax rate on adjusted profit		
	2005 %	2004 %	2003 %	2005 %	2004 %	2003 %
UK corporation tax rate	30.0	30.0	30.0	30.0	30.0	30.0
Difference in tax rates of overseas subsidiaries, joint ventures and associates	0.1	1.1	0.5	0.1	0.9	0.4
Excess of tax depreciation over book depreciation	(0.6)	(2.5)	(3.3)	(0.7)	(2.1)	(2.8)
Other timing differences	–	(0.9)	2.1	0.1	(0.7)	1.8
State and local taxes	0.4	0.2	0.3	0.4	0.2	0.3
Net (utilisation)/creation of losses	(2.0)	–	0.9	(2.4)	–	0.7
Investment tax credits	(0.3)	–	(0.1)	(0.3)	–	(0.1)
Prior year tax	(1.2)	(3.0)	(0.1)	(1.4)	(2.4)	–
Tax effect of exceptional items	(0.3)	3.6	4.4	–	–	–
Permanent items and other items with less than a 5% net effect	1.9	(0.8)	(1.3)	2.2	(0.7)	(1.1)
Current total tax rate/effective tax rate	28.0	27.7	33.4	28.0	25.2	29.2
Deferred tax timing differences	(1.1)	(3.0)	(6.0)	(2.0)	3.8	(0.2)
Total tax rate/effective tax rate	26.9	24.7	27.4	26.0	29.0	29.0

Profit on ordinary activities before tax, as shown in the consolidated profit and loss account, is analysed over its component parts as follows:

	2005 £ million	2004 £ million	2003 £ million
UK	59.2	83.7	67.0
Overseas	534.4	328.6	284.9
	593.6	412.3	351.9

d) *Factors that may affect future tax charges*

The total charge in future periods will be affected by any changes to the corporation tax rates in force in the countries in which the Group operates. The current tax charge will also be affected by changes in the excess of tax depreciation over book depreciation and the use of tax credits.

e) Unused tax credits

On a consolidated basis, the Group has net operating loss carryforwards of £1.3 million. If not offset against taxable income, these losses will expire as follows:

Year	Net operating loss £ million
2006	–
2007	–
2008	–
2009	–
2010	–
Thereafter, or no expiry date	1.3

For US Federal tax purposes, the Group has investment tax credits and general business tax credits to carry forward of approximately £7.8 million, which are available to reduce income taxes otherwise payable. These do not expire until 2006 or thereafter.

In addition, the Group has alternative minimum tax credits for US Federal income tax purposes of approximately £27.3 million which can be carried forward to reduce regular tax liabilities of future years. There is no expiration date on these credits.

Investment tax credits are accounted for by the flow-through method whereby they reduce income taxes currently payable and the provision for income taxes in the period in which the assets giving rise to such credits are placed in service. Deferred tax assets, subject to the need for a valuation allowance, are recognised to the extent that the investment tax credits are not currently utilised.

5. Directors

Directors' remuneration and interests are given in the report on remuneration on pages 72 to 83.

6. Employee numbers

a) *Subsidiaries*

	2005		2004	
	Year end	**Average**	**Year end**	**Average**
i) Employees by business				
Process Gas Solutions	6,821	6,430	5,836	5,631
Industrial and Special Products	13,004	12,991	13,874	14,895
BOC Edwards	4,680	4,780	4,911	4,823
Afrox hospitals	–	6,628	13,392	13,654
Gist	5,638	5,135	4,961	4,852
Corporate	429	416	409	405
	30,572	36,380	43,383	44,260
ii) Employees by region				
Europe	13,408	12,912	12,712	12,504
Americas	6,216	6,223	6,283	7,140
Africa	3,541	10,049	16,790	17,073
Asia/Pacific	7,407	7,196	7,598	7,543
	30,572	36,380	43,383	44,260
b) Joint ventures and associates				
Joint ventures	6,111	6,152	6,094	5,993
Associates	14,124	7,516	906	885
	20,235	13,668	7,000	6,878

c) *Employment costs*[1)]

	2005 £ million	2004 £ million	2003 £ million
Wages and salaries	790.5	855.2	844.7
Social security costs	74.8	79.6	77.7
Other pension costs[2)]	86.6	80.8	115.4
	951.9	1,015.6	1,037.8

1) Subsidiary undertakings only.

2) Other pension costs includes an exceptional credit of £nil (2004: £4.4 million, 2003 £43.2 million charge). See also notes 2 b) and 8 a).

7. Options and incentive schemes

a) *Policy*

Executive options that are granted at the market price of the company's shares at the time of the grant do not attract a compensation expense under UK GAAP. For those executive options, including the Long-Term Incentive Plan, that are granted at a discount to the market price of the company's shares at the time of the grant, the compensation expense is charged to the profit and loss account over the life of the option. The Group takes advantage of the exemption granted under UITF17 (revised 2003), Employee Share Schemes, whereby no compensation expense need be recorded for employee schemes that are granted at a discount.

b) *Summary of movements*

BOC operates share option schemes for both executives and employees. The features of these are given in the report on remuneration on pages 73 to 75 and in the employees report on page 25.

	Employee options			Executive options			Long-term incentive plan[1]
	Number of shares million	Range of option prices	Weighted average option price	Number of shares million	Range of option prices	Weighted average option price	Number of shares million
Outstanding at 1 October 2002	5.4	650p-914p	855p	23.5	677p-1119p	943p	–
Granted	2.3	698p	698p	4.9	776p-873p	837p	1.2
Exercised	(0.3)	650p-914p	826p	(0.4)	677p-851p	751p	–
Lapsed	(1.1)	650p-914p	868p	(1.6)	677p-1016p	937p	–
Outstanding at 30 September 2003	6.3	698p-914p	801p	26.4	677p-1119p	926p	1.2
Granted	1.2	795p	795p	2.9	820p-896p	820p	1.4
Exercised	(0.7)	698p-914p	811p	(0.7)	677p-919p	749p	–
Lapsed	(1.2)	698p-914p	821p	(2.0)	677p-1119p	940p	(0.1)
Outstanding at 30 September 2004	5.6	698p-914p	794p	26.6	722p-1079p	919p	2.5
Granted	1.1	787p	787p	1.7	905p-1074p	905p	1.5
Exercised	(0.8)	698p-914p	857p	(3.5)	722p-1016p	887p	–
Lapsed	(0.6)	698p-914p	824p	(1.7)	776p-1034p	921p	(0.6)
Outstanding at 30 September 2005	5.3	698p-914p	780p	23.1	776p-1079p	922p	3.4
Number of participants at 30 September 2005	5,361			1,284			129
Options exercisable:							
At 30 September 2005	0.1	823p-914p	873p	14.8	848p-1079p	965p	0.5
At 30 September 2004	0.2	766p-894p	875p	6.3	722p-980p	892p	–
Fair value of options granted during:							
Year ended 30 September 2005	254p			175p			737p
Year ended 30 September 2004	205p			175p			705p

1) The long-term incentive plan was granted at an option price of £nil.

The weighted average fair value of options granted during the year was calculated using the Black-Scholes option pricing model. Details of the assumptions used are given in note 30 h).

c) *Analysis of options outstanding*

	Employee options			Executive options			Long-term incentive plan[1]	
	Number of options thousand	Weighted average option price	Normal exercisable date	Number of options thousand	Weighted average option price	Normal exercisable date	Number of awards thousand	Normal exercisable date
Outstanding at 30 September 2005								
Date of grant								
1996	–	–	–	410	916p	1999-2006	–	–
1997	–	–	–	669	980p	2000-2007	–	–
1998	20	823p	2005-2006	1,060	916p	2001-2008	–	–
1999	231	766p	2004-2007	1,281	859p	2002-2009	–	–
2000	257	870p	2005-2008	3,997	937p	2003-2010	–	–
2001	461	894p	2004-2009	3,184	994p	2004-2011	–	–
2002	446	914p	2005-2010	4,189	1016p	2005-2012	–	–
2003	1,872	698p	2006-2011	4,076	839p	2006-2013	982	2006-2013
2004	1,009	795p	2007-2012	2,564	820p	2007-2014	1,159	2007-2014
2005	1,024	787p	2008-2013	1,669	905p	2008-2015	1,273	2008-2015
	5,320			23,099			3,414	

1) The long-term incentive plan was granted at an option price of £nil.

8. Pensions and other retirement benefits

a) *UK GAAP Group*

The Group operates a number of pension schemes throughout the world. The larger schemes are self-administered and the schemes' assets are held independently of the Group's finances. Pension costs are assessed in accordance with the advice of independent, professionally qualified actuaries.

Contributions to funded defined benefit schemes are based on advice from independent actuaries using actuarial methods, the objective of which is to provide adequate funds to meet pension obligations as they fall due. For the two largest schemes, in the UK and US, the dates of the latest actuarial reviews are 31 March 2002 and 1 January 2004 respectively.

In South Africa, under the Pension Funds Second Amendment Act 2001, surpluses in pension funds have to be used in a manner specified in Regulations to the Act to improve current and former members' benefits before the employer can obtain any benefit from the surpluses. Consequently, it is considered unlikely that the company will obtain any benefit from the surpluses in the South African schemes. Therefore, in accordance with FRS17, the surpluses at 30 September 2005 have been written off in the statement of total recognised gains and losses.

In Europe, company contributions to the main scheme in respect of current service are currently payable at a rate of 13.8 per cent of payroll. In the year ended 30 September 2005 the company made additional contributions of £36 million to this scheme in order to reduce the funding valuation deficit. The level of additional contributions for the year to 30 September 2006 is expected to be up to 20 per cent higher than in 2005.

In the Americas, company contributions to the main pension plan remain suspended as the plan continues to be in surplus.

In Africa, company contributions were payable at rates ranging from 11 per cent to 21 per cent of payroll and are expected to remain at that level for the year to 30 September 2006.

In Asia/Pacific, company contributions to the main scheme were payable at rates ranging from 9 per cent to 20 per cent of payroll and are expected to remain at that level for the year to 30 September 2006.

Some of the defined benefit schemes, including the UK scheme, are closed to new members. It is therefore expected that under the projected unit method prescribed by FRS17 the contribution rate in respect of current service will increase as the members of the schemes approach retirement.

The most recent actuarial funding valuations have been updated by independent qualified actuaries, in order to assess the liabilities of the schemes at 30 September 2005 for the purposes of FRS17. Scheme assets are stated at their market value at 30 September 2005.

	Europe	Americas	Africa	Asia/Pacific
Main assumptions for FRS17 purposes				
2005				
Rate of increase in salaries	4.4%	3.8%	5.5%	3.5%
Rate of increase in pensions in payment	2.9%	–	4.5%	2.4%
Discount rate	5.0%	5.4%	8.5%	5.4%
Inflation	2.9%	2.6%	4.5%	2.5%
2004				
Rate of increase in salaries	4.4%	3.8%	7.5%	3.6%
Rate of increase in pensions in payment	2.9%	–	5.3%	2.4%
Discount rate	5.5%	5.7%	10.0%	6.1%
Inflation	2.9%	2.5%	5.5%	2.5%
2003				
Rate of increase in salaries	4.1%	3.75%	7.5%	3.5%
Rate of increase in pensions in payment	2.6%	–	4.8%	2.5%
Discount rate	5.3%	5.9%	10.0%	6.2%
Inflation	2.6%	2.5%	5.0%	2.5%
Date of latest actuarial funding valuation	31 Mar 02	01 Jan 04	30 Jun 04	31 Dec 03

The assumptions used for the US health care benefits for FRS17 purposes are a discount rate of 5.4 per cent (2004: 5.7 per cent, 2003: 5.9 per cent) and an ultimate health care cost trend rate of 4.5 per cent (2004: 4.5 per cent, 2003: 4.5 per cent).

Contributions to non defined benefit schemes in the year were £15.9 million (2004: £15.6 million, 2003: £12.0 million) and are included in note 6 c).

The assets in the schemes and the expected rates of return were:

	Equities	Bonds	Other	Total
Long-term rate of return expected at 30 September 2005				
Europe	7.7%	4.6%	7.2%	–
Americas	7.7%	3.9%	3.9%	–
Africa	10.9%	6.4%	5.7%	–
Asia/Pacific	7.7%	4.3%	4.9%	–
Value at 30 September 2005 (£ million)				
Europe	1,016.0	279.7	218.1	1,513.8
Americas	310.3	76.2	0.3	386.8
Africa	111.9	15.6	14.7	142.2
Asia/Pacific	154.8	8.8	51.7	215.3
Total	1,593.0	380.3	284.8	2,258.1
Long-term rate of return expected at 30 September 2004				
Europe	8.5%	5.1%	7.5%	–
Americas	9.5%	3.2%	3.5%	–
Africa	13.5%	10.0%	9.0%	–
Asia/Pacific	8.1%	4.6%	5.0%	–
Value at 30 September 2004 (£ million)				
Europe	870.3	260.5	106.9	1,237.7
Americas	292.7	76.1	0.3	369.1
Africa	93.8	17.5	6.9	118.2
Asia/Pacific	116.7	15.6	37.1	169.4
Total	1,373.5	369.7	151.2	1,894.4
Long-term rate of return expected at 30 September 2003				
Europe	8.5%	5.0%	6.4%	–
Americas	9.5%	4.1%	–	–
Africa	13.0%	10.0%	8.1%	–
Asia/Pacific	8.5%	4.8%	5.2%	–
Value at 30 September 2003 (£ million)				
Europe	793.9	216.1	62.3	1,072.3
Americas	307.0	66.2	–	373.2
Africa	73.6	16.8	7.9	98.3
Asia/Pacific	105.6	15.1	25.2	145.9
Total	1,280.1	314.2	95.4	1,689.7

The following amounts at 30 September 2005 were measured in accordance with the requirements of FRS17:

	Europe £ million	Americas pensions £ million	Americas health care £ million	Africa £ million	Asia/Pacific £ million	Total £ million
2005						
Total market value of assets	1,513.8	386.8	–	142.2	215.3	2,258.1
Present value of scheme liabilities	(1,969.0)	(257.8)	(44.5)	(104.5)	(206.8)	(2,582.6)
Irrecoverable surplus	–	–	–	(37.7)	–	(37.7)
(Deficit)/surplus in the scheme	(455.2)	129.0	(44.5)	–	8.5	(362.2)
Related deferred tax asset/(liability)	133.4	(51.4)	18.6	–	(2.2)	98.4
Net pension (liabilities)/assets[1)]	(321.8)	77.6	(25.9)	–	6.3	(263.8)
2004						
Total market value of assets	1,237.7	369.1	–	118.2	169.4	1,894.4
Present value of scheme liabilities	(1,682.0)	(266.0)	(46.4)	(91.8)	(163.8)	(2,250.0)
Irrecoverable surplus	–	–	–	(26.4)	–	(26.4)
(Deficit)/surplus in the scheme	(444.3)	103.1	(46.4)	–	5.6	(382.0)
Related deferred tax asset/(liability)	130.4	(41.0)	18.3	–	(1.3)	106.4
Net pension (liabilities)/assets[1)]	(313.9)	62.1	(28.1)	–	4.3	(275.6)
2003						
Total market value of assets	1,072.3	373.2	–	98.3	145.9	1,689.7
Present value of scheme liabilities	(1,516.9)	(294.0)	(50.5)	(92.5)	(142.1)	(2,096.0)
Irrecoverable surplus	–	–	–	(5.8)	–	(5.8)
(Deficit)/surplus in the scheme	(444.6)	79.2	(50.5)	–	3.8	(412.1)
Related deferred tax asset/(liability)	133.4	(31.2)	19.9	–	(1.1)	121.0
Net pension (liabilities)/assets[1)]	(311.2)	48.0	(30.6)	–	2.7	(291.1)

1) Included in the net pension (liabilities)/assets are assets of £88.7 million (2004: £68.9 million, 2003: £50.7 million) and liabilities of £352.5 million (2004: £344.5 million, 2003: £341.8 million). In addition to deferred tax on pension assets and liabilities, a further £42.1 million (2004: £22.0 million) of current tax relating to pension assets and liabilities is included within Creditors: amounts falling due within one year. Of this, £8.4 million (2004: £3.2 million) has been accounted for in the total recognised gains and losses and £11.7 million (2004: £18.8 million) has been included in the profit and loss account. There were no equivalent current tax items in 2003.

	Europe £ million	Americas pensions £ million	Americas health care £ million	Africa £ million	Asia/Pacific £ million	Total £ million
Analysis of the amount charged to operating profit						
Year to 30 September 2005						
Current service cost	(48.7)	(10.1)	(1.5)	(2.2)	(8.2)	(70.7)
Past service cost	–	–	–	–	–	–
Curtailments/settlements	–	–	–	–	–	–
Total operating charge	(48.7)	(10.1)	(1.5)	(2.2)	(8.2)	(70.7)
Year to 30 September 2004						
Current service cost	(47.4)	(10.1)	(1.5)	(2.4)	(7.7)	(69.1)
Past service cost	(0.5)	–	–	–	–	(0.5)
Curtailments/settlements[2)]	–	1.6	2.8	–	–	4.4
Total operating charge	(47.9)	(8.5)	1.3	(2.4)	(7.7)	(65.2)
Year to 30 September 2003						
Current service cost	(39.4)	(12.3)	(1.6)	(2.1)	(7.9)	(63.3)
Past service cost[3)]	(0.4)	(43.2)	–	–	–	(43.6)
Curtailments/settlements	3.5	–	–	–	–	3.5
Total operating charge	(36.3)	(55.5)	(1.6)	(2.1)	(7.9)	(103.4)

2) The curtailment gains in Americas pensions and Americas health care in 2004 relate to the sale of the US packaged gas business and were accounted for as exceptional items (see note 2b)).

3) The past service cost amounts in Americas pensions in 2003 were accounted for as exceptional items (see note 2b)).

	Europe £ million	Americas pensions £ million	Americas health care £ million	Africa £ million	Asia/Pacific £ million	Total £ million
Analysis of the amount included in other net financing income						
Year to 30 September 2005						
Expected return on pension scheme assets[4)]	96.7	26.9	–	10.9	12.5	147.0
Interest on pension scheme liabilities[4)]	(92.2)	(13.5)	(2.5)	(8.7)	(11.7)	(128.6)
Net interest on FRS17 pension schemes	4.5	13.4	(2.5)	2.2	0.8	18.4
Year to 30 September 2004						
Expected return on pension scheme assets[4)]	83.1	28.1	–	11.2	10.7	133.1
Interest on pension scheme liabilities[4)]	(80.4)	(15.4)	(2.6)	(8.9)	(9.7)	(117.0)
Net interest on FRS17 pension schemes	2.7	12.7	(2.6)	2.3	1.0	16.1
Year to 30 September 2003						
Expected return on pension scheme assets[4)]	70.2	29.1	–	10.8	9.4	119.5
Interest on pension scheme liabilities[4)]	(72.9)	(15.8)	(3.1)	(8.8)	(9.2)	(109.8)
Net interest on FRS17 pension schemes	(2.7)	13.3	(3.1)	2.0	0.2	9.7

4) The profit and loss account includes amounts relating to joint ventures and associates of £0.1 million and £(0.3) million in respect of expected return on pension scheme assets and interest on pension scheme liabilities respectively (2004: £0.1 million and £(0.4) million, 2003: £0.1 million and £(0.4) million).

	Europe £ million	Americas pensions £ million	Americas health care £ million	Africa £ million	Asia/Pacific £ million	Total £ million
Analysis of the amount recognised in the statement of total recognised gains and losses						
Year to 30 September 2005						
Actual return less expected return on pension scheme assets	159.8	25.6	–	27.8	18.6	231.8
Experience gains and losses arising on the scheme liabilities	9.2	1.2	7.6	–	(16.0)	2.0
Changes in assumptions underlying the present value of the scheme liabilities	(206.9)	(9.0)	(3.1)	(13.3)	(0.6)	(232.9)
Irrecoverable surplus	–	–	–	(16.2)	–	(16.2)
Actuarial (loss)/gain recognised in the statement of total recognised gains and losses[5)]	(37.9)	17.8	4.5	(1.7)	2.0	(15.3)
Year to 30 September 2004						
Actual return less expected return on pension scheme assets	31.9	17.6	–	12.5	14.2	76.2
Experience gains and losses arising on the scheme liabilities	(28.6)	12.5	0.2	–	(14.2)	(30.1)
Changes in assumptions underlying the present value of the scheme liabilities	(29.4)	(3.3)	(2.0)	5.9	–	(28.8)
Irrecoverable surplus	–	–	–	(20.6)	–	(20.6)
Actuarial (loss)/gain recognised in the statement of total recognised gains and losses[5)]	(26.1)	26.8	(1.8)	(2.2)	–	(3.3)
Year to 30 September 2003						
Actual return less expected return on pension scheme assets	73.7	44.2	–	(10.8)	4.7	111.8
Experience gains and losses arising on the scheme liabilities	8.3	(1.7)	0.1	0.1	(2.6)	4.2
Changes in assumptions underlying the present value of the scheme liabilities	(134.8)	(6.3)	(2.0)	–	–	(143.1)
Irrecoverable surplus	–	–	–	8.7	–	8.7
Actuarial (loss)/gain recognised in the statement of total recognised gains and losses[5)]	(52.8)	36.2	(1.9)	(2.0)	2.1	(18.4)

5) The statement of total recognised gains and losses includes amounts relating to joint ventures and associates and amounts in respect of minority interests of £(2.9) million (2004: £(1.1) million, 2003: £(0.9) million).

	Europe	Americas pensions	Americas health care	Africa	Asia/Pacific	Total
History of experience gains and losses						
Year to 30 September 2005						
Difference between the expected and actual return on scheme assets						
Amount (£ million)	159.8	25.6	–	27.8	18.6	231.8
Percentage of scheme assets	10.6%	6.6%	–	19.6%	8.6%	10.3%
Experience gains and losses on scheme liabilities						
Amount (£ million)	9.2	1.2	7.6	–	(16.0)	2.0
Percentage of the present value of scheme liabilities	0.5%	0.5%	17.1%	–	(7.7%)	0.1%
Total amount recognised in the statement of total recognised gains and losses						
Amount (£ million)	(37.9)	17.8	4.5	(1.7)	2.0	(15.3)
Percentage of the present value of scheme liabilities	(1.9%)	6.9%	10.1%	(1.6%)	1.0%	(0.6%)
Year to 30 September 2004						
Difference between the expected and actual return on scheme assets						
Amount (£ million)	31.9	17.6	–	12.5	14.2	76.2
Percentage of scheme assets	2.6%	4.8%	–	10.6%	8.4%	4.0%
Experience gains and losses on scheme liabilities						
Amount (£ million)	(28.6)	12.5	0.2	–	(14.2)	(30.1)
Percentage of the present value of scheme liabilities	(1.7%)	4.7%	0.4%	–	(8.7%)	(1.3%)
Total amount recognised in the statement of total recognised gains and losses						
Amount (£ million)	(26.1)	26.8	(1.8)	(2.2)	–	(3.3)
Percentage of the present value of scheme liabilities	(1.6%)	10.0%	(3.9%)	(2.4%)	–	(0.1%)
Year to 30 September 2003						
Difference between the expected and actual return on scheme assets						
Amount (£ million)	73.7	44.2	–	(10.8)	4.7	111.8
Percentage of scheme assets	6.9%	11.8%	–	(11.0%)	3.2%	6.6%
Experience gains and losses on scheme liabilities						
Amount (£ million)	8.3	(1.7)	0.1	0.1	(2.6)	4.2
Percentage of the present value of scheme liabilities	0.5%	(0.6%)	0.2%	0.1%	(1.8%)	0.2%
Total amount recognised in the statement of total recognised gains and losses						
Amount (£ million)	(52.8)	36.2	(1.9)	(2.0)	2.1	(18.4)
Percentage of the present value of scheme liabilities	(3.5%)	12.3%	(3.8%)	(2.2%)	1.5%	(0.9%)

	Europe	Americas pensions	Americas health care	Africa	Asia/Pacific	Total
Year to 30 September 2002						
Difference between the expected and actual return on scheme assets						
Amount (£ million)	(246.4)	(71.6)	–	3.0	(13.6)	(328.6)
Percentage of scheme assets	(26.2%)	(21.0%)	–	4.3%	(11.1%)	(22.3%)
Experience gains and losses on scheme liabilities						
Amount (£ million)	(9.7)	6.7	5.8	(3.9)	(1.3)	(2.4)
Percentage of the present value of scheme liabilities	(0.7%)	2.7%	11.6%	(6.6%)	(1.0%)	(0.1%)
Total amount recognised in the statement of total recognised gains and losses						
Amount (£ million)	(347.8)	(67.1)	(0.1)	(12.5)	(9.4)	(436.9)
Percentage of the present value of scheme liabilities	(26.1%)	(26.8 %)	(0.2%)	(21.1%)	(7.0%)	(23.9%)
Year to 30 September 2001						
Difference between the expected and actual return on scheme assets						
Amount (£ million)	(346.2)	(156.4)	–	(11.9)	(13.3)	(527.8)
Percentage of scheme assets	(30.3%)	(37.6%)	–	(15.0%)	(10.4%)	(29.9%)
Experience gains and losses on scheme liabilities						
Amount (£ million)	(7.6)	(0.9)	(6.9)	(0.3)	10.7	(5.0)
Percentage of the present value of scheme liabilities	(0.6%)	(0.3%)	(13.3%)	(0.4%)	8.2%	(0.3%)
Total amount recognised in the statement of total recognised gains and losses						
Amount (£ million)	(289.8)	(157.3)	(6.9)	(15.1)	(2.6)	(471.7)
Percentage of the present value of scheme liabilities	(24.7%)	(60.9%)	(13.3%)	(22.7%)	(2.0%)	(28.1%)

	Europe £ million	Americas pensions £ million	Americas health care £ million	Africa £ million	Asia/Pacific £ million	Total £ million
Movement in (deficit)/surplus during the year						
Year to 30 September 2005						
(Deficit)/surplus in scheme at 1 October	(444.3)	103.1	(46.4)	–	5.6	(382.0)
Movement in the year:						
Current service cost	(48.7)	(10.1)	(1.5)	(2.2)	(8.2)	(70.7)
Past service cost	–	–	–	–	–	–
Curtailments/settlements	–	–	–	–	–	–
Contributions	71.3	1.6	2.4	2.1	7.7	85.1
Other finance income	4.5	13.4	(2.5)	2.2	0.8	18.4
Actuarial (loss)/gain	(37.9)	17.8	4.5	(1.7)	2.0	(15.3)
Exchange adjustment	(0.1)	3.2	(1.0)	(0.4)	0.6	2.3
(Deficit)/surplus in scheme at 30 September	(455.2)	129.0	(44.5)	–	8.5	(362.2)
Year to 30 September 2004						
(Deficit)/surplus in scheme at 1 October	(444.6)	79.2	(50.5)	–	3.8	(412.1)
Movement in the year:						
Current service cost	(47.4)	(10.1)	(1.5)	(2.4)	(7.7)	(69.1)
Past service cost	(0.5)	–	–	–	–	(0.5)
Curtailments/settlements	–	1.6	2.8	–	–	4.4
Contributions	71.6	–	2.9	2.3	8.7	85.5
Other finance income	2.7	12.7	(2.6)	2.3	1.0	16.1
Actuarial (loss)/gain	(26.1)	26.8	(1.8)	(2.2)	–	(3.3)
Exchange adjustment	–	(7.1)	4.3	–	(0.2)	(3.0)
(Deficit)/surplus in scheme at 30 September	(444.3)	103.1	(46.4)	–	5.6	(382.0)

b) UK GAAP parent company

The company accounts for pension costs in accordance with FRS17 on retirement benefits. In accordance with the standard, the company treats contributions to defined benefit schemes as if they were contributions to a defined contribution plan. This is because the underlying assets and liabilities of the defined benefit schemes cover a number of the Group's UK undertakings and cannot readily be split between each undertaking on a consistent and reliable basis.

The pension cost recognised in the company's accounts is the total of company contributions payable to Group UK pension schemes in the year. The assets of all Group UK pension schemes are held independently of the Group's finances.The largest schemes are self-administered.

c) US GAAP

For the purposes of US GAAP, the pension costs of the largest schemes have been reclassified in the following tables in accordance with the requirement of SFAS 132. The changes in projected benefit obligation, plan assets and details of the funded status of these retirement plans, together with the changes in the accumulated other post-retirement benefit obligations of the Group's US business, are given below. The measurement date for UK and US pension plans is 30 June and the measurement date for the Australian and South African plans is 30 September. The difference between the UK and US GAAP information disclosed in note 8a) and c) is included in note 30.

Investment strategy for the schemes is generally set by their respective trustee or fiduciary, after taking advice from their investment advisers, and in consultation with the company. The strategy reflects the funding position of the schemes, and a careful assessment of the risks inherent over the long term in various asset classes. The assets of the schemes are diversified by asset class, by investment manager and by geography, in order to reduce risk. Strategy is reviewed periodically.

At 30 June 2005 the measurement date for SFAS 132 reporting, the target asset allocation and actual asset allocation of the main UK scheme was:

	2005		2004
	Target	Actual	Actual
Equity securities	68%	69%	72%
Debt securities	18%	17%	19%
Real estate	14%	13%	8%
Cash	0%	1%	1%

In the US, the fiduciary invests in short-term bonds to broadly cash match the liabilities that are expected to fall due within three years. The balance of the plan's assets is currently invested in equities. Following this policy, the actual asset allocations of the plan at 30 June 2005 were as follows:

	2005	2004
Equity securities	84.9%	77.5%
Debt securities	15.1%	22.5%

The company establishes the long-term expected rate of return on the schemes' assets by developing a long-term rate of return assumption for each asset class, taking into account such factors as the market yield on bond investments of appropriate duration, and the expected risk premium for other asset classes, based on long-term historical trends. A single, long-term return assumption is then calculated as a weighted average return, based on the expected returns for each asset class.

	Pension benefits		Other benefits[1]	
	2005 £ million	2004 £ million	2005 £ million	2004 £ million
Change in benefit obligation				
Projected benefit obligation at 1 October 2004	2,167.6	2,089.3	46.3	50.5
Exchange adjustment	24.8	(28.4)	0.9	(4.2)
Service cost	65.2	67.4	1.5	1.7
Interest cost	130.4	114.0	2.5	2.6
Plan participants' contributions	13.9	13.5	–	–
Actuarial (gains)/losses	250.0	6.6	(4.4)	1.7
Benefits paid	(85.4)	(93.6)	(2.4)	(2.9)
Other (income) less expenses	1.1	(0.2)	–	–
Curtailments, settlements, termination benefits	(44.8)	(1.0)	–	(3.1)
Disposal of subsidiary	(10.3)	–	–	–
Projected benefit obligation at 30 September 2005	2,512.5	2,167.6	44.4	46.3
Change in fair value of assets				
Fair value of assets at 1 October 2004	1,877.1	1,640.5	–	–
Exchange adjustment	28.8	(34.8)	–	–
Actual return on plan assets	288.2	279.5	–	–
Employer contributions	82.2	72.2	–	–
Plan participants' contributions	13.9	13.5	–	–
Other income less (expenses)	1.1	(0.2)	–	–
Benefits paid	(85.4)	(93.6)	–	–
Curtailments, settlements, termination benefits	(44.8)	–	–	–
Disposal of subsidiary	(17.2)	–	–	–
Fair value of assets at 30 September 2005	2,143.9	1,877.1	–	–
Funded status and unrecognised (gains)/losses				
Funded status	(368.6)	(290.5)	(44.4)	(46.3)
Unrecognised net transition asset	14.9	(10.8)	–	–
Unrecognised prior service cost/(credit)	10.9	13.2	(1.4)	(1.7)
Unrecognised net loss	629.2	535.8	3.1	7.7
Adjustment for post measurement date contributions	17.2	17.2	–	–
Prepaid/(accrued) pension cost	303.6	264.9	(42.7)	(40.3)
Amounts recognised in the statement of financial position consist of:				
Prepaid benefit cost	184.5	165.2		
Accrued benefit liability	(318.4)	(263.4)		
Intangible asset	3.8	5.4		
Accumulated other comprehensive income	433.7	357.7		
Prepaid pension cost	303.6	264.9		

1) Other benefits relate to post retirement medical benefits.

The weighted-average asset allocations, by asset category, for the pension plans are as follows:

	Europe	Americas	Africa	Asia/Pacific
At 30 September 2005				
Equity securities	68.9%	80.2%	78.7%	71.9%
Debt securities	16.7%	19.7%	11.0%	4.1%
Real estate	13.2%	–	1.9%	7.1%
Other	1.2%	0.1%	8.4%	16.9%
At 30 September 2004				
Equity securities	70.3%	79.3%	79.4%	68.9%
Debt securities	21.1%	20.6%	14.8%	9.2%
Real estate	8.6%	–	1.0%	7.2%
Other	–	0.1%	4.8%	14.7%

The accumulated benefit obligation for all pension plans totalled £2,282.0 million (2004: £1,962.2 million).

The fair value of plan assets exceeds the accumulated benefit obligation for all plans except the UK plans, where the accumulated benefit obligation, projected benefit obligation and fair value of plan assets were £1,718.0 million, £1,893.7 million and £1,382.4 million respectively (2004: £1,460.6 million, £1,602.8 million and £1,180.0 million).

The weighted-average assumptions used to determine the benefit obligation are as follows:

	Europe	Americas	Africa	Asia/Pacific
At 30 September 2005				
Discount rate	4.9%	5.0%	8.5%	6.0%
Expected return on all plan assets	7.0%	6.8%	9.9%	7.0%
Rate of compensation increase	4.2%	3.5%	5.5%	3.5%
At 30 September 2004				
Discount rate	5.75%	6.1%	10.0%	6.1%
Expected return on all plan assets	7.75%	8.0%	12.0%	7.1%
Rate of compensation increase	4.5%	3.75%	7.5%	3.5%

The weighted-average assumptions used to determine the net benefit cost are as follows:

	Europe	Americas	Africa	Asia/Pacific
At 30 September 2005				
Discount rate	5.75%	6.1%	10.0%	6.1%
Expected return on all plan assets	7.75%	8.0%	12.0%	7.1%
Rate of compensation increase	4.5%	3.75%	7.5%	3.5%
At 30 September 2004				
Discount rate	5.2%	5.8%	10.0%	6.2%
Expected return on all plan assets	7.6%	8.0%	12.0%	7.6%
Rate of compensation increase	4.0%	3.75%	7.5%	3.5%

The Group presently expects its contributions to its pension plans and post retirement medical plans to be up to 20 per cent higher in 2006 than the amounts contributed in 2005.

The following benefit payments, which reflect future service, as appropriate, are expected to be paid:

	Europe £ million	Americas £ million	Africa £ million	Asia/Pacific £ million	Total pension benefits £ million	Other benefits[2] £ million
Year ending 30 September						
2006	65.0	12.8	4.2	10.6	92.6	2.9
2007	68.2	12.1	4.3	11.4	96.0	2.8
2008	71.4	12.5	4.5	12.2	100.6	2.8
2009	75.4	12.4	4.7	13.0	105.5	2.7
2010	79.6	12.1	4.9	14.2	110.8	2.7
2011 – 2015	471.4	58.9	28.3	87.9	646.5	13.6

For the post retirement medical benefits plan at 30 September 2005, the initial health care cost trend rates for valuing the medical benefits and drug benefits post age 65 were 10.0 per cent (2004: 9.0 per cent) and 2.5 per cent (2004: 3.2 per cent) respectively. The rates for valuing post age 65 medical benefits are assumed to reduce gradually to 4.5 per cent in 2013 (2004: 4.5 per cent in 2011). The rates for valuing drug benefits post age 65 are assumed to reduce gradually to 0.55 per cent in 2013 (2004: 0.65 per cent in 2011). For valuing pre age 65 medical and drug benefits, a blended health care trend rate of 10.0 per cent was used for 30 September 2005 (2004: 9.0 per cent). This blended rate was assumed to reduce gradually to 4.5 per cent in 2013 (2004: 4.5 per cent in 2011).

	Pensionable benefits			Other benefits[2]		
	2005 £ million	2004 £ million	2003 £ million	2005 £ million	2004 £ million	2003 £ million
Service cost net of employees' contributions	65.2	67.4	53.0	1.5	1.7	1.8
Interest cost on projected benefits obligation	130.4	114.0	108.7	2.5	2.6	3.1
Expected return on assets	(165.7)	(157.4)	(166.2)	–	–	–
Amortisation of net transition asset	(1.5)	(2.9)	(14.8)	–	–	–
Amortisation of prior service cost/(credit)[3]	2.4	3.1	46.4	(0.3)	(0.5)	(0.5)
Amortisation of net loss/(gain)	18.9	14.8	(1.6)	0.2	0.3	0.3
Cost of special termination benefits	–	0.7	0.9	–	–	–
Curtailment/settlement	(0.6)	0.6	–	–	(0.4)	–
Net periodic pension cost	49.1	40.3	26.4	3.9	3.7	4.7

2) Other benefits relate to post retirement medical benefits.

3) In 2003 the amortisation of pension prior service cost includes £43.2 million in respect of a settlement of litigation from which the company will derive no future economic benefit.

It is estimated that a one per cent change in the weighted average health care costs trend would have the following effects on the accumulated benefit obligation and net periodic pension cost at 30 September 2005:

	One percentage point	
	Increase	Decrease
Accumulated benefit obligation	3.8	(3.6)
Net periodic pension cost	0.5	(0.5)

9. Dividends

	Per share					
	2005 pence	2004 pence	2003 pence	2005 £ million	2004 £ million	2003 £ million
Ordinary						
First interim	15.9	15.5	15.5	78.6	76.3	76.4
Second interim	25.3	24.5	23.5	125.5	121.0	115.7
	41.2	40.0	39.0	204.1	197.3	192.1

10. Earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to Ordinary shareholders by the weighted average number of shares in issue during the year.

For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all potential dilutive shares. The company has only one category of potential dilutive shares: those share options granted to employees where the exercise price is less than the average market price of the company's shares during the year and where any performance conditions have been met at the balance sheet date.

Adjusted earnings per share (excluding exceptional items) are presented in order to show the underlying earnings performance of the Group.

i) Earnings

	2005 £ million	2004 £ million	2003 £ million
Amounts used in computing the earnings per share			
Earnings attributable to Ordinary shareholders for the financial year	367.0	264.0	219.1
Adjustment for exceptional items[1]	(32.8)	47.5	41.6
Adjusted earnings	334.2	311.5	260.7

1) This comprises the exceptional items before interest of £87.9 million (2004: £(92.0) million, 2003: £(67.0) million) adjusted for the impact of tax of £(28.4) million (2004: £44.5 million, 2003: £25.0 million) and minority interests of £(26.7) million (2004: £nil, 2003: £0.4 million).

ii) Average number of 25p Ordinary shares

	2005 million	2004 million	2003 million
Average issued share capital	500.4	498.2	497.5
Less: Average own shares held in trust	5.4	5.2	5.0
Basic	495.0	493.0	492.5
Add: Dilutive share options	1.6	0.8	0.2
Diluted	496.6	493.8	492.7

11. Fixed assets – intangible assets

a) Group summary

	Goodwill £ million	Other intangibles £ million	Total £ million
Gross book value			
At 1 October 2004	212.8	4.8	217.6
Exchange adjustment	3.9	0.2	4.1
Acquired during the year	–	0.6	0.6
Adjustment relating to prior year acquisition	(0.6)	–	(0.6)
Acquisition of businesses	16.8	1.3	18.1
Disposed of during the year	(28.7)	(0.1)	(28.8)
At 30 September 2005	204.2	6.8	211.0
Amortisation			
At 1 October 2004	41.2	1.5	42.7
Exchange adjustment	1.6	0.1	1.7
Provided during the year	12.6	0.4	13.0
Impairment	14.8	0.2	15.0
Disposed of during the year	(4.0)	–	(4.0)
At 30 September 2005	66.2	2.2	68.4
Net book value			
At 1 October 2004	171.6	3.3	174.9
At 30 September 2005	138.0	4.6	142.6

The adjustment relating to prior year acquisition reflects the finalisation of the fair value of the consideration for a business acquired in 2003.

b) Analysis of acquisitions and disposals

The increase in positive goodwill represents the excess of the fair value of the purchase price over the provisional fair value of the net assets of businesses acquired.The most significant amounts are as follows:

i) Businesses acquired

	Positive goodwill £ million	Negative goodwill £ million	Amortisation period Years[4]
2005			
G Van Dongen Holding BV	9.7	–	20
2004			
There was no significant goodwill on acquisitions of subsidiary undertakings in the year			
2003			
Praxair Polska	10.1	–	20
Environmental Management Corporation[1]	32.3	–	15
2002			
Seiko Instruments Inc – turbomolecular pumps business[2]	59.4	–	20
Unique Gas and Petrochemicals Public Company Limited	17.5	–	20
Enron Teesside Operations Limited – industrial assets	9.6	–	15
Hydromatix Inc	5.6	–	15
Semco[3]	3.8	–	15
Minorities in Osaka Sanso Kogyo KK	–	(5.0)	10

1) Restated in 2005 and 2004 to reflect an adjustment of £0.8 million to the fair value of the consideration.

2) Restated in 2003 to reflect an adjustment of £0.8 million to the fair value of the net assets.

3) Restated in 2003 to reflect an adjustment of £0.6 million to the fair value of the consideration.

4) Amortisation periods are those over which it is estimated that the value of the business acquired will exceed the value of the identifiable net assets of the business acquired.

ii) Businesses disposed of

	Goodwill £ million
2005	
Unique Gas and Petrochemicals Public Company Limited	14.8
Afrox Healthcare Limited	13.9
2004	
US packaged gas business	9.1
2003	
Osaka Sanso Kogyo KK (see note 28c))	(10.5)

12. Fixed assets – tangible assets

a) Group summary

	Land and buildings £ million	Plant, machinery and vehicles £ million	Cylinders £ million	Construction in progress £ million	Total £ million
Gross book value					
At 1 October 2004	600.3	4,216.9	571.3	141.9	5,530.4
Exchange adjustment	7.8	124.0	20.6	8.7	161.1
Capital expenditure[2]	21.4	99.8	16.1	260.0	397.3
Disposals	(7.5)	(73.2)	(5.7)	(1.1)	(87.5)
Transfers	(13.2)	131.7	31.8	(150.3)	–
Acquisitions of businesses	6.5	10.2	0.3	0.2	17.2
Disposals of businesses	(130.7)	(95.6)	(18.0)	(1.7)	(246.0)
At 30 September 2005	484.6	4,413.8	616.4	257.7	5,772.5
Depreciation					
At 1 October 2004	193.8	2,450.2	268.0	–	2,912.0
Exchange adjustment	3.1	72.7	8.7	–	84.5
Provided during the year	13.3	248.7	26.9	–	288.9
Disposals	(1.3)	(68.7)	(4.5)	–	(74.5)
Disposals of businesses	(17.4)	(56.9)	(4.0)	–	(78.3)
Transfers	(13.7)	10.5	3.2	–	–
At 30 September 2005	177.8	2,656.5	298.3	–	3,132.6
Net book value at 1 October 2004[3)]					
Owned assets	368.5	1,761.3	278.3	141.9	2,550.0
Leased assets[4]	38.0	5.4	25.0	–	68.4
	406.5	1,766.7	303.3	141.9	2,618.4
Net book value at 30 September 2005[3)]					
Owned assets	274.9	1,744.9	298.5	257.7	2,576.0
Leased assets[4]	31.9	12.4	19.6	–	63.9
	306.8	1,757.3	318.1	257.7	2,639.9

1) Net book value of land and buildings at cost was £276.6 million (2004: £369.7 million).

2) Subsidiary undertakings only. Capital expenditure of joint ventures and associates is given in note 1.

3) Net book value includes net interest capitalised of £40.7 million (2004: £47.8 million). The tax effect of this is included in the deferred tax provision.

4) Leased assets are shown net of accumulated depreciation of £107.1 million (2004: £121.1 million).

b) Depreciation and operating lease rentals

	2005 £ million	2004 £ million	2003 £ million
Depreciation on leased assets included above	6.2	6.5	8.1
Amortisation of capitalised interest included above	5.1	5.5	4.0
Operating lease rentals			
– hire of plant, machinery and vehicles	40.5	45.4	37.3
– property rent	26.5	31.6	34.3

c) *Regional analysis*

The Group has numerous manufacturing, distribution and office facilities which are located in some 50 countries. At 30 September 2005, the Group's property, plant and equipment, comprising land and buildings, plant, machinery, vehicles and cylinders were located regionally as follows:

	£ million	%
Europe (mainly the UK)	945.1	36
Americas (mainly the US)	805.6	31
Africa	166.3	6
Asia/Pacific	722.9	27
	2,639.9	100

The above amounts are stated at cost net of accumulated depreciation.

d) *Asset revaluations*

Following the adoption of FRS15 – Tangible fixed assets in 2000, land and buildings are no longer revalued (see Accounting policies on page 92). The net book value of properties revalued in earlier years was £113.8 million. Properties not revalued were £193.0 million.

e) *Parent summary*

	Land and buildings £ million	Plant, machinery and vehicles £ million	Total £ million
Gross book value			
At 1 October 2004	14.4	14.0	28.4
Capital expenditure	0.1	4.5	4.6
Disposals	–	(0.3)	(0.3)
At 30 September 2005	14.5	18.2	32.7
Depreciation			
At 1 October 2004	4.7	12.4	17.1
Provided during the year	0.5	0.4	0.9
Disposals	–	(0.2)	(0.2)
At 30 September 2005	5.2	12.6	17.8
Net book value			
At 1 October 2004	9.7	1.6	11.3
At 30 September 2005	9.3	5.6	14.9

f) *Net book value of land and buildings*

	Group		Parent	
	2005 £ million	2004 £ million	2005 £ million	2004 £ million
Freehold property	274.9	368.5	9.3	9.7
Leasehold property – long-term	26.6	33.9	—	—
– short-term	5.3	4.1	—	—
	306.8	406.5	9.3	9.7

g) Capital commitments

	Group	
	2005 £ million	**2004 £ million**
Against which orders had been placed	95.8	26.2
Authorised but not committed	74.8	101.2
	170.6	127.4

There were no capital commitments by The BOC Group plc at either 30 September 2005 or 30 September 2004.

The Group's share of its joint ventures' and associates' capital commitments was:

	2005 £ million	**2004 £ million**
Against which orders had been placed	19.0	33.6
Authorised but not committed	19.5	24.8
	38.5	58.4

13. Fixed assets – investments

a) Group summary

	Goodwill of associates £ million	**Group share of net assets of associates £ million**	**Negative goodwill of joint ventures £ million**	**Group share of net assets of joint ventures £ million**	**Group loans to joint ventures and associates £ million**	**Other investments at cost £ million**	**Provisions against other investments £ million**	**Total £ million**
At 1 October 2004	5.9	46.5	(40.8)	299.5	202.6	35.7	(1.2)	548.2
Exchange adjustment	0.1	2.4	(0.8)	12.3	4.1	0.4	0.1	18.6
Acquisitions/ additions[1]	–	36.2	0.5	34.8	39.0	3.7	(0.3)	113.9
(Charged)/credited to profit	(0.4)	–	2.3	–	–	–	–	1.9
Disposals/repayments/ transfers	–	(20.2)	–	(0.6)	(18.6)	(24.4)	0.6	(63.2)
Increase in net assets	–	10.2	–	1.3	–	–	–	11.5
Japan Air Gases capital restructuring	–	–	–	(17.0)	–	–	–	(17.0)
At 30 September 2005	5.6	75.1	(38.8)	330.3	227.1	15.4	(0.8)	613.9

1) The increase in the Group share of net assets of associates relates principally to the Afrox hospitals business becoming an associate during the year. The increase in the Group share of net assets of joint ventures and loans to joint ventures relates principally to Compania de Nitrogeno de Cantarell in Mexico.

i) Joint ventures

The cost of investment in joint ventures was £262.2 million (2004: £259.5 million) and the attributable profit before tax was £81.8 million (2004: £79.5 million, 2003: £60.4 million).

The Group's share of net assets of joint ventures at 30 September 2005 can be analysed as follows:

	Share of net assets £ million	Negative goodwill £ million	Total £ million
Share of fixed assets	860.5	–	860.5
Negative goodwill	–	(38.8)	(38.8)
Share of current assets	280.5	–	280.5
	1,141.0	(38.8)	1,102.2
Share of liabilities due within one year	(232.2)	–	(232.2)
Share of liabilities due after more than one year	(578.5)	–	(578.5)
	(810.7)	–	(810.7)
Share of net assets	330.3	(38.8)	291.5

The negative goodwill represents the excess of the fair value of the net assets over the fair value of the purchase consideration and is being amortised over 17 years.

The Group's share of the borrowings of joint ventures at 30 September 2005 was:

	Gross borrowings	Net borrowings
Compania de Nitrogeno de Cantarell[1)]	96.7	68.2
Japan Air Gases	73.0	71.5
Elgas	38.8	37.4
Other joint ventures	81.4	63.5
Total	289.9	240.6

1) Excluding loans from joint venture partners.

Of the net borrowings, £230.0 million was non-recourse.

ii) Associates

The cost of investment in associates was £45.8 million (2004: £23.9 million) and the attributable profit before tax was £16.5 million (2004: £12.2 million, 2003: £10.4 million).

The Group's share of the net borrowings of associates was £45.4 million (2004: £6.9 million), all of which was non-recourse. This includes £41.6 million for the Group's South African subsidiary's share of the net borrowings of Life Healthcare Group (Pty) Limited.

b) Valuation

	2005 £ million	2004 £ million
Listed on stock exchanges in the UK and overseas	28.6	34.7
Unlisted – equity	356.8	300.6
– other	228.5	212.9
Total book value	613.9	548.2
All investments are stated at cost less provisions.		
Market value of listed investments	80.2	85.8

c) Income

	2005 £ million	2004 £ million	2003 £ million
Listed securities	3.0	9.9	4.7
Unlisted securities	48.2	69.4	32.0
	51.2	79.3	36.7
Less: Dividends receivable from joint ventures	47.8	69.0	31.7
Dividends receivable from associates	3.3	10.1	3.3
Income from other fixed asset investments	0.1	0.2	1.7

d) Parent

	Investments in subsidiary undertakings £ million	Amounts due from subsidiary undertakings £ million	Other investments £ million	Provisions £ million	Total £ million
At 1 October 2004	2,137.7	857.9	7.8	(20.8)	2,982.6
Additions	19.3	–	–	–	19.3
Charged to profit	–	–	–	(1.0)	(1.0)
Advances/repayments (net)	–	172.3	(7.4)	–	164.9
At 30 September 2005	2,157.0	1,030.2	0.4	(21.8)	3,165.8

Provisions relate to investments in subsidiary undertakings (£17.9 million), amounts due from subsidiary undertakings (£3.5 million) and other investments (£0.4 million).

14. Stocks

	Group	
	2005 £ million	2004 £ million
Raw materials	87.8	89.5
Work in progress	75.4	68.0
Gases and other finished goods	174.0	162.3
Payments on account	(30.9)	(35.4)
	306.3	284.4

Amounts relating to long-term contracts included in work in progress were £0.7 million (2004: £0.4 million). There were no stocks on the balance sheet of The BOC Group plc at either 30 September 2005 or 30 September 2004.

15. Debtors

a) Debtors falling due within one year

	Group		Parent	
	2005 £ million	2004 £ million	2005 £ million	2004 £ million
Trade debtors	541.6	561.5	–	–
Amounts due from subsidiaries	–	–	136.7	286.5
Amounts due from joint ventures and associates	5.7	7.6	5.7	5.7
Other debtors	125.4	106.4	10.6	28.2
Prepayments and accrued income	37.7	30.1	–	–
	710.4	705.6	153.0	320.4

Trade debtors are shown net of provisions for bad and doubtful debts of £26.2 million (2004: £29.8 million).

b) Debtors falling due after more than one year

	Group	
	2005 £ million	2004 £ million
Deferred tax	6.3	5.8
Other debtors	10.7	10.5
	17.0	16.3

There were no debtors falling due after more than one year on the balance sheet of The BOC Group plc at either 30 September 2005 or 30 September 2004.

16. Current asset investments

	Group	
	2005 £ million	2004 £ million
Listed investments	16.4	20.8
Total current asset investments	16.4	20.8
Market value of listed investments	16.4	20.8

There were no current asset investments on the balance sheet of The BOC Group plc at either 30 September 2005 or 30 September 2004.

17. Cash at bank and in hand

	Group		Parent	
	2005 £ million	2004 £ million	2005 £ million	2004 £ million
Deposits	13.2	26.5	–	–
Cash at bank and in hand	177.8	201.7	44.3	80.8
	191.0	228.2	44.3	80.8

18. Creditors: amounts falling due within one year

a) *Borrowings and finance leases*[1)]

	Group		Parent	
	2005 £ million	2004 £ million	2005 £ million	2004 £ million
Bank loans and overdrafts	110.2	80.1	107.2	83.2
Loans other than from banks	146.5	179.4	–	168.9
Finance leases	2.5	2.6	–	–
	259.2	262.1	107.2	252.1

1) Details of borrowings and finance leases are given in note 20.

b) *Other creditors*

	Group		Parent	
	2005 £ million	2004 £ million	2005 £ million	2004 £ million
Deposits and advance payments by customers	63.6	55.0	–	–
Trade creditors	313.8	329.2	–	–
Amounts due to subsidiary undertakings	–	–	951.3	949.7
Payroll and other taxes, including social security	32.1	32.4	–	–
Taxation	154.5	139.2	–	–
Other creditors	180.4	159.9	1.6	0.9
Accruals and deferred income	153.9	156.9	52.5	53.5
	898.3	872.6	1,005.4	1,004.1

19. Creditors: amounts falling due after more than one year

a) *Borrowings and finance leases*[1)]

	Group		Parent	
	2005 £ million	2004 £ million	2005 £ million	2004 £ million
Bank loans	35.8	88.5	0.2	(2.7)
Loans other than from banks	729.1	834.5	676.8	677.2
Finance leases	6.6	5.5	–	–
	771.5	928.5	677.0	674.5

1) Details of borrowings and finance leases are given in note 20.

b) *Other creditors*

	Group		Parent	
	2005 £ million	2004 £ million	2005 £ million	2004 £ million
Deposits and advance payments by customers	10.7	22.2	–	–
Other creditors	18.0	6.7	–	–
Accruals and deferred income	2.1	5.8	0.2	3.2
	30.8	34.7	0.2	3.2

20. Net borrowings and finance leases

a) Analysis

	Group		Parent	
	2005 £ million	2004 £ million	2005 £ million	2004 £ million
Secured				
Finance leases	9.1	8.1	–	–
Other secured borrowings	13.4	55.2	–	–
Unsecured				
$12\frac{1}{4}$% Unsecured Loan Stock 2012/2017	100.0	100.0	100.0	100.0
7.45% Guaranteed Notes 2006	141.2	138.1	–	–
Pollution Control and Industrial Bonds	10.8	16.7	–	–
European Investment Bank loans	17.4	15.7	–	–
1.00% Euroyen Bond 2006	124.7	125.4	124.7	125.4
$5\frac{7}{8}$% Bonds 2009	200.0	200.0	200.0	200.0
6.50% Bonds 2016	200.0	200.0	200.0	200.0
Medium-term notes	54.8	224.1	54.8	224.1
Commercial paper	–	5.5	–	–
Other borrowings	159.3	101.8	104.7	77.1
Total borrowings and finance leases	1,030.7	1,190.6	784.2	926.6
Less: Cash at bank and in hand	191.0	228.2	44.3	80.8
Net borrowings and finance leases	839.7	962.4	739.9	845.8

A reconciliation of net cash flow to the movement in net debt is given in note 27 b).

b) Maturity

	Group		Parent	
	2005 £ million	2004 £ million	2005 £ million	2004 £ million
Long and medium-term bank loans				
Repayable				
– beyond five years	–	17.0	–	–
– two to five years	7.5	26.1	(1.5)	0.2
– one to two years	28.3	45.4	1.7	(2.9)
Loans other than from banks				
Repayable				
– beyond five years	302.8	303.5	298.5	298.3
– two to five years	279.2	383.6	253.6	378.9
– one to two years	147.1	147.4	124.7	–
Finance leases – repayable beyond one year	6.6	5.5	–	–
Borrowings and finance leases (note 19 a))	771.5	928.5	677.0	674.5
Short-term – repayable within one year				
Bank loans and overdrafts	110.2	80.1	107.2	83.2
Loans other than from banks	146.5	179.4	–	168.9
Finance leases	2.5	2.6	–	–
Total borrowings and finance leases	1,030.7	1,190.6	784.2	926.6
Less: Cash at bank and in hand	191.0	228.2	44.3	80.8
Net borrowings and finance leases	839.7	962.4	739.9	845.8

	2005			2004		
	Finance leases £ million	Other borrowings £ million	Total £ million	Finance leases £ million	Other borrowings £ million	Total £ million
Repayment profile of borrowings and finance leases						
Long-term repayable						
– beyond five years	1.1	302.8	303.9	–	320.5	320.5
– four to five years	0.8	0.1	0.9	0.1	201.4	201.5
– three to four years	1.0	200.3	201.3	0.8	58.6	59.4
– two to three years	1.5	86.3	87.8	2.6	149.7	152.3
– one to two years	2.2	175.4	177.6	2.0	192.8	194.8
Total	6.6	764.9	771.5	5.5	923.0	928.5

c) Short-term interest rates

The average interest rate on commercial paper for the year to 30 September 2005 was 4.4 per cent (2004: 3.3 per cent) and on other short-term borrowings was 8.2 per cent (2004: 9.3 per cent).

d) Facilities

The Group maintains a number of short and medium-term committed lines of credit. The main medium-term facilities are multi-currency agreements with a group of relationship banks, under which the Group may borrow up to US$450 million (£254 million) (2004: US$450 million (£249 million)) for general corporate purposes. These facilities were undrawn both at 30 September 2005 and 30 September 2004. The following table shows the maturity profile of these facilities.

	2005 £ million	2004 £ million
Four to five years	–	–
Three to four years	–	450.0
Two to three years	450.0	–
One to two years	–	–
Within one year	–	–
	450.0	450.0

In October 2005, these facilities were replaced with US$600 million (£339 million) of committed multi-currency facilities maturing in 2010. Additional committed facilities are maintained by the principal operating units in the Group.

e) Security

The secured loans, maturing between 30 September 2005 and 2019, are principally secured by charges over the property, plant and machinery, stocks and trade debtors of certain overseas subsidiaries.

21. Financial instruments

a) Interest rate, currency and counterparty exposure

The Group's approach to managing currency and interest rate risk and its use of swaps in that process is described on page 56 in the financial review under the heading 'management of financial risks'.

Interest rate swaps

At 30 September 2005, the Group had entered into five interest rate swap agreements (2004: five) with its main relationship banks with notional principal amounts of £286.4 million (2004: £285.3 million). The swaps' underlying currencies are sterling, US dollars and Japanese yen. The following table shows the maturity profile and weighted average interest rates payable and receivable on interest rate swaps at 30 September:

	2005 £ million	2004 £ million
Maturity profile		
Beyond five years	–	–
Four to five years	–	200.0
Three to four years	200.0	85.3
Two to three years	86.4	–
One to two years	–	–
Within one year	–	–
	286.4	285.3
	%	%
Weighted average receivable swap rate	4.1	3.8
Weighted average payable swap rate	4.8	4.5

The weighted average receivable/payable swap interest rate is calculated by applying the notional swap interest received or paid, using rates applicable at the financial year end, to the notional principal of outstanding swaps at the financial year end.

During 2004, the Group also entered into four interest rate swap agreements that are due to commence in 2006 and 2007 for a period of five years. The notional principal amounts of these swaps are £106.4 million and their underlying currencies are US dollars and Japanese yen.

Currency swaps

At 30 September 2005, the Group had entered into 12 currency swap agreements (2004: 25) with its main relationship banks with notional principal amounts of £341.7 million (2004: £593.1 million). The maturity dates range between one month and 36 months from the balance sheet date (2004: between one month and 48 months). The following table illustrates the impact of the currency swaps on the Group's net debt at 30 September:

	2005					2004	
	Capital employed £ million	Gross borrowings £ million	Cash at bank and in hand £ million	Currency swaps £ million	Net borrowings and finance leases £ million	Capital employed £ million	Net borrowings and finance leases £ million
Sterling	552.7	(505.5)	38.4	313.9	(153.2)	593.6	(104.6)
US dollar	1,034.8	(154.9)	30.4	(123.0)	(247.5)	918.9	(352.4)
Australian dollar	317.7	(6.7)	15.2	(99.1)	(90.6)	298.7	(76.0)
South African rand	182.1	(46.6)	14.7	–	(31.9)	314.0	(99.6)
Japanese yen	168.1	(179.0)	12.1	23.5	(143.4)	186.7	(154.1)
Canadian dollar	121.2	(5.8)	1.3	(39.0)	(43.5)	104.2	(40.0)
Thai baht	105.4	(35.8)	1.8	–	(34.0)	121.0	(52.0)
Other	802.4	(96.4)	77.1	(76.3)	(95.6)	683.3	(83.7)
Total	3,284.4	(1,030.7)	191.0	–	(839.7)	3,220.4	(962.4)

The weighted average receivable interest rate on currency swaps was 4.4 per cent (2004: 3.9 per cent) and the weighted average payable interest rate was 4.3 per cent (2004: 4.1 per cent). The weighted average receivable/payable swap interest rate is calculated by applying the notional swap interest received or paid, using rates applicable at the financial year end, to the notional principal of outstanding swaps at the financial year end.

The currency and interest rate exposure of the net borrowings of the Group at 30 September, after taking into account interest rate and currency swaps entered into by the Group, is given in the table below.

	2005			2004		
	Fixed rate £ million	**Floating rate £ million**	**Total £ million**	**Fixed rate £ million**	**Floating rate £ million**	**Total £ million**
Sterling	297.9	(144.7)	153.2	296.8	(192.2)	104.6
US dollar	222.8	24.7	247.5	279.1	73.3	352.4
Australian dollar	0.2	90.4	90.6	0.1	75.9	76.0
South African rand	46.6	(14.7)	31.9	38.0	61.6	99.6
Japanese yen	125.6	17.8	143.4	151.7	2.4	154.1
Canadian dollar	25.6	17.9	43.5	22.8	17.2	40.0
Thai baht	35.8	(1.8)	34.0	54.9	(2.9)	52.0
Other	48.6	47.0	95.6	44.4	39.3	83.7
Total	803.1	36.6	839.7	887.8	74.6	962.4

Counterparty risk

The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but does not expect any counterparties to fail to meet their obligations. There are procedures and policies in place limiting the Group's exposure to concentrations of credit or country risk.

b) *Fair value information*

i) Fair values of financial instruments

Set out below is a comparison of the carrying amount and the fair value of the Group's financial instruments (excluding short-term debtors and creditors) at 30 September 2005. Further details of the Group's financial instruments are given in note 21 d).

		2005		2004	
	Notes	Carrying amount £ million	Fair value £ million	Carrying amount £ million	Fair value £ million
Primary financial instruments					
Loans to joint ventures and associates	1	227.1	209.3	202.6	202.6
Other fixed asset investments	2	14.6	14.6	34.5	41.8
Current asset investments	3	16.4	16.4	20.8	20.8
Cash at bank and in hand	4	191.0	191.0	228.2	228.2
Borrowings and finance leases (excluding swap agreements)	5	(1,024.4)	(1,098.9)	(1,218.5)	(1,286.9)
Other creditors: amounts falling due after more than one year	6	(17.0)	(17.0)	(26.8)	(26.8)
Provisions for liabilities and charges	6	(7.7)	(7.7)	(10.5)	(10.5)
Derivative financial instruments					
Foreign currency and interest rate swap agreements	7	(6.3)	(11.2)	27.9	18.4
Forward foreign exchange and other contracts	8	–	7.1	–	7.5
Net financial instruments		(606.3)	(696.4)	(741.8)	(804.9)
Financial assets		449.1		486.1	
Financial liabilities	9	(1,055.4)		(1,227.9)	
Net financial instruments		(606.3)		(741.8)	

1) For those bearing either no interest or a floating rate of interest it is deemed that the carrying amount approximates to the fair value. For those bearing a fixed rate of interest an assessment of the interest rate at which the Group could make the same loan under current market conditions has been made. Unless this differs significantly from the fixed rate it is also deemed that the carrying amount approximates to the fair value. Where this does differ significantly, the fair value is based on the discounted value of future cash flows.

2) For equity instruments listed on a recognised stock exchange the fair value is the quoted market price. For other equity instruments it is deemed that the carrying amount approximates to the fair value.

3) The fair value is the quoted market price. Where no quoted market price exists, it is deemed that the carrying amount approximates to the fair value.

4) As all bear either no interest or a floating rate of interest it is deemed that the carrying amount approximates to the fair value.

5) For those bearing a floating rate of interest it is deemed that the carrying amount approximates to the fair value. For those bearing a fixed rate of interest the fair value is either the quoted market price where a liquid market exists or has been calculated using well established pricing models.

6) The carrying amount is deemed to approximate to the fair value.

7) The fair value is based on market valuations at the balance sheet date.

8) This category of derivative financial instruments includes: the fair value of forward foreign exchange contracts of £0.2 million (2004: £7.5 million) and the fair value of natural gas futures contracts of £6.9 million (2004: £nil). The fair values are based on market prices and forward exchange rates at the balance sheet date.

9) Includes foreign currency and interest rate swap agreements.

ii) Hedges

As explained on page 56 of the financial review under the heading 'management of financial risks', the Group's policies are to use forward foreign exchange contracts to hedge transactional currency exposures (principally arising through anticipated sales and purchase transactions) and swap agreements to manage interest rate risks and hedge structural currency exposures.

Currency swaps are only held to change the currency of the Group's borrowings to match better its net investments in its overseas subsidiaries. In accordance with the Group's accounting policies,the assets and liabilities arising from these swap agreements are translated into sterling at the spot rate ruling at the balance sheet date. The resulting exchange gains or losses are recognised in the statement of total recognised gains and losses (to match the exchange gains or losses on the net investments in the overseas subsidiaries).

The carrying amount of the swap agreements (as shown in note 21 b) i)) is the result of the exchange gains and losses recognised in the statement of total recognised gains and losses, and is analysed in the deferred gains and losses table shown below.

	Swap agreements		
	Gains £ million	Losses £ million	Net £ million
Deferred gains and losses			
Deferred gains and losses on hedges at 1 October 2004	34.9	(7.0)	27.9
Gains and losses on hedges maturing in 2005	(31.7)	6.9	(24.8)
Deferred gains and losses on hedges recognised in the statement of total recognised gains and losses in 2005	(0.8)	(8.6)	(9.4)
Deferred gains and losses on hedges at 30 September 2005	2.4	(8.7)	(6.3)

The unrecognised difference between the carrying amount and the fair value of the forward foreign exchange and other contracts and the swap agreements (as shown in note 21 b) i)) is analysed in the unrecognised gains and losses table below.

	Forward foreign exchange and other contracts		Swap agreements		
	Gains £ million	Losses £ million	Gains £ million	Losses £ million	Net total £ million
Unrecognised gains and losses					
Unrecognised gains and losses on hedges at 1 October 2004	8.4	(0.9)	1.2	(10.7)	(2.0)
Gains and losses arising in previous years that were recognised in 2005	(7.9)	0.7	(0.6)	0.5	(7.3)
Gains and losses arising before 2004 that were not recognised in 2005	0.5	(0.2)	0.6	(10.2)	(9.3)
Gains and losses arising in 2005 that were not recognised in 2005	9.2	(2.4)	1.6	3.1	11.5
Unrecognised gains and losses on hedges at 30 September 2005	9.7	(2.6)	2.2	(7.1)	2.2
Of which					
Gains and losses expected to be recognised in 2006	8.1	(2.1)	0.1	(2.3)	3.8
Gains and losses expected to be recognised in 2007 or later	1.6	(0.5)	2.1	(4.8)	(1.6)

Under US GAAP, hedge accounting is not used in respect of the derivative financial instruments included in the table above.

c) *Currency exposures*

As outlined on page 56 in the financial review under the heading 'currency risk', it is the Group's policy to hedge against the potential impact on its profit and loss account of the currency gains and losses arising from monetary assets and liabilities not denominated in the operating or functional currency of the operating unit involved.

After taking account of the hedging transactions, there was no significant net profit and loss account exposure to currency gains and losses arising from monetary assets and liabilities at 30 September 2005.

d) Financial instruments

i) Financial assets

The interest rate and currency profile of the Group's financial assets (excluding short-term debtors) at 30 September 2005 is shown below.

The categories of the Group's financial assets are shown in note 21 b) i).

	2005				2004			
	Floating rate financial assets £ million	Fixed rate financial assets £ million	Financial assets on which no interest is received £ million	Total financial assets £ million	Floating rate financial assets £ million	Fixed rate financial assets £ million	Financial assets on which no interest is received £ million	Total financial assets £ million
Sterling	39.2	–	2.2	41.4	81.0	–	2.3	83.3
US dollar	46.3	219.7	14.3	280.3	34.0	184.1	32.6	250.7
Australian dollar	15.2	–	–	15.2	16.1	–	–	16.1
South African rand	15.8	–	0.7	16.5	44.2	–	3.8	48.0
Japanese yen	12.1	–	–	12.1	2.6	–	–	2.6
Canadian dollar	1.3	–	0.3	1.6	1.7	–	–	1.7
Thai baht	4.0	–	–	4.0	5.1	–	0.7	5.8
Other	77.2	–	0.8	78.0	69.1	8.7	0.1	77.9
Total	211.1	219.7	18.3	449.1	253.8	192.8	39.5	486.1

	2005 Fixed rate financial assets		2004 Fixed rate financial assets	
	Weighted average interest rate %	Weighted average period for which rate is fixed years	Weighted average interest rate %	Weighted average period for which rate is fixed years
US dollar	6.8	2.5	8.2	3.5
Other	–	–	5.2	0.3

Financial assets on which no interest is received comprise £13.2 million (2004: £24.3 million) of non-redeemable equity instruments in other companies and £5.1 million (2004: £15.2 million) of loans to joint ventures and associates which have no fixed date of repayment.

The floating rate financial assets, which principally comprise cash and deposits, current asset investments and loans to joint ventures and associates, carry interest based on different benchmark rates depending on the currency of the balance.

The principal benchmark rates for floating rate financial assets are LIBOR for sterling balances, US LIBOR for US dollar balances, Australian bank bill rate for Australian dollar balances, South African prime rate for South African rand balances and Japanese yen LIBOR for Japanese yen balances.

ii) Financial liabilities

The interest rate and currency profile of the Group's financial liabilities including swaps (excluding short-term creditors) at 30 September 2005 is shown below. The categories of the Group's financial liabilities are shown in note 21 b) i).

	2005				2004			
	Floating rate financial liabilities £ million	Fixed rate financial liabilities £ million	Financial liabilities on which no interest is paid £ million	Total financial liabilities £ million	Floating rate financial liabilities £ million	Fixed rate financial liabilities £ million	Financial liabilities on which no interest is paid £ million	Total financial liabilities £ million
Sterling	(106.3)	297.9	2.1	193.7	(120.7)	296.8	2.5	178.6
US dollar	62.8	222.8	4.7	290.3	99.3	279.1	4.8	383.2
Australian dollar	105.6	0.2	–	105.8	92.0	0.1	–	92.1
South African rand	–	46.6	–	46.6	101.8	38.0	–	139.8
Japanese yen	29.9	125.6	0.3	155.8	5.0	151.7	0.7	157.4
Canadian dollar	19.2	25.6	–	44.8	18.9	22.8	–	41.7
Thai baht	–	35.8	0.3	36.1	–	54.9	10.9	65.8
Other	124.1	48.6	9.6	182.3	108.3	53.1	7.9	169.3
Total	235.3	803.1	17.0	1,055.4	304.6	896.5	26.8	1,227.9

	2005 Fixed rate financial liabilities		2004 Fixed rate financial liabilities	
	Weighted average interest rate %	Weighted average period for which rate is fixed years	Weighted average interest rate %	Weighted average period for which rate is fixed years
Sterling	9.2	11.0	9.2	11.9
US dollar	6.8	1.3	5.8	2.0
Australian dollar	3.1	0.9	5.7	1.8
South African rand	8.3	1.9	12.8	3.3
Japanese yen	1.0	1.1	0.9	1.9
Canadian dollar	4.9	3.0	4.7	4.0
Thai baht	4.3	0.9	3.7	1.4
Other	5.5	1.5	6.0	2.6

The floating rate financial liabilities principally comprise debt which carries interest based on different benchmark rates depending on the currency of the balance.

The principal benchmark rates for floating rate financial liabilities are LIBOR for sterling balances, US LIBOR for US dollar balances, Australian bank bill rate for Australian dollar balances, South African prime rate for South African rand balances and Japanese yen LIBOR for Japanese yen balances.

The maturity profile of borrowings is set out in note 20 b). Floating rate financial liabilities other than borrowings are mainly employee incentive provisions. These are expected to be utilised over the period to 2016 depending on the future choices of the relevant employees. Financial liabilities on which no interest is paid principally relate to creditors due after more than one year. The majority of the amount relates to deposits for cylinder rentals. It is not anticipated that this balance will reduce significantly in the short to medium term. The remaining balances falling due after more than one year are expected to be paid or utilised by 2009.

22. Provisions for liabilities and charges

	Deferred tax	Other provisions						
		Incentive and other employee provisions	Uninsured losses	Environmental	Warranty	De-commissioning obligations	Other	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
At 1 October 2004	253.0	21.2	20.7	22.4	15.1	–	12.8	92.2
Exchange adjustment	6.6	0.2	0.7	0.7	0.4	–	–	2.0
Provided in the year	–	3.6	8.4	4.2	9.6	–	1.1	26.9
Released in the year	(4.7)	–	–	–	–	–	(2.4)	(2.4)
Utilised in the year	–	(6.4)	(0.6)	(1.6)	(7.6)	–	(6.3)	(22.5)
Other movements[1]	(13.0)	0.1	–	–	(0.2)	20.2	2.6	22.7
At 30 September 2005	241.9	18.7	29.2	25.7	17.3	20.2	7.8	118.9

1) The other movements in deferred tax relate mainly to transfers to current tax.

Incentive and other employee provisions include long-term share incentive awards and deferred compensation plans. Note 7 contains further details of the long-term share incentive units.

Provision for uninsured losses covers third party liabilities or claims. Due to the time frame that is often involved in such claims, a significant part of this provision is subject to actuarial valuation. Where this is not appropriate, other external assessments are used.

Environmental provisions have been set aside to cover the costs of remediation for a number of hazardous waste sites. The costs are expected to be incurred between 2006 and 2030. Due to the period over which this expenditure is likely to be incurred, the provision has been discounted at a rate of four per cent. The effect of discounting is £5 million. Management expects that payments will be approximately £7 million in 2006, approximately £3 million each year for the next four years and £12 million in total thereafter. Management uses its judgement and experience to make an appropriate provision. Management believes that there is no reasonable possibility of a loss materially in excess of the amounts provided.

During the year, the provision for de-commissioning costs was reviewed. As a result of revising previous estimates, an amount of £20.2 million was recognised for future obligations with a corresponding increase in the carrying value of tangible fixed assets. Due to the period over which this expenditure is likely to be incurred, between 2006 and 2054, and the different regions in which it will be incurred, the provision has been discounted at rates of between four and six per cent. The effect of discounting is £32 million. The timing of actual expenditure will vary depending on contractual supply arrangements with customers.

Further information on deferred tax is disclosed in note 4.

23. Share capital

i) Analysis at 30 September

	Number of shares			
	2005 million	2004 million	2005 £ million	2004 £ million
Equity capital:				
Issued capital – Ordinary shares of 25p each, called up and fully paid	502.5	498.8	125.6	124.7
Unissued capital – unclassified shares of 25p each	87.5	91.2	21.9	22.8
Authorised			147.5	147.5

ii) Share issues

	Number million
Issues of Ordinary shares of 25p each during the year were:	
Under the savings related share option scheme	0.7
Under the senior executives share option scheme	3.0

24. Reserves

a) Group

	Share premium account £ million	Revaluation reserves £ million	Profit and loss account £ million	Pensions' reserves £ million	Joint ventures' reserves £ million	Associates' reserves £ million	Own shares £ million	Total £ million
At 1 October 2004	374.9	30.1	1,181.5	(253.6)	238.0	26.0	(46.3)	1,550.6
Total recognised gains and losses for the year	–	(3.8)	419.9	–	14.7	6.3	–	437.1
Transfers in relation to pensions	–	–	(33.1)	31.9	1.2	–	–	–
Reversal of goodwill on disposal of a business	–	–	1.0	–	–	–	–	1.0
Consideration paid for the purchase of own shares held in an ESOP trust	–	–	–	–	–	–	(8.2)	(8.2)
Consideration received for the sale of own shares held in an ESOP trust	–	–	–	–	–	–	4.0	4.0
Credit in respect of employee share schemes	–	–	4.3	–	–	–	–	4.3
Dividends	–	–	(204.1)	–	–	–	–	(204.1)
Premium on share issues (net)	31.7	–	–	–	–	–	–	31.7
At 30 September 2005	406.6	26.3	1,369.5	(221.7)	253.9	32.3	(50.5)	1,816.4

i) The undistributed profits of Group undertakings may be liable to overseas and/or UK tax (after allowing for double tax relief) if distributed as dividends. There are no material exchange control restrictions on the remittance of funds to the UK.

ii) Goodwill written off against reserves in respect of continuing businesses acquired prior to 30 September 1998 amounts to £160.4 million (2004: £154.0 million).

iii) In accordance with the Group's accounting policy, exchange losses (net of gains) on net borrowings charged to reserves in the year amounted to £5.8 million (2004: £59.7 million gain).

iv) There are no non-equity shareholders' interests in the share capital and reserves of the Group.

v) The amount of the pensions' reserves is equivalent to the net pensions liabilities (see note 8) adjusted for current tax of £42.1 million (2004: £22.0 million, 2003: £nil).

vi) Own shares

At 30 September 2005, 5.3 million shares in the company were held pending the exercise of share options. Based on the company's share price at 30 September 2005 of 1153p, the market value of own shares held was £61.4 million. This compares with the acquisition cost above. The amount paid for the shares reduces profit available for distribution.

Information on share option schemes appears in the report on remuneration and in notes 7 and 23.

b) Parent company

	Share premium account £ million	Other reserves £ million	Profit and loss account £ million	Own shares £ million	Total £ million
At 1 October 2004	374.9	336.4	671.0	(45.8)	1,336.5
Profit for the financial year	–	–	298.4	–	298.4
Dividends	–	–	(204.1)	–	(204.1)
Premium on share issues (net)	31.7	–	–	–	31.7
Credit in respect of employee share schemes	–	–	4.3	–	4.3
Net increase in investment in own shares	–	–	–	(4.2)	(4.2)
At 30 September 2005	406.6	336.4	769.6	(50.0)	1,462.6

The premium on share issues represents amounts paid to The BOC Group plc for the issue of shares under the Group's share option schemes.

25. Financial commitments

a) Annual operating lease commitments

	2005		2004	
	Property leases £ million	Other operating leases £ million	Property leases £ million	Other operating leases £ million
On leases expiring:				
Within one year	3.1	3.2	2.1	2.1
Between one and two years	2.1	7.8	2.2	5.6
Between two and five years	4.2	9.9	5.4	11.0
Over five years	6.5	3.8	14.9	3.2
	15.9	24.7	24.6	21.9

	Operating leases £ million
Rentals are due under operating leases from 1 October 2005 to completion as follows:	
Year to 30 September 2006	40.6
Year to 30 September 2007	28.7
Year to 30 September 2008	20.4
Year to 30 September 2009	15.1
Year to 30 September 2010	10.8
Thereafter	59.9
	175.5

b) Other commitments

The Group is committed to make future purchases under take-or-pay contracts. The main commitments at 30 September 2005 relate to the purchase of raw materials, principally helium, where the price of the product is linked to the prevailing market prices of that product. Obligations under such contracts in effect at 30 September 2005 are as follows:

Year ending 30 September	£ million
2006	71.4
2007	68.1
2008	68.9
2009	62.3
2010	54.6
Thereafter	371.2
	696.5

For the year ended 30 September 2005 total purchases made relating to these contracts amounted to £54.3 million (2004: £55.0 million, 2003: £65.8 million).

26. Contingent liabilities and legal proceedings

a) Contingent liabilities

	Group		Parent	
	2005 £ million	2004 £ million	2005 £ million	2004 £ million
Guarantees of joint ventures' borrowings	10.6	8.9	10.6	8.9
Guarantees of subsidiaries' borrowings	–	–	245.6	289.5
Other guarantees[1)]	38.7	32.9	50.3	18.0
	49.3	41.8	306.5	316.4

1) Other guarantees are mainly performance guarantees issued in the ordinary course of business.

b) Legal proceedings

BOC 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 litigation to which BOC Group companies are party cannot be readily foreseen, but the directors believe that such litigation should be disposed of without material adverse effect on the Group's financial condition or profitability.

Welding fumes litigation A US subsidiary of BOC, The BOC Group, Inc., currently is party to a number of lawsuits in the US for alleged injuries resulting from exposure to manganese, asbestos and/or toxic fumes in connection with the welding process. The BOC Group, Inc. has not manufactured welding rods in the US since 1986 when the welding electrodes business was sold. The BOC Group, Inc. ceased selling welding rods in the US manufactured by others when the sale of the US packaged gas business, including the operations that distributed packaged gases and welding equipment, was completed in July 2004.

Manganese litigation At 30 September 2005, there were a total of approximately 8,574 claimants ('Total Claimants') in pending manganese related cases in both US federal and state courts that name The BOC Group, Inc. as a defendant, a net decrease of approximately 1,100 claimants from 30 September 2004. The BOC Group, Inc. is typically one of several defendants in these cases that claim compensatory and punitive damages, in most cases for unspecified amounts, for alleged neurological injury, including Parkinson's disease, through exposure to manganese in welding fumes. Of the Total Claimants, approximately

4,607 claimants have filed in, or been transferred for pre-trial purposes to, the federal district court in the Northern District of Ohio, where a multi-district litigation (MDL) proceeding has been commenced, and approximately 50 claimants are in process to be transferred to or from the MDL. The MDL proceeding is a vehicle for coordinating pre-trial proceedings in cases pending in different federal district courts in the US. It is currently contemplated that the MDL court will try three cases during the MDL proceeding. The first such case is currently scheduled for February 2006. In addition to the cases in federal court, The BOC Group, Inc. is a defendant in a number of similar cases pending in state courts, which are in different stages of procedural development, and certain cases are scheduled for trial from time to time. The BOC Group, Inc. has been a co-defendant in other manganese related claims that have been resolved as follows. From 1 January 1997 to 30 September 2005, 3,965 claims were dismissed. Through 30 September 2005, seven cases were tried to final jury verdicts in favour of the defendants, including The BOC Group, Inc., and one case was tried to a final jury verdict in favour of the plaintiffs, which is being appealed.

Asbestos litigation At 30 September 2005, there were a total of approximately 15,966 claimants in pending asbestos related cases that name The BOC Group, Inc. as a defendant, a net decrease of approximately 600 from 30 September 2004. The BOC Group, Inc. is typically one of a large number of defendants in these cases that claim compensatory and punitive damages, in most cases for unspecified amounts, for alleged injuries, including cancer, through exposure to asbestos in welding fumes or from welding consumables. A very small number of these claimants allege injuries from exposure to asbestos in non-welding rod products and premises. The BOC Group, Inc. has been a co-defendant in other asbestos related claims that have been resolved as follows. From 1 January 1997 to 30 September 2005, 11,776 claims were dismissed and 75 claims were dismissed on summary judgments. Through 30 September 2005, nine cases were tried to final jury verdicts in favour of the defendants, including The BOC Group, Inc., and one case was tried to a final jury verdict in favour of the plaintiffs, which is being appealed.

The BOC Group, Inc. believes that it has strong defences to the claims asserted in all of the various manganese and asbestos related cases and intends to defend vigorously such claims. In the manganese related claims, The BOC Group, Inc. believes that recent relevant scientific literature, based on epidemiological studies, strongly supports its defence of such claims. Based on its experience to date, together with its current assessment of the merits of the claims being asserted and applicable insurance, BOC believes that continued defence and resolution of the welding fumes litigation will not have a material adverse effect on its financial condition or profitability and no provision has been made. Nonetheless, it is not possible to predict either the number of future claims or the number of claimants that any future claims may present. In addition, the outcome of welding fume cases, either involving BOC or other defendants, is inherently uncertain and always difficult to predict, and BOC cannot provide any assurances that any future resolutions of these types of claims will necessarily be consistent with its experience to date. In the event of an adverse outcome to any of the proceedings, a liability would be recognised if it was considered likely that it would give rise to an outflow of future economic benefits. Where there is applicable insurance, this would be recognised when its recoverability was virtually certain.

Fluorogas litigation The Fluorogas litigation is now settled and is no longer the subject of any legal proceedings. More details are given on page 59.

27. Cash flow

a) Net cash inflow from operating activities

	Notes	2005 £ million	2004 £ million	2003 £ million
Total operating profit before exceptional items		564.2	576.9	505.6
Depreciation and amortisation		301.9	324.0	333.4
Net retirement benefits charge less contributions		(14.4)	(15.9)	5.6
Operating profit before exceptional items of joint ventures		(107.1)	(99.4)	(86.8)
Operating profit before exceptional items of associates		(20.5)	(13.1)	(11.4)
Change in stocks		(21.0)	(25.0)	(16.6)
Change in debtors		(58.9)	(35.1)	2.5
Change in creditors		35.8	44.0	10.8
Exceptional cash flows		(16.9)	(11.9)	(28.3)
Other		2.4	14.0	(14.7)
Net cash inflow from operating activities		665.5	758.5	700.1

b) Reconciliation of net cash flow to movement in net debt

	Notes	2005 £ million	2004 £ million	2003 £ million
Decrease/(increase) in cash		50.2	(150.1)	102.5
Decrease in debt	27(d)	(165.7)	(180.7)	(128.7)
Decrease/(increase) in liquid resources		14.3	(20.8)	16.2
Change in net debt resulting from cash flows		(101.2)	(351.6)	(10.0)
Net borrowings assumed at acquisition		6.2	4.7	0.8
Net (borrowings)/liquid resources eliminated on disposal		(40.9)	–	31.0
Inception of finance leases		7.1	0.2	–
Exchange adjustment		6.1	(59.0)	20.7
Movement in net debt in the year		(122.7)	(405.7)	42.5
Net debt at 1 October		962.4	1,368.1	1,325.6
Net debt at 30 September		839.7	962.4	1,368.1

c) Analysis of net debt

	At 1 October 2004 £ million	Cash flow £ million	Acquisitions/ disposals (excluding cash and overdrafts) £ million	Other non-cash changes £ million	Exchange adjustment £ million	At 30 September 2005 £ million
Cash at bank and in hand due within one year	228.2	(36.9)	–	–	(0.3)	191.0
Borrowings and finance leases due within one year	(262.1)	205.8	11.4	(193.9)	(20.4)	(259.2)
Borrowings and finance leases due beyond one year	(928.5)	(67.7)	23.3	186.8	14.6	(771.5)
Net borrowings and finance leases	(962.4)	101.2	34.7	(7.1)	(6.1)	(839.7)

d) (Decrease)/increase in debt

	2005 £ million	2004 £ million	2003 £ million
6.75% Bonds 2004	–	(125.0)	–
6¼% Notes 2002	–	–	(38.2)
Medium-term notes	(168.6)	74.8	93.7
European Investment Bank loans	–	–	(72.4)
Repayment of commercial paper	(5.5)	(42.6)	(90.7)
Other (net)	8.4	(87.9)	(21.1)
Decrease in debt	(165.7)	(180.7)	(128.7)

28. Acquisitions and disposals

a) Cash flow

	2005		2004		2003	
	Acquisitions £ million	Disposals £ million	Acquisitions £ million	Disposals £ million	Acquisitions £ million	Disposals £ million
Cash flow arising on the acquisition and disposal of businesses						
Goodwill	–	24.7	–	4.6	–	–
Intangible fixed assets	(1.3)	0.1	–	–	(2.4)	–
Tangible fixed assets	(17.2)	167.7	(3.7)	102.3	(61.5)	0.8
Joint ventures, associates and other investments	(30.3)	14.7	(80.6)	10.2	(4.8)	1.1
Stocks	(1.5)	12.9	(0.5)	16.2	(2.7)	0.1
Debtors	(11.4)	84.2	(5.3)	25.2	(15.3)	0.1
Cash at bank and in hand	(2.3)	23.3	(2.8)	–	–	0.2
Creditors including taxation	11.7	(72.6)	2.5	3.8	7.8	(0.1)
Borrowings	6.2	(40.9)	4.7	–	0.8	–
Minorities	(0.7)	(75.2)	(0.8)	0.2	(2.2)	0.3
Net assets (acquired)/disposed of	(46.8)	138.9	(86.5)	162.5	(80.3)	2.5
Goodwill on acquisitions of subsidiaries	(16.8)	–	(2.9)	–	(46.7)	–
Goodwill on acquisitions of joint ventures and associates	–	–	41.5	–	(8.0)	–
Goodwill in reserves written off on disposals	–	1.0	–	15.3	–	–
Surplus/(deficit) over book value on disposals	–	84.2	–	(79.5)	–	(0.7)
(Acquisition)/disposal price	(63.6)	224.1	(47.9)	98.3	(135.0)	1.8
Deferred payments and receipts[1]	6.5	–	(3.0)	–	(0.5)	2.1
	(57.1)	224.1	(50.9)	98.3	(135.5)	3.9

1) Deferred payments and receipts include amounts for current years and payments and/or receipts in respect of prior years.

In September 2005, BOC acquired GVan Dongen Holding BV, expanding Gist's primary business into Europe.

In March 2005, BOC acquired 50 per cent of Maanshan BOC-Ma Steel Gases Co Limited, the joint venture formed to supply the industrial gases needs of Ma Steel in China.

During 2005, BOC made an additional equity investment in Compania de Nitrogeno de Cantarell (CNC) in proportion to its 65 per cent equity shareholding.

In March 2005, BOC's South African subsidiary, African Oxygen Limited (Afrox) completed the sale of its majority shareholding in Afrox Healthcare Limited to a consortium led by two major black empowerment groups. Profit on disposal of this business amounted to £84.9 million. Afrox has retained a significant interest in the hospitals business through a 20 per cent holding in the new company. Following this disposal, Afrox accounts for its share of the business on an equity basis, taking its share of operating profit and net interest into account.

In 2005, the Group also recognised a further £13.2 million profit on disposal of the US packaged gas business. The additional proceeds, received in November 2005, had been subject to certain conditions at the time of disposal in July 2004.

In December 2004, BOC, through its subsidiary Thai Industrial Gases Public Co Limited, sold its shares in Unique Gas and Petrochemicals Public Co Limited.

b) Fair value of acquisitions

Provisionally there were no fair value adjustments in 2005.

The fair value of acquisitions in 2004 were:

	CNC book value £ million	**Other book value £ million**	**Total book value of businesses acquired £ million**
Tangible fixed assets	–	(3.7)	(3.7)
Joint ventures, associates and other investments	(74.1)	(6.5)	(80.6)
Stocks	–	(0.5)	(0.5)
Debtors	–	(5.3)	(5.3)
Cash at bank and in hand	–	(2.8)	(2.8)
Creditors including taxation	–	2.5	2.5
Borrowings	–	4.7	4.7
Minorities	–	(0.8)	(0.8)
Net (assets) acquired	(74.1)	(12.4)	(86.5)
Payment	32.6	18.3	50.9
Deferred payment	–	(3.0)	(3.0)
Consideration	32.6	15.3	47.9
Goodwill on acquisitions of subsidiaries	–	(2.9)	(2.9)
Goodwill on acquisitions of joint ventures and associates	41.5	–	41.5
	74.1	12.4	86.5

There were no fair value adjustments in 2004.

The fair value of acquisitions in 2003 were:

	EMC Water Services book value £ million	Praxair Polska book value £ million	Air Products Canada packaged gases business book value £ million	Other book value £ million	Total book value of businesses acquired £ million	Total adjustments £ million	Total fair value of businesses acquired £ million
Intangible assets	–	–	–	(2.4)	(2.4)	–	(2.4)
Tangible fixed assets	(0.6)	(17.1)	(13.3)	(24.6)	(55.6)	(5.9)	(61.5)
Joint ventures, associates and other investments	–	–	–	(4.8)	(4.8)	–	(4.8)
Stocks	–	(0.6)	(1.9)	(0.2)	(2.7)	–	(2.7)
Debtors	(3.9)	(3.4)	(6.0)	(2.0)	(15.3)	–	(15.3)
Creditors including taxation	3.8	2.0	0.6	1.4	7.8	–	7.8
Borrowings	0.1	–	–	0.7	0.8	–	0.8
Minorities	–	–	–	(2.2)	(2.2)	–	(2.2)
Net (assets) acquired	(0.6)	(19.1)	(20.6)	(34.1)	(74.4)	(5.9)	(80.3)
Payment	31.1	29.2	25.6	49.6	135.5	–	135.5
Deferred payment	1.0	–	0.9	(2.4)	(0.5)	–	(0.5)
Consideration	32.1	29.2	26.5	47.2	135.0	–	135.0
Goodwill on acquisitions of subsidiaries	(31.5)	(10.1)	–	(5.1)	(46.7)	–	(46.7)
Goodwill on acquisitions of joint ventures and associates	–	–	–	(8.0)	(8.0)	–	(8.0)
	0.6	19.1	26.5	34.1	80.3	–	80.3

The fair value adjustments were all in respect of the acquisition of the Canadian packaged gases business of Air Products.

c) ***Exchange of business***

In January 2003, the Group combined its Japanese gases business Osaka Sanso Kogyo KK (OSK) with part of Air Liquide Japan to form Japan Air Gases Ltd. The net effect of the transaction was to exchange 55 per cent of the OSK business for a 45 per cent equity share in Japan Air Gases Ltd. This transaction was accounted for in accordance with UK GAAP (UITF31 – 'Exchange of businesses or other non-monetary assets for an interest in a subsidiary, joint venture or associate').

The unrealised profit of £8.2 million on the disposal of OSK was recognised in the statement of total recognised gains and losses.

	Total book value of business disposed £ million
Value of assets disposed	
Tangible fixed assets	169.3
Joint ventures, associates and other investments	3.0
Stocks	10.3
Debtors	69.2
Net liquid resources	30.9
Creditors including taxation	(86.5)
Minorities	(3.1)
	193.1
Adjustment to reflect retention of 45 per cent share	(86.9)
Net assets disposed	106.2

	Air Liquide Japan assets contributed book value £ million	Valuation adjustments £ million	Air Liquide Japan assets contributed at fair value £ million	OSK assets contributed at fair value £ million	Total fair value of combined business £ million
Value of assets acquired					
Tangible fixed assets	185.0	40.8	225.8	169.3	395.1
Joint ventures, associates and other investments	10.7	–	10.7	3.0	13.7
Stocks	19.4	–	19.4	10.3	29.7
Debtors	141.6	–	141.6	69.2	210.8
Net (borrowings)/liquid resources	(37.9)	–	(37.9)	30.9	(7.0)
Creditors including taxation	(129.0)	0.2	(128.8)	(86.5)	(215.3)
Minorities	(9.2)	–	(9.2)	(3.1)	(12.3)
	180.6	41.0	221.6	193.1	414.7
BOC Group share of assets (45 per cent)					186.6
Value of OSK retained by the Group (45 per cent)					(86.9)
Fair value of assets acquired					99.7

The following fair value adjustments were made to the book value of the assets and liabilities of the Air Liquide Japan business acquired:

	Total adjustments £ million
Valuations	
Tangible fixed assets	40.8
Provisions	9.3
Alignment of accounting policies	
Pension liabilities	(9.1)
	41.0

	£ million
Unrealised gain on disposal	
Consideration, fair value of assets acquired	99.7
Net assets disposed	(106.2)
	(6.5)
Negative goodwill credited on disposal of a subsidiary	14.7
Unrealised profit on disposal of a subsidiary	8.2

29. Related party transactions

During the year, interest income of £13.8 million (2004: £7.3 million, 2003: £7.6 million) was received from the Cantarell joint venture in Mexico.

During the year, the Group was invoiced £45.9 million in respect of purchases of production plants from Linde BOC Process Plants in the US. At 30 September 2005, £1.9 million was payable in respect of these invoices. No material purchases were made in 2004 or 2003.

The Group had no other material related party transactions that might reasonably be expected to influence decisions made by the users of these accounts.

30. US accounting information

a) *Summary of differences between UK and US generally accepted accounting principles and other US accounting information*

The financial statements of The BOC Group plc are prepared in accordance with accounting principles generally accepted in the UK (UK GAAP), which differ in certain significant respects from accounting principles generally accepted in the US (US GAAP).

Set out below is a summary of the more significant adjustments which would be required if US GAAP had been applied, together with reconciliations of net profit and shareholders' funds from a UK GAAP to a US GAAP basis. Also presented on a US GAAP basis are a movement in shareholders' funds, a consolidated cash flow statement, information on earnings per share, information on stock based compensation and details of recently issued US accounting pronouncements.

Goodwill and other intangible assets

Under UK GAAP, goodwill arising on acquisitions before 1998 accounted for under the purchase method has been eliminated against shareholders' funds. Additionally, UK GAAP requires that on subsequent disposal or closure of a business, any goodwill previously taken directly to shareholders' funds is then charged against income. The Group adopted FRS10 in 1999, which requires goodwill on subsequent acquisitions to be capitalised and amortised over a period not exceeding 20 years.

Under UK GAAP the Group has recognised negative goodwill on certain acquisitions. Under US GAAP, the excess of the amounts assigned to the assets acquired and liabilities assumed over the acquisition cost is adjusted against the values of the acquired long-lived assets in accordance with SFAS 141. This does not result in a difference between the shareholders' funds under UK GAAP and US GAAP, although there is a difference in the classification between tangible and intangible assets.

Under US GAAP (SFAS142) goodwill continues to be capitalised, although no amortisation is charged to the income statement. Instead, an annual impairment test is carried out, with any identified impairment loss recorded in the income statement.

Other intangible assets with a finite life continue to be amortised under both UK and US GAAP. UK GAAP is highly prescriptive with regard to the recognition of intangible assets, although US GAAP rules result in the recognition of a greater amount of intangible assets. Therefore, differences arise in the classification of some intangible assets and goodwill between UK and US GAAP. Amortisation that has been charged against goodwill under UK GAAP is added back in the reconciliation to net income on a US GAAP basis.

The average life of other intangible assets is ten years and the annual amortisation charge under US GAAP is expected to be approximately £1 million.

Impairment of goodwill

Under UK GAAP, goodwill impairment reviews are carried out at the end of the first financial year following an acquisition, and also when an indicator of impairment exists. The impairment is measured by comparing the carrying value of the goodwill with the higher of the net realisable value and the value in use.

Under US GAAP, goodwill impairment reviews are also conducted when an indicator of impairment exists, in addition to an annual goodwill impairment test, as required by SFAS142. The impairment is measured by comparing the carrying value of a reporting unit to its fair value. Where the carrying value is greater than the fair value, the impairment loss is based on the excess of the carrying value of goodwill in the reporting unit over the implied fair value of the goodwill.

Profit or loss on the partial disposal of Group companies

Under UK GAAP (UITF 31), gains on the partial disposal of Group companies involving non-monetary consideration are recorded in the statement of total recognised gains and losses. Under US GAAP, such gains and losses are recorded in the income statement.

Deferred tax

Under UK GAAP, full provision for deferred tax is recognised in the financial statements. Under US GAAP, deferred tax is recognised on a similar basis. In addition, however, US GAAP requires provision for deferred tax on the unremitted earnings of overseas businesses that are not deemed to be permanently reinvested. This is not permitted under UK GAAP except in respect of any dividends that have been accrued as receivable.

Revaluation of fixed assets

UK GAAP allowed for the periodic revaluation of land and buildings with depreciation then being calculated on the revalued amount. Any surplus or deficit (to the extent that the revaluation reserve was in surplus) on the revaluation was then taken directly to shareholders' funds. With the Group's adoption of FRS15 in 2000, the Group no longer revalues fixed assets. Under US GAAP, revaluations of fixed assets are not permitted and, as a result, the reconciliation restates fixed assets to historical cost. The depreciation charge and any write downs of previously revalued assets are adjusted accordingly.

Impairment of tangible fixed assets

Under UK GAAP, a tangible fixed asset is reviewed for impairment if an indication exists that the asset may be impaired. If necessary, an impairment loss is recorded. A value in use calculation is carried out, based on discounted pre-tax future cash flows from the asset (or income generating unit to which the asset belongs).

Under US GAAP, a preliminary review of the tangible fixed asset is carried out using undiscounted future cash flows. If the undiscounted future cash flows are less than the asset's carrying value, an impairment loss is required. The impairment loss will be calculated using discounted future cash flows, or the asset's market value.

Under US GAAP, the reversal of previously recognised impairment losses is not permitted.

Provisions

Under UK GAAP, general requirements for liabilities and charges are contained in FRS 12 which states that provisions are made when a present obligation exists in respect of a past event, where it is probable that a transfer of economic benefits will be required and where the amount of the obligation can be reliably estimated. Under US GAAP the general requirements for loss contingencies of SFAS 5 require that, a provision is made when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The UK GAAP policy is substantially the same as the US GAAP policy and no adjustment is required.

Restructuring costs

Under UK GAAP, when a decision has been taken to restructure, supported by a detailed formal plan and the creation of a valid expectation in those affected that the restructuring will take place, the necessary provisions are made for impairment of asset values together with severance and other costs.

Under US GAAP (SFAS146), the requirements for charging restructuring costs to income are more prescriptive and all significant actions arising from the restructuring plan and their completion dates must be identified by the balance sheet date.

Pensions

For UK GAAP reporting (FRS17 – Retirement benefits), the pension asset or liability in the balance sheet represents the difference between the market value of pension scheme assets at the balance sheet date and the present value of pension scheme liabilities at that date, net of deferred tax.

Under US GAAP (SFAS87), plan assets are valued by reference to market-related value at the date of the financial statements. Liabilities are assessed using the rate of return obtainable on fixed or inflation-linked bonds.

FRS17 requires that past service costs are recognised in full in the period in which they become vested. SFAS87 requires past service costs to be amortised over the remaining service lives of the employees to whom the amendments relate.

There is a significant difference in the treatment of actuarial gains and losses arising during the accounting period. UK GAAP recognises the actuarial gains and losses in full in the year in which they arise in the statement of total recognised gains and losses. Under US GAAP, the actuarial gains and losses which exceed ten per cent of the value of the assets or liabilities at the start of the accounting period are amortised over the remaining service lives of scheme members.

Where an additional minimum liability exists under US GAAP, (ie where the amount provided for any scheme does not cover the unfunded accumulated benefit obligation for that scheme), this must be recognised in the balance sheet under SFAS87. The adjustment resulting from the recognition of an additional minimum liability is reported as an intangible asset to the extent of the unrecognised prior service cost, after eliminating amounts previously shown as a prepaid benefit cost. Any excess above these amounts is reported in comprehensive income.

Where surpluses exist in pension schemes under UK GAAP, a company should recognise the associated asset only to the extent that it is able to recover that surplus either through reduced contributions or through refunds from the scheme. Regulations in South Africa concerning surpluses (as set out in the Pension Funds Second Amendment Act 2001) specify that recognition of any surpluses in a retirement fund cannot be made by a company unless it is either as a result of a surplus apportionment exercise, or if a fund’s rules allow it. As a result, any surpluses in South Africa are not recognised under UK GAAP and are written off in the statement of total recognised gains and losses.

There is no specific requirement under US GAAP relating to the treatment of irrecoverable surpluses. As a result, the associated surplus is retained under US GAAP in line with SFAS 87.

Post retirement medical costs

For UK GAAP reporting (FRS17 – Retirement benefits), the post retirement medical liability is discounted using the bond yield on suitable high quality corporate bonds, and disclosed net of related deferred tax.

For US GAAP (SFAS 106), the liabilities are assessed and discounted using the rates of return obtainable on high quality fixed income investments.

Differences between the UK and US GAAP figures arise largely from the treatment of actuarial gains and losses.

Securities investments

Under UK GAAP, current asset investments (of all types) are stated at the lower of cost and net realisable value. Fixed asset investments are stated at cost, or alternatively, at market value or at directors' valuation.

Under US GAAP, securities which are determined to be 'available-for-sale' are stated at fair value and any unrealised gains or losses included as a separate component of shareholders' funds. The deferred tax consequences of unrealised gains or losses are also charged or credited to shareholders' funds.

Contingent consideration

Under UK GAAP, contingent consideration is provided for as a liability when the likelihood of payment is considered to be probable.

Under US GAAP, contingent consideration is not recognised until the liability is determined beyond reasonable doubt. The elimination of contingent consideration for US GAAP purposes also impacts on the value of goodwill arising on acquisitions, therefore there is no net impact on shareholders' funds.

Financial instruments

The Group enters into a number of currency swaps, interest rate swaps and forward foreign exchange contracts to hedge its exposure to currency and interest rate risks. Under UK GAAP, such instruments are shown at their carrying value.

Under US GAAP, these instruments are marked to market and any change in value is recognised in either the income statement or through comprehensive income in accordance with SFAS133 depending on whether a derivative is designated as part of a hedge transaction, and if it is, the type of hedge transaction.

Accounting for swaps

Under UK GAAP, gains or losses on closing out interest rate swap contracts taken to hedge the Group's fixed/floating interest rate position can be taken to profit immediately.

US GAAP requires any gain or loss to be deferred over the remaining hedge period.

Share of results and net assets of joint ventures and associates

The Group's share of the results and net assets of its joint ventures and associates (as calculated under UK GAAP) is shown within fixed asset investments. For the purposes of the reconciliations set out below, the Group's share of the results and net assets of its joint ventures and associates has been adjusted to recognise a difference in the method of reporting profits under US GAAP.

Leasing

Under US GAAP (EITF 01-8) certain arrangements with customers (modified or entered into since 1 October 2003) concerning the use of some items of the Group's plant and machinery are deemed to contain leases. Where such arrangements qualify as finance leases under SFAS13, an appropriate adjustment is made to net income and shareholders' funds under US GAAP. UK GAAP does not contain this same requirement.

Sale and leaseback transactions

Under UK GAAP, any profit or loss on the sale and operating leaseback of fixed assets can generally be taken to profit immediately.

US GAAP requires any gain or loss to be deferred over the contract lease period.

Comprehensive income

Under US GAAP, SFAS130 establishes requirements for the reporting of comprehensive income and its components (revenue, expenses, gains and losses) in a full set of general purpose financial statements. Components of comprehensive income for the Group determined on a UK GAAP basis include profit for the financial year, pension actuarial gains and losses, and foreign currency translation gains and losses. Information regarding the Group's foreign currency translation gains and losses is included in the statement of total recognised gains and losses under UK GAAP on page 89.

b) Selected financial information under US GAAP

In addition to the Group five year record on page 12, for SEC reporting the Group is required to disclose, on a US GAAP basis, certain key selected financial information under item 3.A.2. of form 20-F.

	2005 £ million	2004 £ million	2003 £ million	2002 £ million	2001 £ million
Revenue	3,916.9	3,885.4	3,718.3	3,657.7	3,772.9
Net operating income	652.9	547.4	512.3	515.1	497.4
Net income	326.7	297.7	264.3	255.4	234.2
Total assets	5,241.7	5,333.2	5,046.2	5,126.9	5,118.5
Net assets	2,122.2	1,920.1	1,872.5	2,061.0	2,138.9

	2005 pence	2004 pence	2003 pence	2002 pence	2001 pence
Earnings per share – basic	66.0	60.4	53.7	52.1	48.1
Earnings per share – diluted	65.8	60.3	53.6	51.9	47.9

	2005 million	2004 million	2003 million	2002 million	2001 million
Weighted average ordinary shares – basic	495.0	493.0	492.5	490.4	486.9
Weighted average ordinary shares – diluted	496.6	493.8	492.7	492.2	488.6

c) Income statement in US GAAP format

The Group profit and loss account on page 86 complies with UK GAAP. For SEC reporting purposes this presentation would be considered 'non GAAP' and therefore disclosed below is the income statement which meets the SEC reporting format set forth in Item 10 of Regulation S-X. The financial numbers disclosed within the income statement below are prepared under UK GAAP.

	2005 £ million	2004 £ million	2003 £ million
Revenue	3,754.7	3,885.4	3,718.3
Operating expenses			
Payroll costs	(951.9)	(1,015.6)	(1,037.8)
Depreciation and amortisation	(301.9)	(324.0)	(333.4)
Other operating expenses	(1,848.8)	(2,060.9)	(1,908.5)
Total operating expenses	(3,102.6)	(3,400.5)	(3,279.7)
Net operating income	652.1	484.9	438.6
Other income, net	18.2	15.8	9.4
Net interest expense	(76.7)	(88.4)	(96.1)
Income taxes	(159.9)	(101.7)	(96.4)
Minority interests	(66.7)	(46.6)	(36.4)
Net income	367.0	264.0	219.1
Earnings per share – basic	74.1p	53.5p	44.5p
Earnings per share – diluted	73.9p	53.5p	44.5p

d) *Reconciliation of net profit*

	Notes	2005 £ million	2004 £ million	2003 £ million
Years ended 30 September				
Net profit as reported in the Group profit and loss account under UK GAAP		367.0	264.0	219.1
Pensions		(0.8)	7.5	62.5
Post retirement medical costs		0.1	(2.4)	–
Revaluations realised on asset disposals		7.2	–	1.1
Depreciation of revalued fixed assets		0.5	0.2	0.1
Non-amortisation of goodwill under SFAS142		12.6	14.0	13.9
Goodwill adjustment relating to disposals		(3.4)	–	–
Consolidation of variable interest entity under FIN46		0.5	–	–
Amortisation of other intangibles		(0.6)	(0.5)	(0.5)
Unrealised profit on disposal of subsidiary		–	–	8.2
Other adjustments on profit on disposal of subsidiary	1	–	–	(20.7)
Share of results of joint ventures and associates		(3.5)	0.3	0.6
Termination of interest rate swaps		1.5	1.6	1.7
Financial and other derivative instruments		(1.1)	(15.7)	(2.8)
Adjustment on disposal of the US packaged gas business	2	(9.6)	39.9	–
ESOPs and other share options		(1.5)	3.5	1.7
Sale and leaseback		0.1	0.1	0.1
Restructuring provisions		1.0	–	–
Goodwill impairments		(16.3)	–	–
Taxation adjustments	3	(27.0)	(14.8)	(20.7)
Net income under US GAAP		326.7	297.7	264.3

1) The adjustment on profit of disposal of subsidiary of £(20.7) million in 2003 relates to differences relating to the combination of the Group's Japanese gases business with part of Air Liquide Japan. It comprises £(11.7) million relating to the difference in the net book value of tangible assets and £(9.0) million relating to the difference in the net book value of intangible assets recognised in the Group's Japanese business.

2) The adjustment on disposal of the US packaged gas business of £39.9 million in 2004 comprised £13.4 million relating to asset impairments, £19.9 million relating to goodwill and £6.6 million relating to restructuring provisions. In 2005, the adjustment relates to timing differences on restructuring provisions and expenses between UK GAAP and US GAAP.

3) During 2005 the deferred tax provision in respect of undistributed earnings of subsidiaries and joint ventures was reviewed. In connection with this, the amount of taxation adjustments includes a charge of £28.5 million (2004: £nil, 2003: £nil).

4) All net income arose from continuing operations.

	2005 million	2004 million	2003 million
Average number of 25p Ordinary shares			
Basic	495.0	493.0	492.5
Diluted	496.6	493.8	492.7

	2005 pence	2004 pence	2003 pence
Earnings per share			
Basic	66.0	60.4	53.7
Diluted	65.8	60.3	53.6

e) Reconciliation of shareholders' funds

	2005 £ million	2004 £ million
At 30 September		
Shareholders' funds reported in the Group balance sheet under UK GAAP	1,942.0	1,675.3
UK minority interests	111.1	202.8
	2,053.1	1,878.1
Pensions	107.8	154.7
Post retirement medical costs	(16.8)	(12.2)
Revaluations of fixed assets	(30.3)	(36.8)
Goodwill previously charged to reserves	64.1	62.7
Non-amortisation of goodwill under SFAS 142	40.1	31.4
Amortisation of other intangibles	(1.1)	(1.0)
Interest rate swaps	(1.2)	(2.7)
Share of net assets of joint ventures and associates	14.1	17.6
Securities investments	–	7.3
Consolidation of variable interest entity under FIN46	(12.8)	(29.7)
Goodwill on disposal of subsidiary	5.5	4.4
Fixed asset impairments	8.1	13.3
Restructuring provisions	4.0	6.5
Financial and other derivative instruments	(3.1)	(2.0)
Provision for executive share schemes	0.5	0.9
Sale and leaseback	(1.8)	(1.9)
Goodwill impairments	(16.3)	–
Deferred tax	6.2	10.2
Minority interests	(97.9)	(180.7)
Shareholders' funds under US GAAP	2,122.2	1,920.1

f) Movements in shareholders' funds on a US GAAP basis

	2005 £ million	2004 £ million
Shareholders' funds at 1 October	1,920.1	1,872.5
Net income for the year	326.7	297.7
Dividends	(204.1)	(197.3)
Shares issued	32.6	8.7
Movement in treasury stock	(4.2)	2.5
Pensions	(54.5)	53.3
Exchange adjustment	99.3	(98.1)
Other movements	6.3	(19.2)
Shareholders' funds at 30 September	2,122.2	1,920.1

g) Consolidated cash flow statement

The Group cash flow statement on page 88 has been prepared in accordance with UK accounting standard FRS1, the objectives and principles of which are similar to those set out in US accounting principle SFAS95, Statement of Cash Flows. The principal differences between the standards relate to classification of items within the cash flow statement and with regard to the definition of cash and cash equivalents.

Under FRS1, cash flows are presented separately for: a) operating activities; b) dividends from joint ventures and associates; c) returns on investments and servicing of finance; d) tax paid; e) capital expenditure and financial investment; f) acquisitions and disposals; g) equity dividends paid; h) management of liquid resources; and i) financing. Under SFAS95, however, only three categories of cash flow activity are reported: a) operating activities; b) investing activities; and c) financing activities. Dividends from joint ventures and associates, cash flows from returns on investments and servicing of finance (excluding dividends paid to minorities) and tax paid under FRS1 would be included in operating activities under SFAS95; capital expenditure and acquisitions and disposals would be included in investing activities under SFAS95; equity dividends would be included as a financing activity under SFAS95.

Under FRS1, cash is defined as cash in hand and deposits repayable on demand with any qualifying financial institution, less overdrafts from any qualifying financial institution repayable on demand. Under SFAS95, cash is defined as cash in hand and deposits but also includes cash equivalents which are short-term, highly liquid investments. Generally only investments with original maturities of three months or less come within this definition.

Set out below, for illustrative purposes, is a summary consolidated statement of cash flows under SFAS95.

	2005 £ million	2004 £ million	2003 £ million
Net cash provided by operating activities	577.7	673.5	562.4
Net cash used by investing activities	(235.2)	(45.2)	(389.2)
Net cash used by financing activities	(405.7)	(413.0)	(292.7)
Net (decrease)/increase in cash and cash equivalents	(63.2)	215.3	(119.5)
Cash and cash equivalents at 1 October	289.7	76.4	181.9
Exchange and other movements	(1.4)	(2.0)	14.0
Cash and cash equivalents at 30 September	225.1	289.7	76.4

h) Stock-based compensation

For US reporting purposes the company applies APB Opinion 25, Accounting for Stock Issued to Employees and related interpretations, in accounting for its share option plans.

Prior to 2005, by applying this statement, the employee share schemes were deemed non-compensatory since share options were granted at a discount of ten per cent to market price. Accordingly, grants under these schemes did not result in an expense under US GAAP. In 2005, share options under the company's employee share schemes were granted at a discount of 20 per cent to the market price. Accordingly, they are deemed compensatory, which has resulted in a charge of £0.2 million (£0.1 million net of related tax) in 2005 (2004: £nil, 2003: £nil).

Grants of executive share options are made at the market price of the company's shares at the time of grant and are therefore deemed non-compensatory.

The Long-Term Incentive Plan schemes are deemed compensatory and a charge is recognised when certain performance conditions are met.

This has resulted in a charge of £6.1 million (£4.3 million net of related tax) in 2005 (2004: £nil, 2003: £nil).

If compensation cost for the Group's share option plans had been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS123, Accounting for Stock-Based Compensation, the Group's net income under US GAAP would have been:

	2005 £ million	2004 £ million	2003 £ million
Reported net income	326.7	297.7	264.3
Add stock compensation expense recognised in accordance with APB25 (net of related tax)	4.4	–	–
Deduct stock compensation expense determined in accordance with SFAS123 (net of related tax)	(9.7)	(5.7)	(7.1)
Pro forma net income	321.4	292.0	257.2

	2005 pence	2004 pence	2003 pence
Earnings per share:			
Basic – as reported	66.0	60.4	53.7
Basic – pro forma	64.9	59.2	52.2
Diluted – as reported	65.8	60.3	53.6
Diluted – pro forma	64.7	59.1	52.2

The Black-Scholes model was used to measure the compensation expense under SFAS123. The assumptions used for grants in 2005 included a dividend yield of 4.5 per cent (2004: 4.5 per cent, 2003: 4.5 per cent), expected share price volatility of 27.2 per cent (2004: 29.5 per cent, 2003: 30.6 per cent), a weighted average expected life of 4.9 years (2004: 4.9 years, 2003: 5.0 years) and a weighted average interest rate of 4.6 per cent (2004: 4.8 per cent, 2003: 4.0 per cent). The weighted average interest rate is based on UK Gilts on the date of grant with a maturity similar to the related options.

i) *Goodwill*

For US reporting purposes the company applies SFAS142 in accounting for goodwill. The changes in the carrying value of goodwill for the year ended 30 September 2005 are as follows:

	Process Gas Solutions £ million	Industrial and Special Products £ million	BOC Edwards £ million	Afrox hospitals £ million	Gist £ million	Corporate £ million	Total £ million
Balance at 1 October	55.8	79.1	109.0	15.0	0.7	2.5	262.1
Acquired during year	1.0	2.6	–	0.5	5.1	–	9.2
Disposals during year	(0.6)	(15.7)	–	(14.5)	–	–	(30.8)
Impairments in year	–	–	(31.1)	–	–	–	(31.1)
Exchange adjustment	3.6	5.2	(0.2)	(1.0)	0.3	–	7.9
Balance at 30 September	59.8	71.2	77.7	–	6.1	2.5	217.3

Under US GAAP the fair values of the business for impairment testing purposes have been calculated using a discounted cash flow method. See note 2 b) for further information.

j) *Operating leases – lessors*

The following table provides information required in respect of owned assets which qualify as operating leases under SFAS13.

	£ million
At 30 September 2005	
Gross book value	138.7
Accumulated depreciation	(81.1)
Net book value	57.6
Revenue recognised in 2005	31.2
Contractually receivable amounts:	
Year to 30 September 2006	32.5
Year to 30 September 2007	33.7
Year to 30 September 2008	30.8
Year to 30 September 2009	28.5
Year to 30 September 2010	27.3
Thereafter	4.1
Minimum future rentals	156.9

1) Contractually receivable amounts include amounts in respect of maintenance, safety and other operational costs.

k) *Recently issued accounting pronouncements implemented in the year*

EITF04-1 – Accounting for Pre-existing relationships between the Parties to a Business Combination

In October 2004, the Emerging Issues Task Force (EITF) reached a consensus on EITF issue 04-1. Issue 04-1 applies when two parties that have a pre-existing contractual relationship enter into a business combination. If it is determined that assets of an acquired entity are related to a pre-existing contractual relationship, thus requiring accounting separate from the business combination, management will evaluate whether the acquiring entity of the Group should recognise contractual relationships as assets separate from goodwill in that business combination. EITF 04-1 did not have a material impact on the Group's results and financial position in the year.

l) *Recently issued accounting pronouncements not yet implemented*

SFAS151 – Inventory costs

SFAS151 was issued in November 2004 and is effective for all inventory costs incurred during fiscal years beginning after 15 June 2005. This statement amends ARB 43 and requires all idle facility expense, excessive spoilage, double freight and re-handling costs to be recognised as current-period charges regardless of whether they meet the criterion of "so abnormal" (as previously stated in ARB 43). In addition, ARB 43 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. Unallocated overheads are recognised as an expense in the period in which they are incurred. Management does not believe that this statement will have a material effect on the Group's results and financial position under US GAAP in future periods.

SFAS153 – Exchanges of non-monetary assets

SFAS153 was issued in December 2004 and is effective for all non-monetary asset exchanges occurring in fiscal periods beginning after 15 June 2005. This statement amends APB Opinion 29, which is based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. SFAS153 provides a general exception for exchange transactions that do not have commercial substance – that is, transactions that are not expected to result in significant changes in the cash flows of the reporting entity. Management does not believe that this statement will have a material effect on the Group's results and financial position under US GAAP in future periods.

SFAS123(R) – Share-based payment (revised 2004)

SFAS123(R) was issued in December 2004 and is effective for the first annual reporting period that starts after 15 June 2005. It supersedes APB Opinion 25, Accounting for Stock Issued to Employees. SFAS123(R) is concerned with how to account for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. The main effect of this revised standard is a move from an intrinsic value method to a fair value based method. It will therefore result in an additional charge relating to the fair value of share options in the Group's income statement. Management does not believe that this will have a material effect on the Group's results and financial position under US GAAP in future periods.

SFAS154 – Accounting changes and error corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3.

SFAS154 was issued in May 2005 and is effective for fiscal years beginning after 15 December 2005. This statement replaces APB Opinion 20, Accounting Changes, and SFAS3, Reporting Accounting Changes in Interim Financial Statements. This Statement requires voluntary changes in accounting principles to be reported via retrospective application, unless impracticable. Previous guidance given in APB Opinion 20 for reporting the correction of an error in previously issued financial statements or a change in accounting estimates is unchanged in SFAS154. Management does not believe that this statement will have a material effect on the Group's results and financial position under US GAAP in future periods.

FIN47 – Accounting for conditional asset retirement obligations

FIN47 was issued in August 2005 and is effective for fiscal years ending after 15 December 2005. This interpretation clarifies the term 'conditional asset retirement obligation' as used in SFAS143, Accounting for asset retirement obligations. FIN47 requires an entity to recognise a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognised when incurred – generally upon acquisition, construction, or development and/or through the normal operation of the asset. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. Management does not believe that this interpretation will have a material effect on the Group's results and financial position under US GAAP in future periods.

m) Other information

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Audited consolidated financial statements of The BOC Group plc as of and for the financial year ended September 30, 2004 (UK-GAAP)

REPORT BY THE INDEPENDENT AUDITORS

To the members of The BOC Group plc

Independent auditors' report to the members of The BOC Group plc

We have audited the financial statements which comprise the Group profit and loss account, the Group balance sheet, the Group cash flow statement, the total recognised gains and losses, the movement in shareholders' funds, the balance sheet of The BOC Group plc, Group undertakings, accounting policies and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the report on remuneration ('the auditable part').

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the report on remuneration.

Our responsibility is to audit the financial statements and the auditable part of the report on remuneration in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the report on remuneration have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the report of the directors is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the financial highlights, chairman's statement, chief executive's review, board of directors, executive management board, Group five year record, Group profile, employees, social, environmental and ethical performance, research and development and information technology, risk factors, operating review, financial review, the unaudited part of the report on remuneration, responsibility of the directors, dividends, nature of trading market, analysis of shareholdings, taxation, financial calendar, key contacts information, cross reference to Form 20-F and glossary of terms.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code issued in June 1998 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the report on remuneration. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the report on remuneration are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group at 30 September 2004 and of the profit and cash flows of the Group for the year then ended; the financial statements have been properly prepared in accordance with the Companies Act 1985; and those parts of the report on remuneration required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London, England
22 November 2004

GROUP PROFIT AND LOSS ACCOUNT
Years ended 30 September

	Notes	2004 Before exceptional items £ million	2004 Exceptional items £ million	2004 After exceptional items £ million	2003 Before exceptional items £ million	2003 Exceptional items £ million	2003 After exceptional items £ million	2002 Before exceptional items £ million	2002 Exceptional items £ million	2002 After exceptional items £ million
Turnover, including share of joint ventures and associates	1	4,599.3	–	4,599.3	4,323.2	–	4,323.2	4,017.9	–	4,017.9
Less: Share of turnover of joint ventures		647.0	–	647.0	544.3	–	544.3	324.1	–	324.1
Share of turnover of associates		66.9	–	66.9	60.6	–	60.6	36.1	–	36.1
Turnover of subsidiary undertakings		3,885.4	–	3,885.4	3,718.3	–	3,718.3	3,657.7	–	3,657.7
Cost of sales	2(a)	(2,181.7)	–	(2,181.7)	(2,136.2)	(1.7)	(2,137.9)	(2,089.7)	(15.1)	(2,104.8)
Gross profit		1,703.7	–	1,703.7	1,582.1	(1.7)	1,580.4	1,568.0	(15.1)	1,552.9
Net operating expenses	2(a)	(1,239.3)	(14.8)	(1,254.1)	(1,174.7)	(58.5)	(1,233.2)	(1,142.4)	(58.9)	(1,201.3)
Operating profit of subsidiary undertakings		464.4	(14.8)	449.6	407.4	(60.2)	347.2	425.6	(74.0)	351.6
Share of operating profit of joint ventures		99.4	(2.6)	96.8	86.8	(6.8)	80.0	63.8	(0.5)	63.3
Share of operating profit of associates		13.1	–	13.1	11.4	–	11.4	10.7	–	10.7
Total operating profit including share of joint ventures and associates	1	576.9	(17.4)	559.5	505.6	(67.0)	438.6	500.1	(74.5)	425.6
Loss on termination/disposal of businesses – continuing operations	2(b)	–	(79.5)	(79.5)	–	–	–	–	(20.2)	(20.2)
Profit on disposal of fixed assets – continuing operations	2(b)	–	4.9	4.9	–	–	–	–	–	–
Profit on ordinary activities before interest		576.9	(92.0)	484.9	505.6	(67.0)	438.6	500.1	(94.7)	405.4
Interest on net debt	3	(88.4)	–	(88.4)	(96.1)	–	(96.1)	(103.1)	–	(103.1)
Interest on pension scheme liabilities	8(a)	(117.4)	–	(117.4)	(110.2)	–	(110.2)	(106.1)	–	(106.1)
Expected return on pension scheme assets	8(a)	133.2	–	133.2	119.6	–	119.6	139.1	–	139.1
Other net financing income		15.8	–	15.8	9.4	–	9.4	33.0	–	33.0
Profit on ordinary activities before tax		504.3	(92.0)	412.3	418.9	(67.0)	351.9	430.0	(94.7)	335.3
Tax on profit on ordinary activities	4(a)	(146.2)	44.5	(101.7)	(121.4)	25.0	(96.4)	(129.0)	22.8	(106.2)
Profit on ordinary activities after tax		358.1	(47.5)	310.6	297.5	(42.0)	255.5	301.0	(71.9)	229.1
Minority interest – equity		(46.6)	–	(46.6)	(36.8)	0.4	(36.4)	(26.7)	0.5	(26.2)
Profit for the financial year		311.5	(47.5)	264.0	260.7	(41.6)	219.1	274.3	(71.4)	202.9
Dividends	9	(197.3)	–	(197.3)	(192.1)	–	(192.1)	(186.6)	–	(186.6)
Retained profit for the financial year		114.2	(47.5)	66.7	68.6	(41.6)	27.0	87.7	(71.4)	16.3
Earnings per 25p Ordinary share	10									
– basic		63.2p	(9.7)p	53.5p	52.9p	(8.4)p	44.5p	55.9p	(14.5)p	41.4p
– diluted		63.1p	(9.6)p	53.5p	52.9p	(8.4)p	44.5p	55.7p	(14.5)p	41.2p

All turnover and operating profit arose from continuing operations.

Acquisitions in 2004 were not material.

GROUP BALANCE SHEET

At 30 September

	Notes	2004 £ million	2003 (restated) £ million
Fixed assets			
Intangible assets	11	174.9	206.1
Tangible assets	12	2,618.4	2,913.4
Investment in joint ventures			
– share of gross assets		996.1	870.3
– share of gross liabilities		(737.4)	(468.0)
		258.7	402.3
– loans to joint ventures		199.3	103.0
Investment in associates			
– share of net assets		52.4	59.6
– loans to associates		3.3	4.9
Other investments		34.5	38.8
Investments	13	548.2	608.6
		3,341.5	3,728.1
Current assets			
Stocks	14	284.4	284.2
Debtors falling due within one year	15(a)	705.6	697.8
Debtors falling due after more than one year	15(b)	16.3	23.6
Investments	16	20.8	21.8
Cash at bank and in hand	17	228.2	77.5
		1,255.3	1,104.9
Creditors: amounts falling due within one year			
Borrowings and finance leases	18(a)	(262.1)	(360.9)
Other creditors	18(b)	(872.6)	(807.3)
		(1,134.7)	(1,168.2)
Net current assets/(liabilities)		120.6	(63.3)
Total assets/less current liabilities		3,462.1	3,664.8
Creditors: amounts falling due after more than one year			
Borrowings and finance leases	19(a)	(928.5)	(1,084.7)
Other creditors	19(b)	(34.7)	(48.4)
		(963.2)	(1,133.1)
Provisions for liabilities and charges			
Deferred tax	22	(253.0)	(279.2)
Other	22	(92.2)	(97.4)
Total provisions for liabilities and charges		(345.2)	(376.6)
Total net assets excluding pension assets and liabilities		2,153.7	2,155.1
Pension assets	8(a)	68.9	50.7
Pension liabilities	8(a)	(344.5)	(341.8)
Total net assets including pension assets and liabilities		1,878.1	1,864.0

	Notes	2004 £ million	2003 (restated) £ million
Capital and reserves			
Equity called up share capital	23	124.7	124.4
Share premium account	24(a)	374.9	366.0
Revaluation reserves	24(a)	30.1	30.8
Profit and loss account	24(a)	1,181.5	1,199.1
Pensions reserves	24(a)	(253.6)	(291.1)
Joint ventures' reserves	24(a)	238.0	273.3
Associates' reserves	24(a)	26.0	33.0
Own shares	24(a)	(46.3)	(48.8)
Equity shareholders' funds		1,675.3	1,686.7
Minority shareholders' equity interests		202.8	177.3
Total capital and reserves		1,878.1	1,864.0

The financial statements were approved by the board of directors on 22 November 2004 and are signed on its behalf by:

A E Isaac Director **R Médori** Director

GROUP CASH FLOW STATEMENT

Years ended 30 September

	Notes	2004 £ million	2003 (restated) £ million	2002 (restated) £ million
Net cash inflow from operating activities	27(a)	758.5	700.1	759.3
Dividends from joint venture and associates				
Dividends from joint ventures		69.0	31.7	30.5
Dividends from associates		10.1	3.3	3.4
Dividends from joint ventures and associates		79.1	35.0	33.9
Returns on investments and servicing of finance				
Interest paid		(83.3)	(94.4)	(89.6)
Interest received		13.9	16.6	18.5
Dividends paid to minorities in subsidiaries		(19.3)	(12.4)	(13.9)
Interest element of finance lease rental payments		(2.5)	(4.2)	(5.7)
Returns on investments and servicing of finance		(91.2)	(94.4)	(90.7)
Tax paid		(98.2)	(90.7)	(96.2)
Capital expenditure and financial investment				
Purchases of tangible fixed assets		(244.6)	(281.4)	(352.1)
Sales of tangible fixed assets		39.7	37.0	31.6
Purchases of intangible fixed assets		(0.2)	(1.2)	(0.1)
Net (purchases)/sales of current asset investments		(0.9)	16.6	4.3
Purchases of trade and other investments		(3.8)	(3.3)	(19.7)
Sales of trade and other investments		5.6	5.3	0.9
Capital expenditure and financial investment		(204.2)	(227.0)	(335.1)
Acquisitions and disposals				
Acquisitions of businesses	28(a)	(50.9)	(135.5)	(207.3)
Net cash/(overdrafts) acquired with subsidiaries		2.8	–	(7.4)
Disposals of business	28(a)	98.3	3.9	10.6
Net cash disposed of with subsidiaries		–	(0.1)	–
Receipts from capital restructuring of joint ventures[1)]		53.0	–	–
Investments in joint ventures		(12.9)	–	(12.6)
Divestments/repayments from joint ventures		–	12.4	–
Investments in associates		(3.9)	(8.4)	(0.5)
Divestments/repayments from associates		6.1	9.4	1.7
Acquisitions and disposals		92.5	(118.3)	(215.5)
Equity dividends paid		(197.3)	(192.1)	(186.6)
Net cash inflow/(outflow) before use of liquid resources and financing		339.2	12.6	(130.9)
Management of liquid resources				
Net (purchases)/sales of short-term investments		(20.8)	16.2	52.6
Financing				
Issue of shares		12.4	(2.6)	35.6
(Decrease)/increase in debt	27(d)	(180.7)	(128.7)	64.1
Net cash (outflow)/inflow from financing		(168.3)	(131.3)	99.7
Increase/(decrease) in cash		150.1	(102.5)	21.4

1) Receipts from capital restructuring of joint ventures relates to an amount received in September 2004 from Japan Air Gases Ltd. This has no impact on BOC's effective shareholding.

A reconciliation of the movement in cash to the movement in net debt in the year is given in note 27(b).

Liquid resources are defined as short-term deposits.

TOTAL RECOGNISED GAINS AND LOSSES

Years ended 30 September

	Notes	2004 £ million	2003 £ million	2002 £ million
Parent[1]	24(b)	11.4	218.6	26.2
Subsidiary undertakings		269.8	(0.4)	170.1
Joint ventures		(13.1)	(0.2)	4.5
Associates		(4.1)	1.1	2.1
Profit for the financial year		264.0	219.1	202.9
Actuarial loss recognised on the pension schemes		(2.2)	(17.5)	(431.2)
Movement on deferred tax relating to actuarial loss on pensions		(8.1)	2.0	134.0
Movement on current tax relating to actuarial loss on pensions		3.2	–	–
Unrealised loss on write-down of revaluation reserve		–	–	(11.5)
Unrealised profit on disposal of a subsidiary		–	8.2	–
Exchange translation effect on:				
– results for the year of subsidiaries		0.2	8.0	(5.2)
– results for the year of joint ventures		(0.7)	0.2	(2.6)
– results for the year of associates		(0.1)	(0.2)	(0.3)
– foreign currency net investments in subsidiaries		(76.1)	15.3	(114.6)
– foreign currency net investments in joint ventures		(21.5)	9.6	(11.9)
– foreign currency net investments in associates		(2.8)	(1.4)	(1.7)
Total recognised gains and losses for the financial year	24(a)	155.9	243.3	(242.1)

1) In accordance with the concession granted under the Companies Act 1985, the profit and loss account of The BOC Group plc has not been presented separately in these financial statements.

2) There were no material differences between reported profits and losses and historical cost profits and losses on ordinary activities before tax for 2004, 2003 and 2002.

3) Profit attributable to the parent company includes dividends received from subsidiaries, joint ventures and associates, often through intermediate holding companies. These dividends may include the distribution of earnings of previous periods. As a result, the relationship of profit between parent subsidiaries, joint ventures and associates may show fluctuations from year to year.

4) Excluding the amounts recognised above, a current tax release of £6.7 million (2003: £9.7 million, 2002: £(13.5) million charge) has been recognised directly in the Group reserves.

MOVEMENT IN SHAREHOLDERS' FUNDS
Years ended 30 September

	Notes	2004 £ million	2003 (restated) £ million	2002 (restated) £ million
Profit for the financial year		264.0	219.1	202.9
Dividends		(197.3)	(192.1)	(186.6)
		66.7	27.0	16.3
Other recognised gains and losses		(108.1)	24.2	(445.0)
Reversal of goodwill in total recognised gains and losses on disposal of subsidiaries		15.3	(4.2)	–
Shares issued		8.7	3.7	24.6
Consideration paid for the purchase of own shares held in an ESOP trust		–	(7.5)	–
Consideration received for the sale of own shares held in an ESOP trust		2.5	1.2	17.0
Credit in respect of employee share schemes		3.5	0.7	2.0
Net (decrease)/increase in shareholders' funds for the financial year		(11.4)	45.1	(385.1)
Shareholders' funds at 1 October – previously reported		1,734.8	1,684.1	2,086.2
Prior year adjustment	31	(48.1)	(42.5)	(59.5)
Shareholders' funds at 1 October – restated		1,686.7	1,641.6	2,026.7
Shareholders' funds at 30 September		1,675.3	1,686.7	1,641.6

BALANCE SHEET OF THE BOC GROUP plc

At 30 September

	Notes	2004 £ million	2003 (restated) £ million
Fixed assets			
Tangible assets	12(e)	11.3	15.7
Investments	13(d)	2,982.6	3,058.0
		2,993.9	3,073.7
Current assets			
Debtors falling due within one year	15(a)	320.4	694.4
Cash at bank and in hand	17	80.8	–
		401.2	694.4
Creditors: amounts falling due within one year			
Borrowings and finance leases	18(a)	(252.1)	(303.6)
Other creditors	18(b)	(1,004.1)	(1,049.9)
		(1,256.2)	(1,353.5)
Net current liabilities		(855.0)	(659.1)
Total assets less current liabilities		2,138.9	2,414.6
Creditors: amounts falling due after more than one year			
Borrowings and finance leases	19(a)	(674.5)	(766.6)
Other creditors	19(b)	(3.2)	(10.4)
		(677.7)	(777.0)
Total net assets		1,461.2	1,637.6
Capital and reserves			
Equity called up share capital	23	124.7	124.4
Share premium account	24(b)	374.9	366.0
Other reserves	24(b)	336.4	336.4
Profit and loss account	24(b)	671.0	854.0
Own shares	24(b)	(45.8)	(43.2)
Total capital and reserves		1,461.2	1,637.6

The financial statements were approved by the board of directors on 22 November 2004 and are signed on its behalf by:

A E Isaac Director **R Médori** Director

ACCOUNTING POLICIES

General

- **Basis of preparation** These financial statements are based on the historical cost accounting convention in accordance with the Companies Act 1985 and comply with all applicable UK accounting standards.

  UK accounting standards differ in certain respects from those generally accepted in the US and the major effects of these differences in the determination of net income and shareholders' funds are shown in note 30 to the financial statements. Disclosure requirements of both the UK and US are incorporated throughout the notes to these financial statements.

- **Basis of consolidation** The Group accounts include the accounts of the parent undertaking and of all subsidiaries, joint ventures and associates.

  The results of businesses acquired during the year are included from the effective date of acquisition. The results of businesses disposed of during the year are included up to the date of relinquishing control. Material, separately identifiable business segments disposed of are analysed as discontinued operations and prior years' analyses are restated to reflect those businesses as discontinued.

- **Accounting policies** These accounts have been prepared on an accounting basis consistent with that applied in the financial year ended 30 September 2003, except for changes arising from the application of UITF37: Purchases and sales of own shares, and UITF38: Accounting for ESOP trusts. These deal mainly with the balance sheet accounting treatment for own shares and do not have an impact on Group earnings. Comparative figures have been restated accordingly. The impact is explained further in note 31 to the financial statements.

- **Exchange** Profit and loss and other period statements of the Group's overseas operations are translated at average rates of exchange for the financial year. Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the financial year end. Assets or liabilities swapped into other currencies are accounted for in those currencies. Exchange differences are dealt with as a movement in reserves where they arise from:

  i) the translation of the opening net assets of overseas operations;

  ii) the retranslation of retained earnings of overseas operations from average to closing rates of exchange; and

  iii) the translation or conversion of foreign currency borrowings taken to hedge overseas assets.

  All other exchange differences are taken to the profit and loss account. The principal exchange rates affecting the Group are shown in the financial review on page 55.

Revenue recognition

Turnover is based on the invoiced value of the sale of goods and services, and includes the sales value of long-term contracts appropriate to the state of completion. It excludes sales between Group undertakings, VAT and similar sales-based taxes. Turnover for goods and services is recognised when the significant risks and rewards of ownership are transferred to the customer. This is determined to be when delivery has occurred, title of the goods has passed to the purchaser, and where the price is fixed or determinable and reflects the commercial substance of the transaction. Sales returns are not a significant business issue in the industries in which the Group operates.

Profit on long-term contracts is recognised on a percentage of completion basis. Provision is made for all losses incurred together with any foreseeable future losses.

Retirement benefits

Retirement benefits are accounted for under FRS 17.

For defined benefit schemes the regular service cost of providing retirement benefits to employees during the year is charged to operating profit in the year. The full cost of providing amendments to benefits in respect of past service is also charged to operating profit in the year.

A credit representing the expected return on the assets of the retirement benefit schemes during the year is included within other net financing income. This is based on the market value of the assets of the schemes at the start of the financial year.

A charge representing the expected increase in the liabilities of the retirement benefit schemes during the year is included within other net financing income. This arises from the liabilities of the schemes being one year closer to payment.

Differences between actual and expected returns on assets during the year are recognised in the statement of total recognised gains and losses in the year, together with differences arising from changes in assumptions.

For defined contribution schemes the cost of providing benefits is charged to operating profit as incurred.

Research and development

Revenue expenditure on research and development is written off when incurred.

Operating leases

The cost of operating leases is written off on the straight line basis over the period of the lease.

Intangible fixed assets

- **Goodwill** Goodwill arising on the acquisition of a business, being the excess of the fair value of the purchase price over the fair value of the net assets acquired, is capitalised and amortised on a straight line basis over its useful economic life, generally up to a maximum period of 20 years. An impairment review is carried out at the end of the first full financial year following acquisition. Any impairment in the value of goodwill, calculated by discounting estimated future cash flows, is dealt with in the profit and loss account in the period in which it arises. Negative goodwill, being the excess of the fair value of the net assets acquired over the fair value of the purchase price, is capitalised and amortised on a straight line basis, generally over a period equivalent to the realisation of the non-monetary assets acquired.

  Goodwill, both positive and negative, arising on acquisitions before 30 September 1998 was taken to reserves and has not been reinstated on the balance sheet. This is in line with the relevant accounting standard on goodwill, FRS 10. This goodwill will remain in reserves until such time as it becomes impaired or the business or businesses to which it relates are disposed of, at which time it will be taken to the profit and loss account or statement of total recognised gains and losses where appropriate.

- **Intangibles** Other material intangible assets acquired, such as patents and trademarks, are capitalised and written off on the straight line basis over their effective economic lives.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. No depreciation is charged on freehold land or construction in progress. Depreciation is charged on all other fixed assets on the straight line basis over the effective lives. Straight line depreciation rates vary according to the class of asset, but are typically:

	Per annum
Freehold property	2%-4%
Leasehold property (or at higher rates based on the life of the lease)	2%-4%
Plant and machinery	3%-10%
Cylinders	4%-10%
Motor vehicles	7%-20%
Computer hardware and major software	15%-25%

- Until 30 September 1999, land and buildings were revalued periodically. Following the adoption of FRS 15, land and buildings are no longer revalued. At 1 October 1999, the net book value of assets previously revalued is regarded as the historical cost.

- Interest costs on major fixed asset additions are capitalised during the construction period and written off as part of the total cost.

- Where finance leases have been entered into, the capital element of the obligations to the lessor are shown as part of borrowings and the rights in the corresponding assets are treated in the same way as owned fixed assets.

- Any impairment in the value of fixed assets, calculated by comparing the carrying value against the higher of the net realisable value or value in use, is dealt with in the profit and loss account in the period in which it arises.

Investments

Investments which are held for the long term and in which the Group has a participating interest and exercises joint control with one or more other parties are treated as joint ventures and accounted for on the gross equity method. Investments which are held for the long term and in which the Group has a participating interest and exercises significant influence are treated as associates and accounted for on the equity method. In both cases, the Group's share of the results of the investment is included in the profit and loss account, and the Group's share of the net assets is included in investments in the balance sheet. Other investments are shown on the balance sheet at cost less any provision for impairment.

Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost where appropriate includes a proportion of overhead expenses. Work in progress is stated at cost less progress payments received or receivable. Cost is arrived at principally on the average and 'first-in, first-out' (FIFO) basis. The amount of long-term contracts, net of amounts transferred to cost of sales and after deducting foreseeable losses and payments on account, is included in stocks as long-term contract amounts.

Deferred tax

The Group provides for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition for tax purposes. Deferred tax assets are only recognised where it is more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Provisions

Provisions are made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. Restructuring provisions are made for direct expenditures of a business reorganisation where the plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the balance sheet date.

Financial instruments

The Group uses financial instruments, including interest rate and currency swaps, to raise finance for its operations and to manage the risks arising from those operations. All transactions are undertaken only to manage interest and currency risk associated with the Group's underlying business activities and the financing of those activities. The Group does not undertake any trading activity in financial instruments.

- **Foreign exchange transaction exposures** The Group generally hedges actual and forecast foreign exchange exposures up to two years ahead. Forward contracts are used to hedge the forecast exposure and any gains or losses resulting from changes in exchange rates on contracts designated as hedges of forecast foreign exchange are deferred until the financial period in which they are realised. If the contract ceases to be a hedge, any gains and losses are recognised through the profit and loss account.
- **Balance sheet translation exposures** A large proportion of the Group's net assets are denominated in currencies other than sterling. Where practicable and cost effective the Group hedges these balance sheet translation exposures by borrowing in relevant currencies and markets and by the use of currency swaps. Currency swaps are used only as balance sheet hedging instruments, and the Group does not hedge the currency translation of its profit and loss account. Exchange gains and losses arising on the notional principal of these currency swaps during their life and at termination or maturity are dealt with as a movement in reserves. If the swap ceases to be a hedge of the underlying transaction, any gains or losses are recognised in the profit and loss account.
- **Interest rate risk exposures** The Group hedges its exposure to movements in interest rates associated with its borrowings primarily by means of interest rate swaps and forward rate agreements. Interest payments and receipts on these agreements are included with net interest payable. They are not revalued to fair value and shown on the Group balance sheet at the balance sheet date.

1. Segmental information

a) Turnover (including share of joint ventures and associates)

	Continuing operations						
	Process Gas Solutions £ million	Industrial and Special Products £ million	BOC Edwards £ million	Afrox hospitals £ million	Gist £ million	Total Group by origin £ million	Total Group by destination £ million
2004							
Europe	292.8	449.1	189.5	–	293.2	1,224.6	1,162.7
Americas	523.4	422.6	272.3	–	–	1,218.3	1,171.6
Africa	36.1	230.8	–	432.1	–	699.0	699.4
Asia/Pacific	422.9	679.8	354.7	–	–	1,457.4	1,565.6
Turnover	1,275.2	1,782.3	816.5	432.1	293.2	4,599.3	4,599.3
2003							
Europe	278.3	430.0	154.3	–	291.8	1,154.4	1,137.4
Americas	517.5	461.7	259.6	–	–	1,238.8	1,191.5
Africa	30.8	201.3	–	353.4	–	585.5	588.0
Asia/Pacific	416.1	658.2	270.2	–	–	1,344.5	1,406.3
Turnover	1,242.7	1,751.2	684.1	353.4	291.8	4,323.2	4,323.2
2002							
Europe	257.1	399.3	150.0	–	263.2	1,069.6	1,055.3
Americas	528.1	464.8	298.9	–	–	1,291.8	1,240.1
Africa	23.6	158.4	–	259.0	–	441.0	443.3
Asia/Pacific	391.8	582.8	239.3	–	1.6	1,215.5	1,279.2
Turnover	1,200.6	1,605.3	688.2	259.0	264.8	4,017.9	4,017.9

Inter segment turnover is not material.

b) *Business analysis*

	Continuing operations						
	Process Gas Solutions £ million	Industrial and Special Products £ million	BOC Edwards £ million	Afrox hospitals £ million	Gist £ million	Corporate £ million	Total Group £ million
2004							
Total operating profit before exceptional items[1]	190.3	269.5	47.8	59.8	25.1	(15.6)	576.9
Operating exceptional items[1]	(0.8)	(15.6)	(1.0)	–	–	–	(17.4)
Operating profit	189.5	253.9	46.8	59.8	25.1	(15.6)	559.5
Loss on disposal of business	–	(79.5)	–	–	–	–	(79.5)
Profit on disposal of fixed assets	4.9	–	–	–	–	–	4.9
Capital employed[2]	1,625.2	943.9	548.1	162.5	6.9	(66.2)	3,220.4
Capital expenditure[3]	100.1	99.4	30.1	17.5	9.0	–	256.1
Depreciation and amortisation[3]	156.0	101.5	40.1	12.3	12.9	1.2	324.0
2003 (restated)							
Total operating profit before exceptional items[1]	184.0	242.7	18.5	46.1	29.2	(14.9)	505.6
Operating exceptional items[1]	(6.9)	(4.5)	(10.6)	–	–	(45.0)	(67.0)
Operating profit	177.1	238.2	7.9	46.1	29.2	(59.9)	438.6
Capital employed[2]	1,822.9	1,158.1	596.1	167.2	0.8	(88.0)	3,657.1
Capital expenditure[3]	93.1	105.2	37.6	17.8	22.3	5.2	281.2
Depreciation and amortisation[3]	165.8	101.2	39.1	9.8	15.8	1.7	333.4
2002 (restated)							
Total operating profit before exceptional items[1]	185.2	248.0	26.1	29.7	25.5	(14.4)	500.1
Operating exceptional items[1]	(24.0)	(18.7)	(27.5)	–	–	(4.3)	(74.5)
Operating profit	161.2	229.3	(1.4)	29.7	25.5	(18.7)	425.6
(Loss)/profit on termination/ disposal of businesses[1]	(21.3)	–	1.1	–	–	–	(20.2)
Capital employed[2]	1,831.3	1,058.1	595.3	105.0	22.8	(61.9)	3,550.6
Capital expenditure[3]	157.3	123.6	42.0	9.2	19.0	3.2	354.3
Depreciation and amortisation[3]	167.7	96.8	41.1	7.2	16.1	2.0	330.9

1) Including share of joint ventures and associates.

2) Capital employed comprises the capital and reserves of the Group, its long-term liabilities and all current borrowings net of cash and deposits.

3) Subsidiary undertakings only.

4) Net interest and net borrowings are managed centrally and are not directly attributable to individual business segments or regions.

c) *Regional analysis*

	Europe £ million	Americas £ million	Africa £ million	Asia/Pacific £ million	Total Group £ million
2004					
Total operating profit before exceptional items[1]	155.4	77.4	108.9	235.2	576.9
Operating exceptional items[1]	–	(14.8)	–	(2.6)	(17.4)
Operating profit	155.4	62.6	108.9	232.6	559.5
Loss on disposal of business	–	(79.5)	–	–	(79.5)
Profit on disposal of fixed assets	4.9	–	–	–	4.9
Capital employed[2]	796.6	992.9	335.4	1,095.5	3,220.4
Capital expenditure[3]	72.3	71.8	44.2	67.8	256.1
2003 restated)					
Total operating profit before exceptional items[1]	144.3	91.8	85.0	184.5	505.6
Operating exceptional items[1]	(7.3)	(49.1)	–	(10.6)	(67.0)
Operating profit	137.0	42.7	85.0	173.9	438.6
Capital employed[2]	866.2	1,225.0	321.5	1,244.4	3,657.1
Capital expenditure[3]	102.7	79.1	36.7	62.7	281.2
2002 (restated)					
Total operating profit before exceptional items[1]	155.2	121.3	56.7	166.9	500.1
Operating exceptional items[1]	(38.4)	(8.1)	(0.4)	(27.6)	(74.5)
Operating profit	116.8	113.2	56.3	139.3	425.6
(Loss/profit on termination/disposal of businesses[1]	(1.5)	(18.7)	–	–	(20.2)
Capital employed[2]	907.4	1,241.3	221.2	1,180.7	3.550.6
Capital expenditure[3]	121.4	134.7	25.6	72.6	354.3

1) Including share of joint ventures and associates.

2) Capital employed comprises the capital and reserves of the Group, its long-term liabilities and all current borrowings net of cash and deposits.

3) Subsidiary undertakings only.

4) Net interest and net borrowings are managed centrally and are not directly attributable to individual business segments or regions.

d) *Joint ventures and associates – business analysis*

	Joint ventures			Associates			
	Process Gas Solutions £ million	Industrial and Special Products £ million	BOC Edwards £ million	Process Gas Solutions £ million	Industrial and Special Products £ million	BOC Edwards £ million	Afrox hospitals £ million
2004							
Turnover[1]	230.0	238.9	178.1	36.3	7.7	5.5	17.4
Operating profit before exceptional items[1]	40.8	30.4	28.2	6.3	0.7	1.4	4.7
Operating exceptional items[1]	(0.8)	(0.8)	(1.0)	–	–	–	–
Operating profit	40.0	29.6	27.2	6.3	0.7	1.4	4.7
Capital employed[2]	89.5	69.3	99.9	35.3	4.9	2.5	9.7
Capital expenditure	58.5	15.5	30.1	2.1	2.7	0.1	–
Group share	25.7	7.4	14.8	0.6	0.7	–	–
Other partners	32.8	8.1	15.3	1.5	2.0	0.1	–
Depreciation and amortisation[1]	27.0	10.2	10.1	2.7	0.5	0.1	1.0
2003							
Turnover[1]	191.9	221.6	130.8	30.9	8.6	5.7	15.4
Operating profit before exceptional items[1]	39.0	25.6	22.2	5.8	0.7	1.4	3.5
Operating exceptional items[1]	(2.5)	(1.8)	(2.5)	–	–	–	–
Operating profit	36.5	23.8	19.7	5.8	0.7	1.4	3.5
Capital employed[2]	183.8	108.2	118.0	40.8	7.2	3.3	8.3
Capital expenditure	40.7	10.5	20.7	8.0	1.1	0.4	–
Group share	17.7	5.1	10.3	2.5	0.3	0.2	–
Other partners	23.0	5.4	10.4	5.5	0.8	0.2	–
Depreciation and amortisation[1]	28.0	10.1	9.6	5.4	1.2	0.6	0.7

1) Group share.

2) Capital employed comprises the Group's share of the net assets of joint ventures or associates.

3) The decrease in capital employed of joint ventures in 2004 is principally due to the acquisition of an additional 30 per cent ownership interest in the Cantarell joint venture (see note 28a)).

4) The increase in joint ventures in 2003 is principally due to the formation of the Japan Air Gases business in January 2003. Prior to that all of BOC's turnover in Japan was reported by subsidiary companies.

	Joint ventures			Associates			
	Process Gas Solutions £ million	Industrial and Special Products £ million	BOC Edwards £ million	Process Gas Solutions £ million	Industrial and Special Products £ million	BOC Edwards £ million	Afrox hospitals £ million
2002							
Turnover[1]	119.9	142.7	61.5	10.6	7.9	7.1	10.5
Operating profit before exceptional items[1]	30.9	20.8	12.1	5.0	1.9	1.7	2.1
Operating exceptional items[1]	(0.4)	(0.1)	–	–	–	–	–
Operating profit	30.5	20.7	12.1	5.0	1.9	1.7	2.1
Capital employed[2]	93.6	63.8	48.1	40.1	11.9	2.1	3.4
Capital expenditure	46.5	7.5	8.0	8.3	1.8	1.5	0.6
Group share	23.0	3.7	4.0	2.6	0.6	0.4	0.2
Other partners	23.5	3.8	4.0	5.7	1.2	1.1	0.4
Depreciation and amortisation[1]	20.9	8.2	6.1	2.9	0.7	0.1	0.2

1) Group share.

2) Capital employed comprises the Group's share of the net assets of joint ventures or associates.

e) joint ventures and associates – regional analysis

	Joint ventures		Associates		
	Americas £ million	Asia/Pacific £ million	Americas £ million	Africa £ million	Asia/Pacific £ million
2004					
Turnover[1]	87.6	559.4	26.5	17.4	23.0
Operating profit before exceptional items[1]	17.2	82.2	1.1	4.7	7.3
Operating exceptional items[1]	–	(2.6)	–	–	–
Operating profit	17.2	79.6	1.1	4.7	7.3
Capital employed[2]	(30.0)	288.7	12.5	9.7	30.2
Capital expenditure	6.0	98.1	0.1	–	4.8
Group share	2.4	45.5	–	–	1.3
Other partners	3.6	52.6	0.1	–	3.5
2003					
Turnover[1]	68.0	476.3	19.1	15.4	26.1
Operating profit before exceptional items[1]	19.1	67.7	(0.7)	3.5	8.6
Operating exceptional items[1]	–	(6.8)	–	–	–
Operating profit	19.1	60.9	(0.7)	3.5	8.6
Capital employed[2]	26.5	383.5	13.1	8.3	38.2
Capital expenditure	13.8	58.1	6.0	–	3.5
Group share	5.4	27.7	1.8	–	1.2
Other partners	8.4	30.4	4.2	–	2.3
2002					
Turnover[1]	85.4	238.7	–	10.5	25.6
Operating profit before exceptional items[1]	21.9	41.9	–	2.1	8.6
Operating exceptional items[1]	–	(0.5)	–	–	–
Operating profit	21.9	41.4	–	2.1	8.6
Capital employed[2]	25.2	180.3	13.7	3.4	40.4
Capital expenditure	3.4	58.6	5.5	0.6	6.1
Group share	1.4	29.3	1.7	0.2	1.9
Other partners	2.0	29.3	3.8	0.4	4.2

1) Group share.

2) Capital employed comprises the Group's share of the net assets of joint ventures or associates.

3) The decrease in capital employed of joint ventures in 2004 is principally due to the acquisition of an additional 30 per cent ownership interest in the Cantarell joint venture (see note 28a)).

4) The increase in joint ventures in 2003 is principally due to the formation of the Japan Air Gases business in January 2003. Prior to that all of BOC's turnover in Japan was reported by subsidiary companies.

f) *Significant country analysis*

	UK			US		
	2004 £ million	2003 £ million	2002 £ million	2004 £ million	2003 £ million	2002 £ million
Turnover[1)]	973.9	914.3	868.7	959.7	1,013.5	1,065.6
Total operating profit before exceptional items[1)]	112.9	110.4	115.2	21.5	31.3	50.5
Operating exceptional items[1)]	–	(5.0)	(36.5)	(14.8)	(48.9)	(25.7)
Operating profit	112.9	105.4	78.7	6.7	(17.6)	24.8
Loss on disposal of business	–	–	–	(79.5)	–	–
Profit on disposal of fixed assets	4.9	–	–	–	–	–
Capital employed[2)] (restated)	575.8	629.5	696.9	820.7	1,039.5	1,088.9
Capital expenditure[3)]	60.7	92.4	110.0	56.2	71.0	124.8

1) Including share of joint ventures and associates.

2) Capital employed comprises the capital and reserves of the Group, its long-term liabilities and all current borrowings net of cash and deposits.

3) Subsidiary undertakings only.

2. Profit and loss

a) *Analysis of costs*

	2004 £ million	2003 £ million	2002 £ million
i) Expense category			
Cost of sales	(2,181.7)	(2,137.9)	(2,104.8)
Distribution costs	(317.7)	(321.7)	(344.1)
Administrative expenses[1)]	(936.6)	(913.2)	(861.4)
Income from other fixed asset investments	0.2	1.7	4.2
Net operating expenses	(1,254.1)	(1,233.2)	(1,201.3)

	Continuing operations before exceptional items £ million	Exceptional items[2] £ million	Total £ million
ii) 2004 analysis			
Cost of sales	(2,181.7)	–	(2,181.7)
Distribution costs	(317.7)	–	(317.7)
Administrative expenses[1]	(921.8)	(14.8)	(936.6)
Income from other fixed asset investments	0.2	–	0.2
Net operating expenses	(1,239.3)	(14.8)	(1,254.1)
iii) 2003 analysis			
Cost of sales	(2,136.2)	(1.7)	(2,137.9)
Distribution costs	(318.6)	(3.1)	(321.7)
Administrative expenses[1]	(857.8)	(55.4)	(913.2)
Income from other fixed asset investments	1.7	–	1.7
Net operating expenses	(1,174.7)	(58.5)	(1,233.2)
iv) 2002 analysis			
Cost of sales	(2,089.7)	(15.1)	(2,104.8)
Distribution costs	(341.9)	(2.2)	(344.1)
Administrative expenses[1]	(804.7)	(56.7)	(861.4)
Income from other fixed asset investments	4.2	–	4.2
Net operating expenses	(1,142.4)	(58.9)	(1,201.3)

1) Included in total administrative expenses is research and development expenditure of £41.6 million (2003: £39.9 million, 2002: £47.0 million).

2) All exceptional items arose in continuing operations.

b) *Exceptional items analysis*

	2004 £ million	2003 £ million	2002 £ million
Charged in arriving at operating profit			
Restructuring costs	(17.4)	(23.8)	(47.2)
Litigation settlement	–	(43.2)	–
Write-down of assets	–	–	(21.2)
Costs of proposed takeover	–	–	(6.1)
Total operating exceptional items	(17.4)	(67.0)	(74.5)

i) Restructuring costs

Following the sale of the packaged gas business in the US, costs of £14.8 million have been incurred to restructure the footprint of the remaining business in the US. This covers the severance and other costs of restructuring those functions which are shared by BOC's businesses in the US. Restructuring costs also include a charge of £2.6 million (2003: £8.3 million, 2002: £nil) relating to the integration of BOC's gases business and part of the Air Liquide business in Japan to form Japan Air Gases.

The restructuring costs in 2003 and 2002 related to various programmes including programmes under the business initiative announced in August 2001. The major programmes covered investments in information management systems, the restructuring of BOC Edwards' manufacturing capacity and restructuring to deliver operational efficiencies in Process Gas Solutions and Industrial and Special Products. These programmes have been completed.

Cash flow from operating activities includes an outflow of £11.9 million in 2004 (2003: £28.3 million, 2002: £48.0 million) in respect of the various restructuring programmes.

ii) Litigation settlement

An action was filed in the US against The BOC Group Cash Balance Retirement Plan (the Plan). It was alleged that the Plan improperly calculated lump sum distributions from the Plan in violation of the Employee Retirement Income Security Act. In November 2003, the parties reached an agreement to settle at US$69 million (£43.2 million). The settlement was approved by the court in March 2004. The full amount was provided in 2003 as an exceptional item. The settlement is being paid out of Plan assets.

iii) Write-down of assets

The write-down in 2002 related to the merger of BOC's gases business and part of the Air Liquide business in Japan to form Japan Air Gases. The net assets of OSK (the existing BOC gases business in Japan) were reduced to an appropriate amount based on valuations performed ahead of the merger

iv) Costs of proposed takeover

No costs were incurred in 2004 or 2003. The final costs associated with the pre-conditional offer for the Group were incurred in 2002 in respect of share options and other costs related to the retention of key employees.

	2004 £ million	2003 £ million	2002 £ million
(Charged)/credited after operating profit			
Loss on disposal of business – continuing operations	(79.5)	–	–
Profit on disposal of fixed assets – continuing operations	4.9	–	–
Profit on disposal of businesses – continuing operations	–	–	1.1
Closure of business – continuing operations	–	–	(21.3)
Total non-operating exceptional items	(74.6)	–	(20.2)

v) Disposal of businesses

The sale of the packaged gas business in the US was completed on 30 July 2004. The loss on disposal of £79.5 million includes the write-off of the assets associated with the business, severance and other disposal costs. It also includes a goodwill write-off of £19.9 million, of which £15.3 million had been written off to reserves in the years up to, and including, 1998 in accordance with prevailing UK GAAP at that time.

In 2002 BOC Edwards sold its US glass coating business, resulting in a profit on disposal of £1.1 million.

vi) Profit on disposal of fixed assets

The sale of property in the UK in 2004 resulted in a profit of £4.9 million, which has been accounted for as an exceptional item.

vii) Closure of business

In 2002 BOC merged its Process Plants business with Linde Engineering in the US to form a new company, Linde BOC Process Plants LLC. Total costs were £21.3 million, which covered severance, the write-down of assets and other costs of winding down the business.

c) Fees to auditors

	2004 £ million	2003 £ million	2002 £ million
Audit fees (Parent £0.4 million, 2003: £0.3 million, 2002: £0.3 million)	2.5	2.0	1.9
Non-audit fees			
Tax services	1.1	1.6	2.5
Audit related services	0.9	05	0.8
Other services (principally expatriate tax and administration services)	1.1	1.4	1.8
Total non-audit fees	3.1	3.5	5.1
Total fees paid to auditors	5.6	5.5	7.0

The increase in audit fees includes an adverse currency impact and agreed extension of the scope of the audit in part following acquisitions and disposals. Tax services includes corporate tax compliance, tax planning and advice. Audit related services have increased due to work associated with implementation of the US Sarbanes-Oxley Act 2002 Section 404 which is treated as a non-audit service in 2004. The expatriate administration contract was signed in June 2001 for a five year period following a competitive tender process. Further details of BOC's policy on the use of external auditors for non-audit services is given in the audit committee report on page 59.

3. Interest on net debt

	2004 £ million	2003 £ million	2002 £ million
Interest payable on borrowings totally repayable within five years	55.9	48.0	47.5
Interest payable on all other borrowings	35.9	46.5	55.7
Interest payable and similar charges	91.8	94.5	103.2
Interest capitalized	(0.1)	(0.8)	(2.0)
Interest payable (net of interest capitalised)	91.7	93.7	101.2
Interest receivable and similar income	(21.2)	(17.9)	(22.6)
Interest (net)	70.5	75.8	78.6
Share of interest of joint ventures (net)	17.0	19.3	23.2
Share of interest of associates (net)	0.9	1.0	1.3
Total interest on net debt	88.4	96.1	103.1
Interest payable on finance leases	1.7	3.5	5.3
Interest payable on borrowings repayable by installments	10.0	14.1	19.5

Share of interest of joint ventures and associates is after deducting interest capitalised of £0.5 million (2003: £0.1 million, 2002: £nil).

4. Tax

a) *Tax on profit on ordinary activities*

	2004 £ million	2003 £ million	2002 £ million
Current tax:			
Payable in the UK			
Corporation tax at 30% (2003: 30%, 2002: 30%)	79.8	85.7	51.7
Double tax relief	(52.9)	(57.5)	(19.7)
	26.9	28.2	32.0
Payable overseas			
US – Federal tax at 35% (2003: 35%, 2002: 35%)	0.1	0.2	(1.0)
– State and local taxes	0.1	(0.3)	0.6
Australia at 30% (2003: 30%, 2002: 30%)	23.2	16.4	14.6
South Africa at 30% (2003: 30%, 2002: 30%)	35.5	26.0	18.0
Japan at 42% (2003: 42%, 2002: 42%)	14.1	11.3	8.3
Other countries	14.3	35.6	30.9
	87.3	89.2	71.4
Total current tax	114.2	117.4	103.4
Deferred tax:			
Origination and reversal of timing differences	(12.4)	(20.9)	3.4
Effect of change in tax rate on opening liability	(0.1)	(0.1)	(0.6)
Total deferred tax[1)]	(12.5)	(21.0)	2.8
Tax on profit on ordinary activities	101.7	96.4	106.2
Analysis of charge in the year by entity type			
Subsidiary undertakings	75.9	77.9	100.3
Share of joint ventures	23.5	16.0	3.6
Share of associates	2.3	2.5	2.3
Tax on profit on ordinary activities	101.7	96.4	106.2

1) The deferred tax includes a credit of £13.5 million (2003: £18.5 million credit, 2002: £9.5 million charge) relating to subsidiary undertakings. The balance relates to the Group's share of joint ventures and associates.

The tax charge includes a credit of £18.9 million for operating exceptional items (2003: £25.0 million, 2002: £15.3 million) and a credit of £25.6 million for non-operating exceptional items (2003: £nil, 2002: £7.5 million). The credit in respect of operating exceptional items includes a credit of £12.5 million relating to prior year exceptional items. The effective rate of tax on adjusted profit was 29.0 per cent (2003: 29.0 per cent, 2002: 30.0 per cent). The total rate of tax was 24.7 per cent (2003: 27.4 per cent, 2002: 31.7 per cent).

b) *Deferred tax*

i) Deferred tax – UK GAAP

	2004 £ million	2003 £ million	2002 £ million
Analysis			
Arising from accelerated depreciation allowances	312.2	346.5	362.1
Other timing differences	(34.2)	(43.7)	(53.5)
Tax losses and other credits available	(30.8)	(30.2)	(24.7)
	247.2	272.6	283.9
Movement during the year[1]			
At 1 October 2003	272.6	283.9	285.9
Exchange adjustment	(3.8)	5.7	(8.6)
Arising during the year	(13.5)	(18.5)	95
Transfers (to)/from current tax	(0.2)	(1.0)	0.8
Acquisitions/(disposals) of businesses	–	(18.7)	–
Other movements	(7.9)	21.2	(3.7)
At 30 September 2004	247.2	272.6	283.9
The balance at 30 September 2004 is shown in:			
Provisions for liabilities and charges (note 22)	253.0	279.2	291.8
Less: Debtors falling due after more than one year (note 15 b))	5.8	6.6	7.9
	247.2	272.6	283.9

1) Subsidiary undertakings only.

ii) Deferred tax – US GAAP

For US GAAP reporting, the Group follows SFAS109, Accounting for Income Taxes, in respect of deferred taxation. SFAS109 requires deferred tax to be fully provided on all temporary differences.

The table below provides a reconciliation of deferred taxes from a UK GAAP basis to a US GAAP basis at 30 September 2004.

	UK GAAP £ million	Adjustments to US GAAP £ million	US GAAP £ million
Accelerated capital allowances	312.2	–	312.2
Other temporary differences	(34.2)	(10.2)	(44.4)
Tax losses and other credits available	(30.8)	–	(30.8)
	247.2	(10.2)	237.0

1) The UK deferred tax balance of £247.2 million does not include the deferred tax asset of £106.4 million relating to the Group's net pension liabilities. As required by the applicable UK GAAP accounting standard, FRS17, this asset is set against the relevant retirement benefit liability to show the net position (see note 8 a)). If it was included above, it would be wholly reversed in the adjustments to US GAAP.

	US GAAP £ million
Movement during the year	
At 1 October 2003	223.0
Exchange adjustment	(6.3)
Arising during the year	1.3
Transfers to current tax	(0.2)
Acquisitions/(disposals) of businesses	–
Other movements[2)]	19.2
At 30 September 2004	237.0

2) This mainly relates to the deferred tax on an additional minimum pension liability under US GAAP. See note 8 c) and 30 e).

The components of deferred tax assets/(liabilities) at 30 September 2004 were:

	2004 £ million	2003 £ million
Long-term		
Asset	153.6	188.0
Liability	(383.9)	(431.8)
Net liability	(230.3)	(243.8)
Short-term		
Asset	19.1	25.8
Liability	(25.8)	(5.0)
Net (liability)/asset	(6.7)	20.8
Total deferred tax assets	172.7	213.8
Total deferred tax liabilities	(409.7)	(436.8)
	(237.0)	(223.0)

c) *Factors affecting the current and total tax charge for the period*

The table set out below provides a reconciliation between the UK corporation tax rate and the Group's total tax rate, and between the UK corporation tax rate and the effective tax rate on adjusted profit, computed by taking the various elements of the tax reconciliation as a percentage of the profit before tax and the adjusted profit before tax.

	Reconciliation of total tax rate			Reconciliation of effective tax rate on adjusted profit		
	2004 %	2003 %	2002 %	2004 %	2003 %	2002 %
UK corporation tax rate	30.0	30.0	30.0	30.0	30.0	30.0
Difference in tax rates of overseas subsidiaries, joint ventures and associates	1.1	0.5	0.6	0.9	0.4	0.5
Excess of tax depreciation over book depredation	(2.5)	(3.3)	(5.2)	(2.1)	(2.8)	(3.9)
Other timing differences	(0.9)	2.1	3.5	(0.7)	1.8	2.7
State and local taxes	0.2	0.3	0.6	0.2	0.3	0.5
Net creation/(utilisation) of losses	–	0.9	(1.4)	–	0.7	(1.1)
Investment tax credits	–	(0.1)	(3.0)	–	(0.1)	(2.4)
Prior year tax	(3.0)	(0.1)	1.2	(2.4)	–	0.9
Tax effect of exceptional items	3.6	4.4	4.4	–	–	–
Permanent items and other items with less than a 5% net effect	(0.8)	(1.3)	0.1	(0.7)	(1.1)	0.1
Current total tax rate/effective tax rate	27.7	33.4	30.8	25.2	29.2	27.3
Deferred tax timing differences	(3.0)	(6.0)	0.9	3.8	(0.2)	2.7
Total tax rate/effective tax rate	24.7	27.4	31.7	29.0	29.0	30.0

Profit on ordinary activities before tax, as shown in the consolidated profit and loss account, is analysed over its component parts as follows:

	2004 £ million	2003 £ million	2002 £ million
UK	83.7	67.0	66.6
Overseas	328.6	284.9	268.7
	412.3	351.9	335.3

d) *Factors that may affect future tax charges*

The total charge in future periods will be affected by any changes to the corporation tax rates in force in the countries in which the Group operates. The current tax charges will also be affected by changes in the excess of tax depreciation over book depreciation and the use of tax credits.

e) *Unused tax credits*

On a consolidated basis, the Group has net operating loss carryforwards of £57.0 million. If not offset against taxable income, these losses will expire as follows:

Year	Net operating loss £ million
2005	0.9
2006	–
2007	–
2008	–
2009	–
Thereafter, or no expiry date	56.1

For US Federal tax purposes, the Group has investment tax credits and general business tax credits to carry forward of approximately £10.3 million, which are available to reduce income taxes otherwise payable. These do not expire until 2006 or thereafter.

In addition, the Group has alternative minimum tax credits for US Federal income tax purposes of approximately £22.7 million which can be carried forward to reduce regular tax liabilities of future years. There is no expiration date on these credits.

Investment tax credits are accounted for by the flow-through method whereby they reduce income taxes currently payable and the provision for income taxes in the period in which the assets giving rise to such credits are placed in service. Deferred tax assets, subject to the need for a valuation allowance, are recognised to the extent that the investment tax credits are not currently utilised.

5. Directors

Directors' remuneration and interests are given in the report on remuneration on pages 64 to 75.

6. Employee numbers

a) *Subsidiaries*

	2004		2003	
	Year end	Average	Year end	Average
i) Employees by business				
Process Gas Solutions	5,836	5,631	5,730	5,837
Industrial and Special Products	13,874	14,895	15,267	15,142
BOC Edwards	4,911	4,823	4,790	4,931
Afrox hospitals	13,392	13,654	13,694	13,804
Gist	4,961	4,852	4,613	5,343
Corporate	409	405	413	405
	43,383	44,260	44,507	45,462
ii) Employees by region				
Europe	12,712	12,504	12,353	13,101
Americas	6,283	7,140	7,451	7,411
Africa	16,790	17,073	17,138	17,178
Asia/Pacific	7,598	7,543	7,565	7,772
	43,383	44,260	44,507	45,462
b) Joint ventures and associates				
Joint ventures	6,094	5,993	6,064	5,626
Associates	906	885	878	877
	7,000	6,878	6,942	6,503

c) *Employment costs*

	2004 £ million	2003 £ million	2002 £ million
Wages and salaries	855.2	844.7	813.9
Social security costs	79.6	77.7	77.7
Other pension costs	80.8	115.4	66.3
	1,015.6	1,037.8	957.9

Other pension costs includes an exceptional credit of £4.4 million (2003: £43.2 million charge, 2002: £nil). See also notes 2b) and 8a).

7. Options and Incentive schemes

a) *Policy*

Executive options that are granted at the market price of the company's shares at the time of the grant do not attract a compensation expense under UK GAAP. For those executive options, including the Long-Term Incentive Plan, that are granted at a discount to the market price of the company's shares at the time of the grant, the compensation expense is charged to the profit and loss account over the life of the option. The Group takes advantage of the exemption granted under UITF17 (revised 2003), Employee Share Schemes, whereby no compensation expense need be recorded for employee schemes that are granted at a discount.

b) *Summary of movements*

BOC operates share option schemes for both executives and employees. The features of these are given in the report on remuneration on pages 65 and 66 and the employees report on page 24.

	Employee options			Executive options			Long-term incentive plan[1]	Executive share award plan[1]
	Number of shares million	**Range of option prices**	**Weighted average option price**	**Number of shares million**	**Range of option prices**	**Weighted average option price**	**Number of shares million**	**Number of shares million**
Outstanding at 1 October 2001	5.7	610p-894p	835p	21.7	627p-1119p	914p	–	0.7
Granted	1.2	914p	914p	5.5	1016p-1079p	1016p	–	–
Exercised	(1.0)	610p-914p	787p	(3.1)	627p-980p	868p	–	(0.7)
Lapsed	(0.5)	610p-914p	857p	(0.6)	742p-1119p	957p	–	–
Outstanding at 30 September 2002	5.4	650p-914p	855p	235	677p-1119p	943p	–	–
Granted	2.3	698p	698p	4.9	776p-873p	837p	1.2	–
Exercised	(0.3)	650p-914p	826p	(0.4)	677p-851p	751p	–	–
Lapsed	(1.1)	650p-914p	868p	(1.6)	677p-1016p	937p	–	–
Outstanding at 30 September 2003	6.3	698p-914p	801p	26.4	677p-1119p	926p	1.2	–
Granted	1.2	795p	795p	2.9	820p-896p	820p	1.4	–
Exercised	(0.7)	698p-914p	811p	(0.7)	677p-919p	749p	–	–
Lapsed	(1.2)	698p-914p	821p	(2.0)	677p-1119p	940p	(0.1)	–
Outstanding at 30 September 2004	5.6	698p-914p	794p	26.6	722p-1019p	919p	2.5	–
Number of participants at 30 September 2004	5,700			1,173			81	–
Options exercisable:								
At 30 September 2004	0.2	766p-894p	875p	6.3	722p-980p	892p	–	–
At 30 September 2003	–		–	7.5	677p-1119p	880p	–	–
Fair value of options granted during:								
Year ended 30 September 2004	205p			175p			705p	
Year ended 30 September 2003	174p			177p			609p	

1) The long-term incentive and executive share award plans were granted at an option price of £nil.

The weighted average fair value of options granted during the year was calculated using the Black-Scholes option pricing model. Details of the assumptions used are given in note 30 g).

c) Analysis of options outstanding

	Employee options			Executive options			Long-term incentive plan[1]	
	Number of options thousand	Weighted average option price	Normal exercisable date	Number of options thousand	Weighted average option price	Normal exercisable date	Number of awards thousand	Normal exercisable date
Outstanding at 30 September 2004								
Date of grant								
1995	–	–	–	432	722p	1998-2005	–	–
1996	–	–	–	886	916p	1999-2006	–	–
1997	63	882p	2004-2005	1,004	980p	2000-2007	–	–
1998	293	823p	2005-2006	1,700	915p	2001-2008	–	–
1999	276	766p	2004-2007	2,239	860p	2002-2009	–	–
2000	588	870p	2005-2008	4,564	937p	2003-2010	–	–
2001	578	894p	2004-2009	3,630	994p	2004-2011	–	–
2002	650	914p	2005-2010	4,759	1016p	2005-2012	–	–
2003	1,980	698p	2006-2011	4,606	836p	2006-2013	1,173	2006-2013
2004	1,133	795p	2007-2012	2,825	820p	2007-2014	1,353	2007-2014
	5,561			26,645			2,526	

1) The long-term incentive plan was granted at an option price of £nil.

8. Pensions and other retirement benefits

a) UK GAAP Group

The Group operates a number of pension schemes throughout the world. The larger schemes are self-administered and the schemes' assets are held independently of the Group's finances. Pension costs are assessed in accordance with the advice of independent professionally qualified actuaries.

Contributions to funded defined benefit schemes are based on advice from independent actuaries using actuarial methods, the objective of which is to provide adequate funds to meet pension obligations as they fall due. For the two largest schemes, in the UK and US, the dates of the latest actuarial reviews are 31 March 2002 and 1 January 2003 respectively.

In South Africa, under the Pension Funds Second Amendment Act 2001, surpluses in pension funds have to be used in a manner specified in Regulations to the Act to improve current and former members' benefits before the employer can obtain any benefit from the surpluses. Consequently, it is considered unlikely that the company will obtain any benefit from the surpluses in the South African schemes. Therefore, in accordance with FRS17, the surpluses at 30 September 2004 have been written off in the statement of total recognised gains and losses.

In Europe, company contributions to the main scheme in respect of current service are currently payable at a rate of 13.8 per cent of payroll. In the year ended 30 September 2004 the company made additional contributions of £30 million to this scheme in order to reduce the funding valuation deficit. For the year to 30 September 2005, it is expected that additional contributions of £31 million will be made to this scheme, subject to review following the next triennial funding valuation at 31 March 2005.

In the Americas, company contributions to the main pension plan remain suspended as the plan continues to be in surplus.

In Africa, company contributions were payable at rates ranging from 14 per cent to 21 per cent and are expected to remain at that level for the year to 30 September 2005.

In Asia/Pacific, company contributions to the main scheme were payable at rates ranging from 11 per cent to 17 per cent and are expected to remain at that level for the year to 30 September 2005.

Some of the defined benefit schemes, including the UK scheme, are closed to new members. It is therefore expected that under the projected unit method prescribed by FRS17 the current service cost will increase as the members of the schemes approach retirement

The most recent actuarial funding valuations have been updated by independent qualified actuaries, in order to assess the liabilities of the schemes at 30 September 2004 for the purposes of FRS17. Scheme assets are stated at their market value at 30 September 2004.

Main assumptions for FRS17 purposes	**Europe**	**Americas**	**Africa**	**Asia/Pacific**
Date of latest actuarial funding valuation	**31 Mar 02**	**1 Jan 03**	**30 Jun 03**	**31 Dec 03**
2004				
Rate of increase in salaries	4.4%	3.8%	7.5%	3.6%
Rate of increase in pensions in payment	2.9%	–	5.3%	2.4%
Discount rate	5.5%	5.7%	10.0%	6.1%
Inflation	2.9%	2.5%	5.5%	2.5%
2003				
Rate of increase in salaries	4.1%	3.75%	7.5%	3.5%
Rate of increase in pensions in payment	2.6%	–	4.8%	2.5%
Discount rate	5.3%	5.9%	10.0%	6.2%
Inflation	2.6%	2.5%	5.0%	2.5%
2002				
Rate of increase in salaries	3.9%	3.75%	9.5%	3.5%
Rate of increase in pensions in payment	2.4%	–	6.8%	2.5%
Discount rate	5.5%	6.5%	12.0%	6.1%
Inflation	2.4%	2.5%	7.0%	2.5%

The assumptions used for the US health care benefits for FRS17 purposes are a discount rate of 5.7 per cent (2003: 5.9 per cent, 2002: 6.5 per cent) and an ultimate health care cost trend rate of 4.5 per cent, (2003: 4.5 per cent, 2002: 4.5 per cent).

Contributions to non defined benefit schemes in the year were £15.6 million (2003: £12.0 million, 2002: £9.6 million) and are included in note 6 c).

The assets in the schemes and the expected rates of return were:

	Equities	Bonds	Other	Total
Long-term rate of return expected at 30 September 2004				
Europe	8.5%	5.1%	7.5%	–
Americas	9.5%	3.2%	3.5%	–
Africa	13.5%	10.0%	9.0%	–
Asia/Pacific	8.1%	4.6%	5.0%	–
Value at 30 September 2004 (£ million)				
Europe	870.3	260.5	106.9	1,237.7
Americas	292.7	76.1	0.3	369.1
Africa	93.8	17.5	6.9	118.2
Asia/Pacific	116.7	15.6	37.1	169.4
Total	1,373.5	369.7	151.2	1,894.4
Long-term rate of return expected at 30 September 2003				
Europe	8.5%	5.0%	6.4%	–
Americas	9.5%	4.1%	–	–
Africa	13.0%	10.0%	8.1%	–
Asia/Pacific	8.5%	4.8%	5.2%	–
Value at 30 September 2003 (£ million)				
Europe	793.9	216.1	62.3	1,072.3
Americas	307.0	66.2	–	373.2
Africa	73.6	16.8	7.9	98.3
Asia/Pacific	105.6	15.1	25.2	145.9
Total	1,280.1	314.2	95.4	1,689.7
Long-term rate of return expected at 30 September 2002				
Europe	8.5%	4.9%	4.0%	–
Americas	9.5%	6.0%	–	–
Africa	14.0%	12.0%	8.5%	–
Asia/Pacific	7.7%	4.7%	5.7%	–
Value at 30 September 2002 (£ million)				
Europe	686.2	235.0	18.8	940.0
Americas	289.2	51.0	–	340.2
Africa	49.6	15.3	5.4	70.3
Asia/Pacific	89.8	16.3	16.7	122.8
Total	1,114.8	317.6	40.9	1,473.3

The following amounts at 30 September 2004 were measured in accordance with the requirements of FRS17:

	Europe £ million	Americas pensions £ million	Americas health care £ million	Africa £ million	Asia/Pacific £ million	Total £ million
2004						
Total market value of assets	1,237.7	369.1	–	118.2	169.4	1,894.4
Present value of scheme liabilities	(1,682.0)	(266.0)	(46.4)	(91.8)	(163.8)	(2,250.0)
Irrecoverable surplus	–	–	–	(26.4)	–	(26.4)
(Deficit)/surplus in the scheme	(444.3)	103.1	(46.4)	–	5.6	(382.0)
Related deferred tax asset/(liability)	130.4	(41.0)	18.3	–	(1.3)	106.4
Net pension (liabilities)/assets[1)]	(313.9)	62.1	(28.1)	–	4.3	(275.6)
2003						
Total market value of assets	1,072.3	373.2	–	98.3	145.9	1,689.7
Present value of scheme liabilities	(1,516.9)	(294.0)	(50.5)	(92.5)	(142.1)	(2,096.0)
Irrecoverable surplus		–	–	(5.8)	–	(5.8)
(Deficit)/surplus in the scheme	(444.6)	79.2	(50.5)	–	3.8	(412.1)
Related deferred tax asset/(liability)	133.4	(31.2)	19.9	–	(1.1)	121.0
Net pension (liabilities)/assets[1)]	(311.2)	48.0	(30.6)	–	2.7	(291.1)
2002						
Total market value of assets	940.0	340.2	–	70.3	122.8	1,473.3
Present value of scheme liabilities	(1,331.6)	(250.4)	(50.1)	(59.3)	(134.0)	(1,825.4)
Irrecoverable surplus	–	–	–	(11.0)	–	(11.0)
(Deficit)/surplus in the scheme	(391.6)	89.8	(50.1)	–	(11.2)	(363.1)
Related deferred tax asset/(liability)	117.5	(35.5)	19.8	–	4.6	106.4
Net pension (liabilities)/assets[1)]	(274.1)	54.3	(30.3)	–	(6.6)	(256.7)

1) Included in the net pension (liabilities)/assets are assets of £68.9 million (2003: £50.7 million, 2002 £54.3 million) and liabilities of £344.5 million (2003: £341.8 million. 2002: £311.0 million). In addition to deferred tax on pension assets and liabilities, a further £22.0 million of current tax relating to pension assets and liabilities is included within Creditors amounts falling due within one year. Of this, £3.2 million has been accounted for in the total recognised gains and losses and £18.8 million has been included in the profit and loss account. There were no equivalent current tax items in 2003 or 2002.

Analysis of the amount charged to operating profit	Europe £ million	Americas pensions £ million	Americas health care £ million	Africa £ million	Asia/Pacific £ million	Total £ million
Year to 30 September 2004						
Current service cost	(47.4)	(10.1)	(1.5)	(2.4)	(7.7)	(69.1)
Past service cost	(0.5)	–	–	–	–	(0.5)
Curtailments/settlements[2]	–	1.6	2.8	–	–	4.4
Total operating charge	(47.9)	(8.5)	1.3	(2.4)	(7.7)	(65.2)
Year to 30 September 2003						
Current service cost	(39.4)	(12.3)	(1.6)	(2.1)	(7.9)	(63.3)
Past service cost[3]	(0.4)	(43.2)	–	–	–	(43.6)
Curtailments/settlements	3.5	–	–	–	–	3.5
Total operating charge	(36.3)	(55.5)	(1.6)	(2.1)	(7.9)	(103.4)
Year to 30 September 2002						
Current service cost	(33.5)	(12.8)	(1.6)	(1.7)	(7.2)	(56.8)
Past service cost[3]	(0.6)	0.7	–	–	–	0.1
Total operating charge	(34.1)	(12.1)	(1.6)	(1.7)	(7.2)	(56.7)

2) The curtailment gains in Americas pensions and Americas health care in 2004 relate to the sale of the US packaged gas business and were accounted for as exceptional items (see note 2b)).

3) The past service cost amounts in Americas pensions in 2003 were accounted for as exceptional items (see note 2b)). Two amendments were made to the US pension plan in 2002 relating to the allocation of the interest credit to plan members, both retrospectively and in the future. The net impact of the amendments was a £0.7 million credit against past service cost in the year.

Analysis of the amount included in other net financing income	Europe £ million	Americas pensions £ million	Americas health care £ million	Africa £ million	Asia/Pacific £ million	Total £ million
Year to 30 September 2004						
Expected return on pension scheme assets[4]	83.1	28.1	–	11.2	10.7	133.1
Interest on pension scheme liabilities[4]	(80.4)	(15.4)	(2.6)	(8.9)	(9.7)	(117.0)
Net interest on FRS17 pension schemes	2.7	12.7	(2.6)	2.3	1.0	16.1
Year to 30 September 2003						
Expected return on pension scheme assets[4]	70.2	29.1	–	10.8	9.4	119.5
Interest on pension scheme liabilities[4]	(72.9)	(15.8)	(3.1)	(8.8)	(9.2)	(109.8)
Net interest on FRS17 pension schemes	(2.7)	13.3	(3.1)	2.0	0.2	9.7
Year to 30 September 2002						
Expected return on pension scheme assets	87.4	36.2	–	7.2	8.3	139.1
Interest on pension scheme liabilities	(71.1)	(18.6)	(3.7)	(5.6)	(7.1)	(106.1)
Net interest on FRS17 pension schemes	16.3	17.6	(3.7)	1.6	1.2	33.0

4) The profit and loss account includes amounts relating to joint ventures and associates of £0.1 million and £(0.4) million in respect of expected return on pension scheme assets and interest on pension scheme liabilities respectively (2003: £0.1 million and £(0.4) million). There were no corresponding amounts for joint ventures and associates in 2002.

Analysis of the amount recognised in the statement of total recognised gains and losses[5]	Europe £ million	Americas pensions £ million	Americas health care £ million	Africa £ million	Asia/Pacific £ million	Total £ million
Year to 30 September 2004						
Actual return less expected return on pension scheme assets	31.9	17.6	–	12.5	14.2	76.2
Experience gains and losses arising on the scheme liabilities	(28.6)	12.5	0.2	–	(14.2)	(30.1)
Changes in assumptions underlying the present value of the scheme liabilities	(29.4)	(3.3)	(2.0)	5.9	–	(28.8)
Irrecoverable surplus	–	–	–	(20.6)	–	(20.6)
Actuarial (loss)/gain recognised in the statement of total recognised gains and losses[5]	(26.1)	26.8	(1.8)	(2.2)	–	(3.3)
Year to 30 September 2003						
Actual return less expected return on pension scheme assets	73.7	44.2	–	(10.8)	4.7	111.8
Experience gains and losses arising on the scheme liabilities	8.3	(1.7)	0.1	0.1	(2.6)	4.2
Changes in assumptions underlying the present value of the scheme liabilities	(134.8)	(6.3)	(2.0)	–	–	(143.1)
Irrecoverable surplus	–	–	–	8.7	–	8.7
Actuarial (loss)/gain recognised in the statement of total recognised gains and losses[5]	(52.8)	36.2	(1.9)	(2.0)	2.1	(18.4)
Year to 30 September 2002						
Actual return less expected return on pension scheme assets	(246.4)	(71.6)	–	3.0	(13.6)	(328.6)
Experience gains and losses arising on the scheme liabilities	(9.7)	6.7	5.8	(3.9)	(1.3)	(2.4)
Changes in assumptions underlying the present value of the scheme liabilities	(91.7)	(2.2)	(5.9)	–	55	(94.3)
Irrecoverable surplus	–	–	–	(11.6)	–	(11.6)
Actuarial (loss) recognised in the statement of total recognised gains and losses[5]	(347.8)	(67.1)	(0.1)	(12.5)	(9.4)	(436.9)

5) Included in the actuarial (loss)/gain for the year is £(1.1) million in respect of minority interests (2003: £(0.9) million, 2002: £(5.7) million).

History of experience gains and losses	Europe	Americas pensions	Americas health care	Africa	Asia/Pacific	Total
Year to 30 September 2004						
Difference between the expected and actual return on scheme assets						
Amount (£ million)	31.9	17.6	–	12.5	14.2	76.2
Percentage of scheme assets	2.6%	4.8%	–	10.6%	8.4%	4.0%
Experience gains and losses on scheme liabilities						
Amount (£ million)	(28.6)	12.5	0.2	–	(14.2)	(30.1)
Percentage of the present value of scheme liabilities	(1.7%)	4.7%	0.4%	–	(8.7%)	(1.3%)
Total amount recognised in the statement of total recognised gains and losses						
Amount (£ million)	(26.1)	26.8	(1.8)	(2.2)	–	(3.3)
Percentage of the present value of scheme liabilities	(1.6%)	10.0%	(3.9%)	(2.4%)	–	(0.1%)
Year to 30 September 2003						
Difference between the expected and actual return on scheme assets						
Amount (£ million)	73.7	44.2	–	(10.8)	4.7	111.8
Percentage of scheme assets	6.9%	11.8%	–	(11.0%)	3.2%	6.6%
Experience gains and losses on scheme liabilities						
Amount (£ million)	8.3	(1.7)	0.1	0.1	(2.6)	4.2
Percentage of the present value of scheme liabilities	0.5%	(0.6%)	0.2%	0.1%	(1.8%)	0.2%
Total amount recognised in the statement of total recognised gains and losses						
Amount (£ million)	(52.8)	36.2	(1.9)	(2.0)	2.1	(18.4)
Percentage of the present value of scheme liabilities	(3.5%)	12.3%	(3.8%)	(2.2%)	1.5%	(0.9%)
Year to 30 September 2002						
Difference between the expected and actual return on scheme assets						
Amount (£ million)	(246.4)	(71.6)	–	3.0	(13.6)	(328.6)
Percentage of scheme assets	(26.2%)	(21.0%)	–	4.3%	(11.1%)	(22.3%)
Experience gains and losses on scheme liabilities						
Amount (£ million)	(9.7)	6.7	5.8	(3.9)	(1.3)	(2.4)
Percentage of the present value of scheme liabilities	(0.7%)	2.7%	11.6%	(6.6%)	(1.0%)	(0.1%)
Total amount recognised in the statement of total recognised gains and losses						
Amount (£ million)	(347.8)	(67.1)	(0.1)	(12.5)	(9.4)	(436.9)
Percentage of the present value of scheme liabilities	(26.1%)	(26.8%)	(0.2%)	(21.1%)	(7.0%)	(23.9%)

History of experience gains and losses	Europe	Americas pensions	Americas health care	Africa	Asia/Pacific	Total
Year to 30 September 2001						
Difference between the expected and actual return on scheme assets						
Amount (£ million)	(346.2)	(156.4)	–	(11.9)	(13.3)	(527.8)
Percentage of scheme assets	(30.3%)	(37.6%)	–	(15.0%)	(10.4%)	(29.9%)
Experience gains and losses on scheme liabilities						
Amount (£ million)	(7.6)	(0.9)	(6.9)	(0.3)	10.7	(5.0)
Percentage of the present value of scheme liabilities	(0.6%)	(0.3%)	(13.3%)	(0.4%)	8.2%	(0.3%)
Total amount recognised in the statement of total recognised gains and losses						
Amount (£ million)	(289.8)	(157.3)	(6.9)	(15.1)	(2.6)	(471.7)
Percentage of the present value of scheme liabilities	(24.7%)	(60.9%)	(13.3%)	(22.7%)	(2.0%)	(28.1%)
Year to 30 September 2000						
Difference between the expected and actual return on scheme assets						
Amount (£ million)	109.0	57.2	–	8.5	9.0	183.7
Percentage of scheme assets	7.6%	10.6%	–	8.3%	6.0%	8.3%
Experience gains and losses on scheme liabilities						
Amount (£ million)	22.2	(30.9)	(17.8)	3.9	(11.8)	(34.4)
Percentage of the present value of scheme liabilities	1.9%	(13.3%)	(40.7%)	5.5%	(8.0%)	(2.1%)
Total amount recognised in the statement of total recognised gains and losses						
Amount (£ million)	98.8	26.3	(14.8)	12.4	(2.8)	119.9
Percentage of the present value of scheme liabilities	8.5%	11.3%	(33.9%)	17.5%	(1.9%)	7.2%

Movement in (deficit)/surplus during the year	Europe £ million	Americas pensions £ million	Americas health care £ million	Africa £ million	Asia/Pacific £ million	Total £ million
Year to 30 September 2004						
(Deficit)/surplus in scheme at 1 October	(444.6)	79.2	(50.5)	–	3.8	(412.1)
Movement in the year:						
Current service cost	(47.4)	(10.1)	(1.5)	(2.4)	(7.7)	(69.1)
Past service cost	(0.5)	–	–	–	–	(0.5)
Curtailments/settlements	–	1.6	2.8	–	–	4.4
Contributions	71.6	–	2.9	2.3	8.7	85.5
Disposals of businesses	–	–	–	–	–	–
Other finance income	2.7	12.7	(2.6)	2.3	1.0	16.1
Actuarial (loss)/gain	(26.1)	26.8	(1.8)	(2.2)	–	(3.3)
Exchange adjustment	–	(7.1)	4.3	–	(0.2)	(3.0)
(Deficit)/surplus in scheme at 30 September	(444.3)	103.1	(46.4)	–	5.6	(382.0)
Year to 30 September 2003						
(Deficit)/surplus in scheme at 1 October	(391.6)	89.8	(50.1)	–	(11.2)	(363.1)
Movement in the year:						
Current service cost	(39.4)	(12.3)	(1.6)	(2.1)	(7.9)	(63.3)
Past service cost	(0.4)	(43.2)	–	–	–	(43.6)
Curtailments/settlements	3.5	–	–	–	–	3.5
Contributions	38.8	–	3.5	2.1	10.2	54.6
Disposals of businesses	–	–	–	–	10.4	10.4
Other finance income	(2.7)	13.3	(3.1)	2.0	0.2	9.7
Actuarial (loss)/gain	(52.8)	36.2	(1.9)	(2.0)	2.1	(18.4)
Exchange adjustment	–	(4.6)	2.7	–	–	(1.9)
(Deficit)/surplus in scheme at 30 September	(444.6)	79.2	(50.5)	–	3.8	(412.1)

b) UK GAAP parent company

The company accounts for pension costs in accordance with FRS 17 on retirement benefits. In accordance with the standard, the company treats contributions to defined benefit schemes as if they were contributions to a defined contribution plan. This is because the underlying assets and liabilities of the defined benefit schemes cover a number of the Group's UK undertakings and cannot readily be split between each undertaking on a consistent and reliable basis.

The pension cost recognised in the company's accounts is the total of company contributions payable to Group UK pension schemes in the year.

The assets of all Group UK pension schemes are held independently of the Group's finances. The largest schemes are self-administered.

c) US GAAP

For the purposes of US GAAP the pension costs of the largest schemes have been reclassified in the following tables in accordance with the requirement of SFAS 132. The changes in projected benefit obligation, plan assets and details of the funded status of these retirement plans, together with the changes in the accumulated other post-retirement benefit obligations of the Group's US business, are given below The measurement date for UK and US pension plans is 30 June and the measurement date for the Australian and South African plans is 30 September. The difference between the UK and US GAAP information disclosed in note 8a) and c) is included in note 30.

Investment strategy for the schemes is generally set by their respective trustee or fiduciary, after taking advice from their investment advisers, and in consultation with the company. The strategy reflects the funding position of the schemes, and a careful assessment of the risks inherent over the long term in various asset classes. The assets of the schemes are diversified by asset class, by investment manager and by geography, in order to reduce risk Strategy is reviewed periodically.

At 30 June 2004 the measurement date for SFAS 132 reporting, the target asset allocation and actual asset allocation of the main UK scheme was:

	2004		2003
	Target	**Actual**	**Actual**
Equity securities	70.0%	71.9%	73.0%
Debt securities	20.0%	19.2%	20.5%
Real estate	10.0%	7.8%	5.0%
Cash	0.0%	1.1%	1.5%

In the US, the fiduciary invests in short-term bonds to broadly cash match the liabilities that are expected to fall due within three years. The balance of the plan's assets are currently invested in equities. Following this policy, the actual asset allocations of the plan at 30 June 2004 was as follows.

	2004	**2003**
Equity securities	77.5%	87.4%
Debt securities	22.5%	12.6%

The company establishes the long-term expected rate of return on the schemes' assets by developing a long-term rate of return assumption for each asset class, taking into account such factors as the market yield on bond investments of appropriate duration, and the expected risk premium for other asset classes, based on long-term historical trends. A single, long-term return assumption is then calculated as a weighted average return, based on the expected returns for each asset class.

	Pension benefits		Other benefits[1]	
	2004 £ million	2003 £ million	2004 £ million	2003 £ million
Change in benefit obligation				
Projected benefit obligation at 1 October 2003	2,089.3	1,695.9	50.5	50.1
Exchange adjustment	(28.4)	31.3	(4.2)	(2.8)
Service cost	67.4	53.0	1.7	1.8
Interest cost	114.0	108.7	2.6	3.1
Plan participants' contributions	13.5	13.9	–	–
Actuarial (gains)/losses	6.6	242.9	1.7	1.8
Benefits paid	(93.6)	(96.1)	(2.9)	(3.5)
Other (income) less expenses	(0.2)	(0.4)	–	–
Curtailments, settlements, termination benefits	(1.0)	(3.1)	(3.1)	–
Plan amendments	–	43.2	–	–
Projected benefit obligation at 30 September 2004	2,167.6	2,089.3	46.3	50.5
Change in far value of assets				
Fair value of assets at 1 October 2003	1,640.5	1,706.0	–	–
Exchange adjustment	(34.8)	29.5	–	–
Actual return on plan assets	279.5	(57.1)	–	–
Employer contributions	72.2	44.7	–	–
Plan participants' contributions	13.5	13.9	–	–
Other income less (expenses)	(0.2)	(0.4)	–	–
Benefits paid	(93.6)	(96.1)	–	–
Fair value of assets at 30 September 2004	1,877.1	1,640.5	–	–
Funded status and unrecognised (gains)/losses				
Funded status	(290.5)	(448.8)	(46.3)	(50.5)
Unrecognised net transition asset	(10.8)	(14.3)	–	–
Unrecognised prior service cost/(credit)	13.2	19.5	(1.7)	(2.8)
Unrecognised net loss	535.8	669.6	7.7	10.2
Adjustment for post measurement date contributions	17.2	9.5	–	–
Prepaid/(accrued) pension cost	264.9	235.5	(40.3)	(43.1)
Amounts recognised in the statement of financial position consist of:				
Prepaid benefit cost	165.2	165.0		
Accrued benefit liability	(263.4)	(383.6)		
Intangible asset	5.4	6.9		
Accumulated other comprehensive income	357.7	447.2		
Prepaid pension cost	264.9	235.5		

1) Other benefits relate to post retirement medical benefits.

The weighted-average asset allocation, by asset category, for the pension plans are as follows:

	Europe	Americas	Africa	Asia/Pacific
At 30 September 2004				
Equity securities	70.3%	79.3%	79.4%	68.9%
Debt securities	21.1%	20.6%	14.8%	9.2%
Real estate	8.6%	–	1.0%	7.2%
Other	–	0.1%	4.8%	14.7%
At 30 September 2003				
Equity securities	74.0%	82.3%	74.8%	72.3%
Debt securities	20.2%	17.7%	17.1%	10.4%
Real estate	5.1%	–	0.3%	7.5%
Other	0.7%	–	7.8%	9.8%

The accumulated benefit obligation for all pension plans totalled £1,962.2 million (2003: £1,848.5 million).

The fair value of plan assets exceeds the accumulated benefit obligation for all plans except the UK plans, where the accumulated benefit obligation, projected benefit obligation and fair value of plan assets were £1,460.6 million, £1,602.8 million and £1,180.0 million respectively (2003: £1,305.1 million, £1,560.6 million and £1,037.3 million).

The weighted-average assumptions used to determine the benefit obligation are as follows:

	Europe	Americas	Africa	Asia/Pacific
At 30 September 2004				
Discount rate	5.75%	6.1%	10.0%	6.1%
Expected return on all plan assets	7.75%	8.0%	12.0%	7.1%
Rate of compensation increase	4.5%	3.75%	7.5%	3.5%
At 30 September 2003				
Discount rate	5.2%	5.8%	10.0%	6.2%
Expected return on all plan assets	7.6%	8.0%	12.0%	7.6%
Rate of compensation increase	4.0%	3.75%	7.5%	3.5%

The weighted-average assumptions used to determine the net benefit cost are as follows:

	Europe	Americas	Africa	Asia/Pacific
At 30 September 2004				
Discount rate	5.2%	5.8%	10.0%	6.2%
Expected return on all plan assets	7.6%	8.0%	12.0%	7.6%
Rate of compensation increase	4.0%	3.75%	7.5%	3.5%
At 30 September 2003				
Discount rate	5.8%	7.0%	12.0%	7.0%
Expected return on all plan assets	7.7%	9.0%	12.0%	8.0%
Rate of compensation increase	3.9%	4.75%	9.5%	3.5%

The Group presently expects its contributions to its pension plans and post retirement medical plans to be at a similar level in 2005 to the amounts contributed in 2004.

The following benefit payments, which reflect future service, as appropriate, are expected to be paid:

	Europe £ million	Americas[2)] £ million	Africa £ million	Asia/Pacific £ million	Total pension benefits £ million	Other benefits[3)] £ million
Year ending 30 September						
2005	64.6	38.4	3.9	8.3	115.2	3.2
2006	65.5	15.3	4.0	9.0	93.8	3.3
2007	68.9	15.6	4.2	9.6	98.3	3.3
2008	72.6	16.3	4.4	10.3	103.6	3.2
2009	76.9	17.1	4.6	11.2	109.8	3.3
2010-2014	448.7	93.4	25.8	70.3	638.2	17.4

2) Payments in the Americas in 2005 include £21.5 million relating to a litigation settlement reached in November 2003 (see notes 2b) and 26b)).

For the post retirement medical benefits plan at 30 September 2004, the initial health care cost trend rates for valuing the medical benefits and drug benefits post age 65 were 9.0 per cent (2003: 9.0 per cent) and 3.2 per cent (2003: 3.5 per cent) respectively. The rates for valuing post age 65 medical benefits are assumed to reduce gradually to 4.5 per cent in 2011 (2003: 4.5 per cent in 2009). The rates for valuing drug benefits post age 65 are assumed to reduce gradually to 0.65 per cent in 2011 (2003: 1.1 per cent in 2010). For valuing pre age 65 medical and drug benefits, a blended health care trend rate of 9.0 per cent was used for 30 September 2004 (2003: 9.0 per cent). This blended rate was assumed to reduce gradually to 4.5 per cent in 2011 (2003: 4.5 per cent in 2010).

	Pensionable benefits			Other benefits[3)]		
	2004 £ million	2003 £ million	2002 £ million	2004 £ million	2003 £ million	2002 £ million
Service cost net of employees' contributions	67.4	53.0	54.6	1.7	1.8	1.6
Interest cost on projected benefits obligation	114.0	108.7	102.9	2.6	3.1	3.6
Expected return on assets	(157.4)	(166.2)	(156.7)	–	–	–
Amortisation of net transition asset	(2.9)	(14.8)	(14.7)	–	–	–
Amortisation of prior service cost/(credit)[4)]	3.1	46.4	3.5	(0.5)	(0.5)	(0.5)
Amortisation of net loss/(gain)	14.8	(1.6)	(7.2)	0.3	0.3	0.3
Cost of special termination benefits	0.7	0.9	0.6	–	–	–
Curtailment	0.6	–	–	(0.4)	–	–
Net periodic pension cost/(credit)	40.3	26.4	(17.0)	3.7	4.7	5.0

3) Other benefits relate to post retirement medical benefits.

4) In 2003 the amortisation of pension prior service cost includes £43.2 million in respect of a settlement of litigation from which the company will derive no future economic benefit.

It is estimated that a one per cent change in the weighted average health care costs trend would have the following effects on the accumulated benefit obligation and net periodic pension cost at 30 September 2004:

	One percentage point	
	Increase	Decrease
Accumulated benefit obligation	4.0	(3.8)
Net periodic pension cost	0.6	(0.5)

9. Dividends

	Per share					
	2004 pence	2003 pence	2002 pence	2004 £ million	2003 £ million	2002 £ million
Ordinary						
First interim	15.5	15.5	15.5	76.3	76.4	75.8
Second interim	24.5	23.5	22.5	121.0	115.7	110.8
	40.0	39.0	38.0	197.3	192.1	186.6

10. Earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to Ordinary shareholders by the weighted average number of shares in issue during the year.

For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all potential dilutive shares. The company has only one category of potential dilutive shares: those share options granted to employees where the exercise price is less than the average market price of the company's shares during the year and where any performance conditions have been met at the balance sheet date.

Adjusted earnings per share (excluding exceptional items) are presented in order to show the underlying earnings performance of the Group.

i) Earnings

	2004 £ million	2003 £ million	2002 £ million
Amounts used in computing the earnings per share			
Earnings attributable to Ordinary shareholders for the financial year	264.0	219.1	202.9
Adjustment for exceptional items[1)]	47.5	41.6	71.4
Adjusted earnings	311.5	260.7	274.3

1) This comprises the exceptional items before interest of £(92.0) million (2003: £(67.0) million, 2002: £(94.7) million) adjusted for the impact of tax of £44.5 million (2003: £25.0 million, 2002: £22.8 million) and minority interests of £nil (2003: £0.4 million, 2002: £0.5 million).

ii) Average number of 25p Ordinary shares

	2004 £ million	2003 £ million	2002 £ million
Average issued share capital	498.2	497.5	496.0
Less: Average own shares held in trust	5.2	5.0	5.6
Basic	493.0	492.5	490.4
Add: Dilutive share options	0.8	0.2	1.8
Diluted	493.8	492.7	492.2

II. Fixed assets — intangible assets

a) Group summary

	Goodwill £ million	Other intangibles £ million	Total £ million
Gross book value			
At 1 October 2003	232.3	6.2	238.5
Exchange adjustment	(13.3)	(0.4)	(13.7)
Acquired during the year	3.9	0.2	4.1
Adjustments relating to prior year acquisitions	(1.0)	–	(1.0)
Disposed of during the year	(9.1)	(1.2)	(10.3)
At 30 September 2004	212.8	4.8	217.6
Amortisation			
At 1 October 2003	31.1	1.3	32.4
Exchange adjustment	(1.9)	(0.1)	(2.0)
Provided during the year	14.0	0.5	14.5
Impairment	2.5	–	2.5
Disposed of during the year	(4.5)	(0.2)	(4.7)
At 30 September 2004	41.2	1.5	42.7
Net book value			
At 1 October 2003	201.2	4.9	206.1
At 30 September 2004	171.6	3.3	174.9

The adjustments relating to prior year acquisitions reflect the finalisation of the fair values of the net assets of businesses acquired reported as provisional at 30 September 2003, and the fair value of the consideration.

b) Analysis of acquisitions and disposals

The increase in positive goodwill represents the excess of the fair value of the purchase price over the provisional fair value of the net assets of businesses acquired. The most significant amounts are as follows:

i) Businesses acquired

	Positive goodwill £ million	Negative goodwill £ million	Amortisation period Years[4]
2004			
There was no significant goodwill on acquisitions of subsidiary undertakings in the year:			
2003			
Praxair Polska	10.1	–	20
Environmental Management Corporation[1]	32.9	–	15
2002			
Seiko Instruments Inc – turbomolecular pumps business[2]	59.4	–	20
Unique Gas and Petrochemicals Public Company Limited	17.5	–	20
Enron Teesside Operations Limited – industrial assets	9.6	–	15
Hydromatix Inc	5.6	–	15
Semco[3]	3.8	–	15
Minorities in Osaka Sanso Kogyo KK	–	(5.0)	10

1) Restated in 2004 to reflect an adjustment of £1.4 million to the fair value of the consideration.

2) Restated in 2003 to reflect an adjustment of £0.8 million to the fair value of the net assets.

3) Restated in 2003 to reflect an adjustment of £0.6 million to the fair value of the consideration.

4) Amortisation periods are those over which it is estimated that the value of the business acquired will exceed the value of the identifiable net assets of the business acquired.

ii) Businesses disposed of

	Goodwill £ million
2004	
US packaged gas business	9.1
2003	
Osaka Sanso Kogyo KK (see note 28c))	(10.5)

12. Fixed assets – tangible assets

a) Group summary

	Land and buildings £ million	Plant machinery and vehicles £ million	Cylinders £ million	Constriction in progress £ million	Total £ million
Gross book value					
At 1 October 2003	640.4	4,392.3	690.0	158.4	5,881.1
Exchange adjustment	(17.5)	(190.6)	(17.5)	(8.6)	(234.2)
Capital expenditure[2]	20.6	135.5	24.0	76.0	256.1
Disposals	(13.2)	(121.0)	(11.1)	(5.3)	(150.6)
Transfers	(10.1)	77.9	9.9	(77.7)	–
Acquisitions of businesses	2.8	0.9	–	–	3.7
Disposals of businesses	(22.7)	(78.1)	(124.0)	(0.9)	(225.7)
At 30 September 2004	600.3	4,216.9	571.3	141.9	5,530.4
Depreciation					
At 1 October 2003	207.7	2,440.4	319.6	–	2,967.7
Exchange adjustment	(7.2)	(109.7)	(8.0)	–	(124.9)
Provided during the year	17.1	261.3	31.1	–	309.5
Disposals	(5.6)	(102.3)	(9.0)	–	(116.9)
Disposals of businesses	(7.8)	(49.9)	(65.7)	–	(123.4)
Transfers	(10.4)	10.4	–	–	–
At 30 September 2004	193.8	2,450.2	268.0	–	2,912.0
Net book value at 1 October 2003[3]					
Owned assets	395.2	1,945.1	342.0	158.4	2,840.7
Leased assets[4]	37.5	6.8	28.4	–	72.7
	432.7	1,951.9	370.4	158.4	2,913.4
Net book value at 30 September 2004[3]					
Owned assets	368.5	1,761.3	278.3	141.9	2,550.0
Leased assets[4]	38.0	5.4	25.0	–	68.4
	406.5	1,766.7	303.3	141.9	2,618.4

1) Net book value of land and buildings at cost was £369.7 million (2003: £395.0 million).

2) Subsidiary undertakings only. Capital expenditure of joint ventures and associates is given in note I.

3) Net book value includes net interest capitalised of £47.8 million (2003: £56.4 million). The tax effect of this is included in the deferred tax provision.

4) Leased assets are shown net of accumulated depreciation of £121.1 million (2003: £119.1 million).

b) Depreciation and operating lease rentals

	2004 £ million	2003 £ million	2002 £ million
Depredation on leased assets included above	6.5	8.1	8.5
Amortisation of capitalised interest included above	5.5	4.0	4.2
Operating lease rentals			
– hire of plant and machinery	27.1	19.7	7.7
– property rent	31.6	34.3	23.1
– other	18.3	17.6	14.0

c) *Regional analysis*

The Group has numerous manufacturing distribution and office facilities which are located in some 50 countries. At 30 September 2004, the Group's property, plant and equipment, comprising land and buildings, plant machinery, vehicles and cylinders were located regionally as follows:

	£ million	%
Europe (mainly the UK)	941.9	36
Americas (mainly the US)	736.9	28
Africa	278.4	11
Asia/Pacific	661.2	25
	2,618.4	100

The above amounts are stated at cost net of accumulated depreciation.

d) *Asset revaluations*

Following the adoption of FRS15 – Tangible fixed assets in 2000, land and buildings are no longer revalued (see Accounting policies on page 84). The net book value of properties revalued in earlier years was £125.0 million. Properties not revalued were £281.5 million.

e) *Parent summary*

	Land and buildings £ million	Plant, machinery and vehicles £ million	Total £ million
Gross book value			
At 1 October 2003	14.3	18.5	32.8
Capital expenditure	0.1	1.1	1.2
Disposals	–	(5.6)	(5.6)
At 30 September 2004	14.4	14.0	28.4
Depreciation			
At 1 October 2003	4.2	12.9	17.1
Provided during the year	0.5	0.5	1.0
Disposals	–	(1.0)	(1.0)
At 30 September 2004	4.7	12.4	17.1
Net book value			
At 1 October 2003	10.1	5.6	15.7
At 30 September 2004	9.7	1.6	11.3

f) *Net book value of land and buildings at 30 September 2004*

	Group		Parent	
	2004 £ million	2003 £ million	2004 £ million	2003 £ million
Freehold property	368.5	395.2	9.7	10.1
Leasehold property – long-term	33.9	34.2	–	–
– short-term	4.1	3.3	–	–
	406.5	432.7	9.7	10.1

g) Capital commitments

	Group	
	2004 £ million	2003 £ million
Against which orders had been placed	26.2	20.9
Authorised but not committed	101.2	101.9
	127.4	122.8

There were no capital commitments by The BOC Group plc at either 30 September 2004 or 30 September 2003.

The Group's share of its joint ventures' and associates' capital commitments was:

	2004 £ million	2003 £ million
Against which orders had been placed	33.6	14.5
Authorised but not committed	24.8	12.2
	58.4	26.7

13. Fixed assets – investments

a) Group summary

	Goodwill of associates £ million	Group share of net assets of associates £ million	Negative goodwill of joint ventures £ million	Group share of net assets of joint ventures £ million	Group loans to joint ventures and associates £ million	Other investments at cost £ million	Own shares £ million	Provisions against other investments £ million	Total £ million
At 1 October 2003 – previously reported	7.0	52.6	–	402.3	107.9	39.4	48.1	(0.6)	656.7
Prior year adjustment (see note 31)	–	–	–	–	–	–	(48.1)	–	(48.1)
At 1 October 2003 – restated	7.0	52.6	–	402.3	107.9	39.4	–	(0.6)	608.6
Exchange adjustment	(0.6)	(3.9)	0.5	(26.7)	(9.9)	(1.9)	–	0.1	(42.4)
Acquisitions/additions	–	0.1	(41.5)	(2.5)	107.7	6.0	–	–	69.8
(Charged)/credited to profit	(0.5)	–	0.2	–	–	–	–	–	(0.3)
Disposals/repayments/ transfers	–	(2.5)	–	(10.1)	(3.1)	(7.8)	–	(0.7)	(24.2)
Increase/(decrease) in net assets	–	0.2	–	(10.5)	–	–	–	–	(10.3)
JAG capital restructuring	–	–	–	(53.0)	–	–	–	–	(53.0)
At 30 September 2004	5.9	46.5	(40.8)	299.5	202.6	35.7	–	(1.2)	548.2

i) Joint ventures

The cost of investment in joint ventures was £259.5 million (2003: £308.6 million) and the attributable profit before tax was £79.5 million (2003: £60.4 million, 2002: £40.1 million).

The Group's share of net assets of joint ventures at 30 September 2004 can be analysed as follows:

	Share of net assets £ million	Negative goodwill £ million	Total £ million
Share of fixed assets	748.9	–	748.9
Negative goodwill	–	(40.8)	(40.8)
Share of current assets	288.0	–	288.0
	1,036.9	(40.8)	996.1
Share of liabilities due within one year	(207.6)	–	(207.6)
Share of liabilities due after more than one year	(529.8)	–	(529.8)
	(737.4)	–	(737.4)
Share of net assets	299.5	(40.8)	258.7

The negative goodwill represents the excess of the fair value of the net assets over the fair value of the purchase consideration and is being amortised over 17 years.

The Group's share of the borrowings of joint ventures at 30 September 2004 was:

	Gross borrowings	Net borrowings
Compania de Nitrogeno de Cantarell[1)]	127.2	79.6
Japan Air Gases	55.5	51.5
Elgas	32.0	29.5
Other joint ventures	56.2	33.7
Total	270.9	194.3

1) Excluding loans from joint venture partners.

Of the net borrowings, £185.4 million was non-recourse.

ii) Associates

The cost of investment in associates was £23.9 million (2003: £26.6 million) and the attributable profit before tax was £12.2 million (2003: £10.4 million, 2002: £9.4 million).

The Group's share of the net borrowings of associates was £6.9 million (2003: £2.8 million). All of this was non-recourse.

b) Valuation

	2004 £ million	2003 (restated) £ million
Listed on stock exchanges in the UK and overseas	34.7	44.5
Unlisted – equity at directors' valuation	300.6	441.5
– other at directors' valuation	212.9	122.6
Total book value	548.2	608.6
Market value of listed investments	85.8	84.3

c) *Income*

	2004 £ million	2003 £ million	2002 £ million
Listed securities	9.9	4.7	7.5
Unlisted securities	69.4	32.0	30.6
	79.3	36.7	38.1
Less: Dividends receivable from joint ventures	69.0	31.7	30.5
Dividends receivable from associates	10.1	3.3	3.4
Income from other fixed asset investments	0.2	1.7	4.2

d) *Parent*

	Investments in subsidiary undertakings £ million	Investments in related undertakings £ million	Amounts due from subsidiary undertakings £ million	Own shares £ million	Other investments £ million	Provisions £ million	Total £ million
At 1 October 2003 – previously reported	1,703.0	8.7	1,351.7	42.5	11.1	(16.5)	3,100.5
Prior year adjustment (see note 31)	–	–	–	(42.5)	–	–	(42.5)
At 1 October 2003 – restated	1,703.0	8.7	1,351.7	–	11.1	(16.5)	3,058.0
Additions	463.8	–	–	–	–	–	463.8
Charged to profit	–	–	–	–	–	(4.3)	(4.3)
Disposals	(29.1)	(8.7)	–	–	(3.3)	–	(41.1)
Advances/repayments (net)	–	–	(493.8)	–	–	–	(493.8)
At 30 September 2004	2,137.7	–	857.9	–	7.8	(20.8)	2,982.6

Provisions relate to investments in subsidiary undertakings (£16.8 million), amounts due from subsidiary undertakings (£3.5 million) and other investments (£0.5 million).

14. Stocks

	Group	
	2004 £ million	2003 £ million
Raw materials	89.5	81.3
Work in progress	68.0	51.1
Gases and other finished goods	162.3	172.0
Payments on account	(35.4)	(20.2)
	284.4	284.2

Amounts relating to long-term contracts included in work in progress were £0.4 million (2003: £0.8 million). There were no stocks on the balance sheet of The BOC Group plc at either 30 September 2004 or 30 September 2003.

15. Debtors

a) Debtors falling due within one year

	Group		Parent	
	2004 £ million	2003 £ million	2004 £ million	2003 £ million
Trade debtors	561.5	569.8	–	–
Amounts due from subsidiary undertakings	–	–	286.5	669.4
Amounts due from joint ventures and associates	7.6	5.7	5.7	5.0
Other debtors	106.4	93.5	28.2	15.0
Prepayments and accrued income	30.1	28.8	–	5.0
	705.6	697.8	320.4	694.4

Trade debtors are shown net of provisions for bad and doubtful debts of £29.8 million (2003: £31.6 million).

b) Debtors falling due after more than one year

	Group	
	2004 £ million	2003 £ million
Deferred tax	5.8	6.6
Other debtors	10.5	17.0
	16.3	23.6

There were no debtors falling due after more than one year on the balance sheet of the BOC Group plc at either 30 September 2004 or 30 September 2003.

16. Current asset investments

	Group	
	2004 £ million	2003 £ million
Listed investments	20.8	21.8
Total current asset investments	20.8	21.8
Market value of listed investments	20.8	21.8

There were no current asset investments on the balance sheet of The BOC Group plc at either 30 September 2004 or 30 September 2003.

17. Cash at bank and in hand

	Group		Parent	
	2004 £ million	2003 £ million	2004 £ million	2003 £ million
Deposits	26.5	4.7	–	–
Cash at bank and in hand	201.7	72.8	80.8	–
	228.2	77.5	80.8	–

18. Creditors: amount falling due within one year

a) Borrowings and finance leases[1)]

	Group		Parent	
	2004 £ million	2003 £ million	2004 £ million	2003 £ million
Bank loans and overdrafts	80.1	164.6	83.2	178.6
Loans other than from banks	179.4	182.0	168.9	125.0
Finance leases	2.6	14.3	–	
	262.1	360.9	252.1	303.6

1) Details of borrowings and finance leases are given in note 20.

b) Other creditors

	Group		Parent	
	2004 £ million	2003 £ million	2004 £ million	2003 £ million
Deposits and advance payments by customers	55.0	62.8	–	–
Trade creditors	329.2	308.9	–	–
Amounts due to subsidiary undertakings	–	–	949.7	992.3
Taxation	139.2	132.7	–	–
Other taxes and social security payable	32.4	34.8	–	–
Other creditors	159.9	117.3	0.9	2.6
Accruals and deferred income	156.9	150.8	53.5	55.0
	872.6	807.3	1,004.1	1,049.9

19. Creditors: amounts falling due after more than one year

a) Borrowings and finance leases[1)]

	Group		Parent	
	2004 £ million	2003 £ million	2004 £ million	2003 £ million
Bank loans	88.5	108.9	(2.7)	(20.7)
Loans other than from banks	834.5	968.2	677.2	787.3
Finance leases	5.5	7.6	–	–
	928.5	1,084.7	674.5	766.6

1) Details of borrowings and finance leases are given in note 20.

b) Other creditors

	Group		Parent	
	2004 £ million	2003 £ million	2004 £ million	2003 £ million
Deposits and advance payments by customers	22.2	25.2	–	–
Other creditors	6.7	13.1	–	4.3
Accruals and deferred income	5.8	10.1	3.2	6.1
	34.7	48.4	3.2	10.4

20. Net borrowings and finance leases

a) Analysis

	Group		Parent	
	2004 £ million	2003 £ million	2004 £ million	2003 £ million
Secured				
Finance leases	8.1	21.9	–	–
Other secured borrowings	55.2	64.9	–	–
Unsecured				
12¼% Unsecured Loan Stock 2012/2017	100.0	100.0	100.0	100.0
7.45% Guaranteed Notes 2006	138.1	150.6	–	–
Pollution Control and Industrial Bonds	16.7	18.3	–	–
European Investment Bank loans	15.7	15.3	–	–
6.75% Bonds 2004	–	125.0	–	125.0
1.00% Euroyen Bond 2006	125.4	134.7	125.4	134.7
5⅞% Bonds 2009	200.0	200.0	200.0	200.0
6.50% Bonds 2016	200.0	200.0	200.0	200.0
Medium-term notes	224.1	156.1	224.1	156.1
Commercial paper	5.5	55.2	–	–
Other borrowings	101.8	203.6	77.1	154.4
Total borrowings and finance leases	1,190.6	1,445.6	926.6	1,070.2
Less: Cash at bank and in hand	228.2	77.5	80.8	–
Net borrowings and finance leases	962.4	1,368.1	845.8	1,070.2

A reconciliation of net cash flow to the movement in net debt is given in note 27b).

b) Maturity

	Group		Parent	
	2004 £ million	2003 £ million	2004 £ million	2003 £ million
Long and medium-term bank loans				
Repayable				
– beyond five years	17.0	19.1	–	–
– two to five years	26.1	59.1	0.2	(2.9)
– one to two years	45.4	30.7	(2.9)	(17.8)
Loans other than from banks				
Repayable				
– beyond five years	303.5	502.2	298.3	496.6
– two to five years	383.6	352.1	378.9	193.4
– one to two years	147.4	113.9	–	97.3
Finance leases – repayable beyond one year	5.5	7.6	–	–
Borrowings and finance leases (note 19a))	928.5	1,084.7	674.5	766.6
Short-term – repayable within one year				
Bank loans and overdrafts	80.1	164.6	83.2	178.6
Loans other than from banks	179.4	182.0	168.9	125.0
Finance leases	2.6	14.3	–	–
Total borrowings and finance leases	1,190.6	1,445.6	926.6	1,070.2
Less: Cash at bank and in hand	228.2	77.5	80.8	–
Net borrowings and finance leases	962.4	1,368.1	845.8	1,070.2

	2004			2003		
	Finance leases £ million	**Other borrowings £ million**	**Total £ million**	**Finance leases £ million**	**Other borrowings £ million**	**Total £ million**
Repayment profile of borrowings and finance leases						
Long-term repayable						
– beyond five years	–	320.5	320.5	0.5	521.3	521.8
– four to five years	0.1	201.4	201.5	0.2	62.6	62.8
– three to four years	0.8	58.6	59.4	2.3	149.3	151.6
– two to three years	2.6	149.7	152.3	2.7	199.3	202.0
– one to two years	2.0	192.8	194.8	1.9	144.6	146.5
Total	5.5	923.0	928.5	7.6	1,077.1	1,084.7

c) *Short-term interest rates*

The average interest rate on commercial paper for the year to 30 September 2004 was 3.3 per cent (2003: 2.5 per cent) and on other short-term borrowings was 9.3 per cent (2003: 8.7 per cent).

d) *Facilities*

The Group maintains a number of short and medium-term committed lines of credit. The main medium-term facilities are multi-currency agreements with a group of relationship banks, under which the Group may borrow up to US$450.0 million (£249 million) (2003: US$450.0 million (£271 million)) for general corporate purposes. These facilities were undrawn both at 30 September 2004 and 30 September 2003. The following table shows the maturity profile of these facilities.

	2004 £ million	**2003 £ million**
Four to five years	–	450.0
Three to four years	450.0	–
Two to three years	–	–
One to two years	–	–
Within one year	–	–
	450.0	450.0

Additional committed facilities are maintained by the principal operating units in the Group.

e) *Security*

The secured bans, maturing between 30 September 2004 and 2019, are principally secured by charges over the property, plant and machinery, stocks and trade debtors of certain overseas subsidiaries.

21. Financial instruments

a) *Interest rate, currency and counterparty exposure*

The Group's approach to managing currency and interest rate risk and its use of swaps in that process is described on page 50 in the financial review under the heading 'management of financial risks'.

Interest rate swaps

At 30 September 2004, the Group had entered into five interest rate swap agreements (2003: six) with its main relationship banks with notional principal amounts of £285.3 million (2003: £417.6 million). The swaps' underlying currencies are sterling, US dollars and Japanese yen. The following table shows the maturity profile and weighted average interest rates payable and receivable on interest rate swaps at 30 September:

	2004 £ million	2003 £ million
Maturity profile		
Beyond five years	–	200.0
Four to five years	200.0	92.6
Three to four years	85.3	–
Two to three years	–	–
One to two years	–	–
Within one year	–	125.0
	285.3	417.6
	%	%
Weighted average receivable swap rate	3.8	5.2
Weighted average payable swap rate	4.5	4.0

The weighted average receivable/payable swap interest rate is calculated by applying the notional swap interest received or paid, using rates applicable at the financial year end, to the notional principal of outstanding swaps at the financial year end.

During the year, the Group also entered into four interest rate swap agreements that are due to commence in 2006 and 2007 for a period of five years. The notional principal amounts of these swaps are £105.4 million and their underlying currencies are US dollars and Japanese yen.

Currency swaps

At 30 September 2004, the Group had entered into 25 currency swap agreements (2003:13) with its main relationship banks with notional principal amounts of £593.1 million (2003: £474.7 million). The maturity dates range between one month and 48 months from the balance sheet date (2003: between one month and 56 months). The following table illustrates the impact of the currency swaps on the Group's net debt at 30 September:

	2004					2003	
	Capital employed £ million	Gross borrowings £ million	Cash at bank and in hand £ million	Currency swaps £ million	Net borrowings and finance leases £ million	Capital employed (restated) £ million	Net borrowings and finance leases £ million
Sterling	593.6	(478.1)	71.5	302.0	(104.6)	626.6	(285.3)
US dollar	918.9	(178.1)	15.5	(189.8)	(352.4)	1,152.0	(444.4)
Australian dollar	298.7	(0.1)	16.1	(92.0)	(76.0)	333.7	(95.7)
South African rand	314.0	(54.6)	40.2	(85.2)	(99.6)	306.4	(47.7)
Japanese yen	186.7	(204.8)	2.6	48.1	(154.1)	265.6	(237.9)
Canadian dollar	104.2	(6.7)	1.7	(35.0)	(40.0)	115.1	(56.0)
Thai baht	121.0	(54.9)	2.9	—	(52.0)	134.2	(67.2)
Other	683.3	(213.3)	77.7	51.9	(83.7)	723.5	(133.9)
Total	3,220.4	(1,190.6)	228.2	—	(962.4)	3,657.1	(1,368.1)

The weighted average receivable interest rate on currency swaps was 3.9 per cent (2003: 3.4 per cent) and the weighted average payable interest rate was 4.1 per cent (2003: 2.9 per cent). The weighted average receivable/payable swap interest rate is calculated by applying the notional swap interest received or paid, using rates applicable at the financial year end, to the notional principal of outstanding swaps at the financial year end.

The currency and interest rate exposure of the net borrowings of the Group at 30 September, after taking into account interest rate and currency swaps entered into by the Group, is given in the table below.

	2004			2003		
	Fixed rate £ million	Floating rate £ million	Total £ million	Fixed rate £ million	Floating rate £ million	Total £ million
Sterling	296.8	(192.2)	104.6	300.2	(14.9)	285.3
US dollar	279.1	73.3	352.4	303.6	140.8	444.4
Australian dollar	0.1	75.9	76.0	1.1	94.6	95.7
South African rand	38.0	61.6	99.6	40.7	7.0	47.7
Japanese yen	151.7	2.4	154.1	163.3	74.6	237.9
Canadian dollar	22.8	17.2	40.0	22.3	33.7	56.0
Thai baht	54.9	(2.9)	52.0	58.3	8.9	67.2
Other	44.4	39.3	83.7	42.3	91.6	133.9
Total	887.8	74.6	962.4	931.8	436.3	1,368.1

Counterparty risk

The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but does not expect any counterparties to fail to meet their obligations. There are procedures and policies in place limiting the Group's exposure to concentrations of credit or country risk.

b) Fair value information

i) Fair values of financial instruments

Set out below is a comparison of the carrying amount and the fair value of the Group's financial instruments (excluding short-term debtors and creditors) at 30 September 2004. Further details of the Group's financial instruments are given in note 21 d).

		2004		2003	
	Notes	Carrying amount £ million	Fair value £ million	Carrying amount £ million	Fair value £ million
Primary financial instruments					
Loans to joint ventures and associates	1)	202.6	202.6	107.9	107.9
Other fixed asset investments	2)	34.5	41.8	38.8	39.7
Current asset investments	3)	20.8	20.8	21.8	21.8
Cash at bank and in hand	4)	228.2	228.2	77.5	77.5
Borrowings and finance leases (excluding swap agreements)	5)	(1,218.5)	(1,286.9)	(1,463.3)	(1,559.4)
Other creditors: amounts falling due after more than one year	6)	(26.8)	(26.8)	(37.1)	(37.1)
Provisions for liabilities and charges	6)	(10.5)	(10.5)	(10.6)	(10.6)
Derivative financial instruments held to manage the Group's interest rate and currency risk profile					
Foreign currency and interest rate swap agreements	7)	27.9	18.4	17.7	25.6
Forward foreign exchange contracts	8)	—	7.5	—	5.8
Net financial instruments		(741.8)	(804.9)	(1,247.3)	(1,328.8)
Financial assets		486.1		246.0	
Financial liabilities	9)	(1,227.9)		(1,493.3)	
Net financial instruments		(741.8)		(1,247.3)	

1) For those bearing either no interest or a floating rate of interest it is deemed that the carrying amount approximates to the fair value. For those bearing a fixed rate of interest an assessment of the interest rate at which the Group could make the same loan under current conditions has been made. Unless this differs significantly from the fixed rate it is also deemed that the carrying amount approximates to the fair value. Where this does differ significantly, the fair value is based on the discounted value of future cash flows.

2) For equity instruments listed on a recognised stock exchange the fair value is the quoted market price. For other equity instruments it is deemed that the carrying amount approximates to the fair value.

3) The fair value is the quoted market price. Where no quoted market price exists, it is deemed that the carrying amount approximates to the fair value.

4) As all bear either no interest or a floating rate of interest it is deemed that the carrying amount approximates to the fair value.

5) For those bearing a floating rate of interest it is deemed that the carrying amount approximates to the fair value. For those bearing a fixed rate of interest the fair value is either the quoted market price where a liquid market exists or has been calculated using well established pricing models.

6) The carrying amount is deemed to approximate to the fair value.

7) The fair value is based on market valuations at the balance sheet date.

8) The fair value is based on market prices and exchange rates at the balance sheet date.

9) Includes foreign currency and interest rate swap agreements.

ii) Hedges

As explained on page 50 of the financial review under the heading 'management of financial risks', the Group's policies are to use forward foreign exchange contracts to hedge transactional currency exposures (principally arising through anticipated sales and purchase transactions) and swap agreements to manage interest rate risks and hedge structural currency exposures.

Currency swaps are only held to change the currency of the Group's borrowings to match better its net investments in its overseas subsidiaries.

In accordance with the Group's accounting policies, the assets and liabilities arising from these swap agreements are translated into sterling at the spot rate ruling at the balance sheet date. The resulting exchange gains or losses are recognised in the statement of total recognised gains and losses (to match the exchange gains or losses on the net investments in the overseas subsidiaries).

The carrying amount of the swap agreements (as shown in note 21 b) i)) is the result of the exchange gains and losses recognised in the statement of total recognised gains and losses, and is analysed in the deferred gains and losses table shown below.

	Swap agreements		
	Gains £ million	**Losses £ million**	**Net £ million**
Deferred gains and losses			
Deferred gains and losses on hedges at 1 October 2003	23.4	(5.7)	17.7
Gains and losses on hedges maturing in 2004	(2.7)	5.7	3.0
Deferred gains and losses on hedges recognised in the statement of total recognised gains and losses in 2004	14.2	(7.0)	7.2
Deferred gains and losses on hedges at 30 September 2004	34.9	(7.0)	27.9

The unrecognised difference between the carrying amount and the fair value of the forward foreign exchange contracts and the swap agreements (as shown in note 21 b) i)) is analysed in the unrecognised gains and losses table below.

	Forward foreign exchange contracts		**Swap agreements**		
	Gains £ million	**Losses £ million**	**Gains £ million**	**Losses £ million**	**Net total £ million**
Unrecognised gains and losses					
Unrecognised gains and losses on hedges at 1 October 2003	6.9	(1.1)	18.9	(11.0)	13.7
Gains and losses arising in previous years that were recognised in 2004	(5.1)	0.7	(18.0)	0.6	(21.8)
Gains and losses arising before 2003 that were not recognised in 2004	1.8	(0.4)	0.9	(10.4)	(8.1)
Gains and losses arising in 2004 that were not recognised in 2004	6.6	(0.5)	0.3	(0.3)	6.1
Unrecognised gains and losses on hedges at 30 September 2004	8.4	(0.9)	1.2	(10.7)	(2.0)
Of which					
Gains and losses expected to be recognised in 2005	7.9	(0.7)	0.6	(0.5)	7.3
Gains and losses expected to be recognised in 2006 or later	0.5	(0.2)	0.6	(10.2)	(9.3)

c) *Currency exposures*

As outlined on page 50 in the financial review under the heading 'currency risk', it is the Group's policy to hedge against the potential impact on its profit and loss account of the currency gains and losses arising from monetary assets and liabilities not denominated in the operating or functional currency of the operating unit involved.

After taking account of the hedging transactions, there was no significant net profit and loss account exposure to currency gains and losses arising from monetary assets and liabilities at 30 September 2004.

d) Financial instruments

i) Financial assets

The interest rate and currency profile of the Group's financial assets (excluding short-term debtors) at 30 September 2004 is shown below. The categories of the Group's financial assets are shown in note 21 b) i).

	2004				2003			
	Floating rate financial assets £ million	**Fixed rate financial assets £ million**	**Financial assets on which no interest is received £ million**	**Total financial assets £ million**	**Floating rate financial assets £ million**	**Fixed rate financial assets £ million**	**Financial assets on which no interest is received £ million**	**Total financial assets £ million**
Sterling	81.0	–	2.3	83.3	14.7	–	2.3	17.0
US dollar	34.0	184.1	32.6	250.7	23.1	100.7	20.2	144.0
Australian dollar	16.1	–	–	16.1	3.0	–	–	3.0
South African rand	44.2	–	3.8	48.0	31.3	–	3.1	35.4
Japanese yen	2.6	–	–	2.6	0.8	–	–	0.8
Canadian dollar	1.7	–	–	1.7	0.2	–	–	0.2
Thai baht	5.1	–	0.7	5.8	4.7	–	0.8	5.5
Other	69.1	8.7	0.1	77.9	40.1	–	–	40.1
Total	253.8	192.8	39.5	486.1	118.9	100.7	26.4	246.0

	2004 Fixed rate financial assets		2003 Fixed rate financial assets	
	Weighted average interest rate %	**Weighted average period for which rate is fixed years**	**Weighted average interest rate %**	**Weighted average period for which rate is fixed years**
US dollar	8.2	3.5	7.2	4.5
Other	5.2	0.3	–	–

Financial assets on which no interest is received comprise £24.3 million (2003: £24.2 million) of non-redeemable equity instruments in other companies and £15.2 million (2003: £2.2 million) of loans to joint ventures and associates which have no fixed date of repayment.

The floating rate financial assets, which principally comprise cash and deposits, current asset investments and loans to joint ventures and associates, carry interest based on different benchmark rates depending on the currency of the balance.

The principal benchmark rates for floating rate financial assets are LIBOR for sterling balances, US LIBOR for US dollar balances, Australian bank bill rate for Australian dollar balances, South African prime rate for South African rand balances and Japanese yen LIBOR for Japanese yen balances.

ii) Financial liabilities

The interest rate and currency profile of the Group's financial liabilities including swaps (excluding short-term creditors) at 30 September 2004 is shown below. The categories of the Group's financial liabilities are shown in note 21 b) i).

	2004				2003			
	Floating rate financial liabilities £ million	Fixed rate financial liabilities £ million	Financial liabilities on which no interest is paid £ million	Total financial liabilities £ million	Floating rate financial liabilities £ million	Fixed rate financial liabilities £ million	Financial liabilities on which no interest is paid £ million	Total financial liabilities £ million
Sterling	(120.7)	296.8	2.5	178.6	(13.2)	300.2	4.0	291.0
US dollar	99.3	279.1	4.8	383.2	155.0	303.6	9.2	467.8
Australian dollar	92.0	0.1	–	92.1	97.6	1.1	–	98.7
South African rand	101.8	38.0	–	139.8	33.0	40.7	–	73.7
Japanese yen	5.0	151.7	0.7	157.4	75.4	163.3	0.8	239.5
Canadian dollar	18.9	22.8	–	41.7	33.9	22.3	0.9	57.1
Thai baht	–	54.9	10.9	65.8	11.0	58.3	13.0	82.3
Other	108.3	53.1	7.9	169.3	131.7	42.3	9.2	183.2
Total	304.6	896.5	26.8	1,227.9	524.4	931.8	37.1	1,493.3

	2004 Fixed rate financial liabilities		2003 Fixed rate financial liabilities	
	Weighted average interest rate %	Weighted average period for which rate is fixed years	Weighted average interest rate %	Weighted average period for which rate is fixed years
Sterling	9.2	11.9	8.3	12.9
US dollar	5.8	2.0	5.8	3.0
Australian dollar	5.7	1.8	6.2	3.0
South African rand	12.8	3.3	12.2	4.9
Japanese yen	0.9	1.9	0.9	2.9
Canadian dollar	4.7	4.0	4.7	1.0
Thai baht	3.7	1.4	3.9	1.8
Other	6.0	2.6	6.9	3.0

The floating rate financial liabilities principally comprise debt which carries interest based on different benchmark rates depending on the currency of the balance.

The principal benchmark rates for floating rate financial liabilities are LIBOR for sterling balances, US LIBOR for US dollar balances, Australian bank bill rate for Australian dollar balances, South African prime rate for South African rand balances and Japanese yen LIBOR for Japanese yen balances.

The maturity profile of borrowings is set out in note 20 b). Floating rate financial liabilities other than borrowings are mainly employee incentive provisions. These are expected to be utilised over the period to 2011 depending on the future choices of the relevant employees. Financial liabilities on which no interest is paid principally relate to creditors due after more than one year. The majority of the amount relates to deposits for cylinder rentals. It is not anticipated that this balance will reduce significantly in the short to medium term. The remaining balances falling due after more than one year are expected to be paid or utilised by 2009.

22. Provisions for liabilities and charges

	Deferred tax	Other provisions				
	£ million	Incentive and other employee provisions £ million	Uninsured losses £ million	Environmental £ million	Other £ million	Total £ million
At 1 October 2003	279.2	26.1	21.8	19.7	29.8	97.4
Exchange adjustment	(4.1)	(1.7)	(1.7)	(1.6)	(0.8)	(5.8)
Provided in the year	–	3.9	0.8	6.0	10.3	21.0
Released in the year	(14.8)	–	–	–	(1.2)	(1.2)
Utilised in the year	–	(5.9)	(0.2)	(4.8)	(9.9)	(20.8)
Acquisitions/(disposals) of businesses	–	–	–	3.1	–	3.1
Other movements[1]	(7.3)	(1.2)	–	–	(0.3)	(1.5)
At 30 September 2004	253.0	21.2	20.7	22.4	27.9	92.2

1) The other movements in deferred tax relate mainly to the net profit and loss charge on pensions which, for balance sheet purposes, is included within the corresponding net pension asset/(liability) in accordance with FRS17.

Incentive and other employee provisions include long-term share incentive units and deferred compensation plans. Note 7 contains further details of the long-term share incentive units.

Provision for uninsured losses covers third party liabilities or claims. Due to the time frame that is often involved in such claims, a significant part of this provision is subject to actuarial valuation. Where this is not appropriate, other external assessments are used.

Environmental provisions have been set aside to cover the costs of remediation for a number of hazardous waste sites. The costs are expected to be incurred between 2005 and 2030. Due to the period over which this expenditure is likely to be incurred, the provision has been discounted at a rate of four per cent The effect of discounting is £8 million. Management expects that payments will be approximately £4 million each year for the next five years and £10 million in total thereafter.

Other provisions are principally for warranty and legal costs.

Further information on deferred tax is disclosed in note 4.

23. Share capital

i) Analysis at 30 September

	Number of shares			
	2004 million	2003 million	2004 £ million	2003 £ million
Equity capital:				
Issued capital – Ordinary shares of 25p each, called up and fully paid	498.8	497.7	124.7	124.4
Unissued capital – unclassified shares of 25p each	91.2	92.3	22.8	23.1
Authorised			147.5	147.5

ii) Share issues

	Number million
Issues of Ordinary shares of 25p each during the year were:	
Under the savings related share option scheme	0.7
Under the senior executives share option scheme	0.4

24. Reserves

a) Group

	Share premium account £ million	Revaluation reserves £ million	Profit and loss account £ million	Pensions' reserves £ million	Joint ventures' reserves £ million	Associates' reserves £ million	Own shares £ million	Total £ million
At 1 October 2003 – previously reported	366.0	30.8	1,198.4	(291.1)	273.3	33.0	–	1,610.4
Prior year adjustment (see note 31)	–	–	0.7	–	–	–	(48.8)	(48.1)
At 1 October 2003 – restated	366.0	30.8	1,199.1	(291.1)	273.3	33.0	(48.8)	1,562.3
Total recognised gains and losses for the year	–	(0.7)	198.9	–	(35.3)	(7.0)	–	155.9
Transfers in relation to pensions	–	–	(37.5)	37.5	–	–	–	–
Reversal of goodwill on disposal of a business	–	–	15.3	–	–	–	–	15.3
Consideration received for the sale of own shares held in an ESOP trust	–	–	–	–	–	–	2.5	2.5
Credit in respect of employee share schemes	–	–	3.5	–	–	–	–	3.5
Dividends	–	–	(197.3)	–	–	–	–	(197.3)
Premium on share issues (net)	8.9	–	(0.5)	–	–	–	–	8.4
At 30 September 2004	374.9	30.1	1,181.5	(253.6)	238.0	26.0	(46.3)	1,550.6

i) The undistributed profits of Group undertakings may be liable to overseas and/or UK tax (after allowing for double tax relief) if distributed as dividends. There are no material exchange control restrictions on the remittance of funds to the UK.

ii) Goodwill written off against reserves in respect of continuing businesses acquired prior to 30 September 1998 amounts to £154.0 million (2003: £178.3 million). The decrease in the year principally reflects the disposal of the US packaged gas business and movements in exchange rates.

iii) In accordance with the Group's accounting policy, exchange gains (net of losses) on net borrowings credited to reserves in the year amounted to £59.7 million (2003: £20.4 million charge).

iv) There are no non-equity shareholders' interests in the share capital and reserves of the Group.

v) The amount of the pensions' reserves is equivalent to the net pensions liabilities (see note 8) adjusted for current tax of £22.0 million (2003: £nil, 2002: £nil).

vi) Own shares.

The application of UITF38: Accounting for ESOP trusts has required the investment in own shares to be reclassified in the balance sheet as a deduction in arriving at shareholders' funds (see note 31).

At 30 September 2004, 5.0 million shares in the company were held pending the exercise of share options. Based on the company's share price at 30 September 2004 of 884p, the market value of own shares held was £44.3 million. This compares with the acquisition cost above. The amount paid for the shares reduces profit available for distribution.

Information on share option schemes appears in the report on remuneration and in notes 7 and 23.

b) Parent company

	Share premium account £ million	Other reserves £ million	Profit and loss account £ million	Own shares £ million	Total £ million
At 1 October 2003 – previously reported	366.0	336.4	853.3	–	1,555.7
Prior year adjustment (see note 31)	–	–	0.7	(43.2)	(42.5)
At 1 October 2003 – restated	366.0	336.4	854.0	(43.2)	1,513.2
Profit for the financial year	–	–	11.4	–	11.4
Dividends	–	–	(197.4)	–	(197.4)
Premium on share issues (net)	8.9	–	(0.5)	–	8.4
Credit in respect of employee share schemes	–	–	3.5	–	3.5
Net increase in investment in own shares	–	–	–	(2.6)	(2.6)
At 30 September 2004	374.9	336.4	671.0	(45.8)	1,336.5

The premium on share issues represents amounts paid to The BOC Group plc for the issue of shares under the Group's share option schemes. Employees paid £8.4 million. The Group paid the balance of £0.5 million to a qualifying employee share ownership trust (Quest).

25. Financial commitments

a) Annual operating lease commitments

	2004		2003	
	Property leases £ million	Other operating leases £ million	Property leases £ million	Other operating leases £ million
On leases expiring:				
Within one year	2.1	2.1	2.3	3.3
Between one and two years	2.2	5.6	1.8	5.6
Between two and five years	5.4	11.0	6.3	10.7
Over five years	14.9	3.2	16.5	8.9
	24.6	21.9	26.9	28.5

	Operating leases £ million
Rentals are due under operating leases from 1 October 2004 to completion as follows	
Year to 30 September 2005	46.5
Year to 30 September 2006	39.4
Year to 30 September 2007	31.6
Year to 30 September 2008	26.0
Year to 30 September 2009	23.2
Thereafter	115.3
	282.0

b) Other commitments

The Group is committed to make future purchases under take-or-pay contracts. Obligations under such contracts in effect at 30 September 2004 are as follows:

Year ending 30 September	£ million
2005	57.9
2006	66.3
2007	65.0
2008	65.8
2009	60.5
Thereafter	418.8
	734.3

For the year ended 30 September 2004 total purchases made relating to these contracts amounted to £55.0 million (2003: £65.8 million, 2002: £58.2 million).

26. Contingent liabilities and legal proceedings

a) Contingent liabilities

	Group		Parent	
	2004 £ million	2003 £ million	2004 £ million	2003 £ million
Guarantees of joint ventures' borrowings	8.9	2.8	8.9	2.8
Guarantees of subsidiaries' borrowings	–	–	289.5	387.6
Other guarantees	32.9	24.0	18.0	10.5
	41.8	26.8	316.4	400.9

b) Legal proceedings

Group companies are parties to various legal proceedings, including some in which claims for damages in large amounts have been asserted.

The outcome of litigation to which Group companies are party cannot be readily foreseen, but the directors believe that such litigation should be disposed of without material adverse effect on the Group's financial condition or profitability.

Welding fumes litigation

A US subsidiary of the Group, The BOC Group, Inc., has been named in US lawsuits alleging injury from exposure to welding fumes. Certain of these cases have been either filed in, or transferred for pre-trial purposes to, the federal district court in the Northern District of Ohio, where a multi-district litigation (MDL) proceeding has been commenced. The MDL proceeding is a vehicle for coordinating pre-trial proceedings in cases pending in different federal district courts in the US. It is currently contemplated that the MDL court will try three cases during the MDL proceeding. The first such case is currently scheduled for mid 2005. In addition to the cases in federal court, The BOC Group, Inc. is a defendant in a number of similar cases pending in state courts. These cases are in different stages of procedural development, and certain cases are scheduled for trial from time to time.

From the time Airco was purchased in 1978 until 2003 The BOC Group, Inc. had never had an adverse jury verdict returned against it in a case alleging injury from exposure to welding fumes. On 28 October 2003, a jury in Madison County, Illinois, rendered a verdict against The BOC Group, Inc. and two co-defendants. The jury awarded US$ 1 million to Mr Elam, a former labourer who asserted that his idiopathic Parkinson's disease was attributable to his exposure to welding fumes over a period of years. BOC believes that the verdict is inconsistent with the decisions rendered by juries in previous cases, is not supported by the existing scientific evidence and is pursuing an appeal in the Illinois court system. On 12 May 2004 a jury in Philadelphia County, Pennsylvania, returned a verdict against The BOC Group, Inc. and one co-defendant. The jury awarded Mr Yencho, who alleged that his injury was caused by exposure to asbestos welding rods, US$525,000, to be divided between the defendants. BOC believes that the jury verdict is inconsistent with the evidence introduced at trial and believes that there are strong grounds for a successful posttrial motion and, if necessary, an appeal.

The BOC Group, Inc. believes that it has strong defences to the claims asserted in these various proceedings related to alleged injury from exposure to welding fumes and intends to defend vigorously such claims. Based on its experience to date, together with its current assessment of the merits of the claims being asserted and applicable insurance, BOC believes that continued defence and resolution of these proceedings will not have a material adverse effect on its financial condition or profitability and no provision has been made.

The welding electrodes business was sold in 1986 and the sale of the US packaged gas business, including the operations involved in distributing packaged gases and welding equipment, was completed in July 2004.

Fluorogas litigation

In February 2003, the company was notified that a jury verdict in the US District Court for the Western District of Texas (the District Court) was obtained for US$132 million against Fluorogas limited, The BOC Group, Inc. and The BOC Group plc. The verdict arose primarily out of an alleged breach of a memorandum of understanding by Fluorogas Limited before it was acquired by The BOC Group plc in September 2001. In March 2003, the court also awarded interest and costs against the defendants, making them jointly and severally liable for a total of US$174 million. A bond for the full amount was posted with the District Court as part of the normal appeals process.

In August 2004, the appellate court reversed the entire judgement against the BOC entities and all but US$170,000 in reliance damages against Fluorogas Limited. In addition, the appellate court remanded for reconsideration by the District Court an award of attorneys fees on the US$170,000 recovery.

Fluorogas Limited was placed in administration under the Insolvency Act of 1986 pursuant to an order of an English Court. It is expected to remain in administration until the conclusion of the remand proceedings in the District Court.

ER/SA litigation

An action was filed in the US District Court for the Southern District of Illinois (the District Court) against The BOC Group Cash Balance Retirement Plan (the Plan). The plaintiffs brought this action on behalf of themselves and all others similarly affected, alleging that the Plan improperly calculated lump sum distributions from the Plan in violation of the Employee Retirement Income Security Act.

In November 2003, the parties reached an agreement to settle at US$69 million (£43.2 million). The settlement was approved by the District Court at a fairness hearing on 12 March 2004.

27. Cash flow

a) Net cash inflow from operating activities

	Notes	2004 £ million	2003 £ million	2002 £ million
Total operating profit before exceptional items		576.9	505.6	500.1
Depreciation and amortisation		324.0	333.4	330.9
Net retirement benefits charge less contributions		(15.9)	5.6	49.9
Operating profit before exceptional items of joint ventures		(99.4)	(86.8)	(63.8)
Operating profit before exceptional items of associates		(13.1)	(11.4)	(10.7)
Change in stocks		(25.0)	(16.6)	13.7
Change in debtors		(35.1)	2.5	(38.4)
Change in creditors		44.0	10.8	57.3
Exceptional cash flows		(11.9)	(28.3)	(67.3)
Other		14.0	(14.7)	(12.4)
Net cash inflow from operating activities		758.5	700.1	759.3

b) Reconciliation of net cash flow to movement in net debt

	Notes	2004 £ million	2003 £ million	2002 £ million
(Increase)/decrease in cash		(150.1)	102.5	(21.4)
(Decrease)/increase in debt	27(d)	(180.7)	(128.7)	64.1
(Increase)/decrease in liquid resources		(20.8)	16.2	52.6
Change in net debt resulting from cash flows		(351.6)	(10.0)	95.3
Net borrowings assumed at acquisition		4.7	0.8	0.5
Net liquid resources eliminated on disposal		–	31.0	–
Inception of finance leases		0.2	–	0.4
Exchange adjustment		(59.0)	20.7	(42.7)
Movement in net debt in the year		(405.7)	42.5	53.5
Net debt at 1 October		1,368.1	1,325.6	1,271.1
Net debt at 30 September		962.4	1,368.1	1,325.6

c) Analysis of net debt

	At 1 October 2003 £ million	Cash flow £ million	Acquisitions/ disposals (excluding cash and overdrafts) £ million	Other non-cash changes £ million	Exchange adjustment £ million	At 30 September 2004 £ million
Cash at bank and in hand due within one year	77.5	153.5	–	–	(2.8)	228.2
Borrowings and finance leases due within one year	(360.9)	230.6	(4.6)	(146.1)	18.9	(262.1)
Borrowings and finance leases due beyond one year	(1,084.7)	(32.5)	(0.1)	145.9	42.9	(928.5)
Net borrowings and finance leases	(1,368.1)	351.6	(4.7)	(0.2)	59.0	(962.4)

d) (Decrease)/increase in debt

	2004 £ million	2003 £ million	2002 £ million
6.75% Bonds 2004	(125.0)	–	–
6¼% Notes 2002	–	(38.2)	–
5⅞% Bonds 2009	–	–	200.0
7¼% Notes 2002	–	–	(150.0)
Medium-term notes	74.8	93.7	59.7
European Investment Bank loans	–	(72.4)	(5.0)
Pollution Control and Industrial Bonds	–	–	(18.5)
(Repayment)/net issues of commercial paper	(42.6)	(90.7)	59.5
Other (net)	(87.9)	(21.1)	(81.6)
(Decrease)/increase in debt	(180.7)	(128.7)	64.1

28. Acquisitions and disposals

a) Cash flow

	2004		2003		2002	
	Acquisitions £ million	Disposals £ million	Acquisitions £ million	Disposals £ million	Acquisitions £ million	Disposals £ million
Cash flow arising on the acquisition and disposal of businesses						
Goodwill	–	4.6	–	–	–	–
Intangible fixed assets	–	–	(2.4)	–	(0.5)	0.2
Tangible fixed assets	(3.7)	102.3	(61.5)	0.8	(85.7)	1.3
Joint ventures, associates and other investments	(80.6)	10.2	(4.8)	1.1	(12.4)	0.2
Stocks	(0.5)	16.2	(2.7)	0.1	(20.9)	2.4
Debtors	(5.3)	25.2	(15.3)	0.1	(37.5)	0.7
Cash at bank and in hand	(2.8)	–	–	0.2	(13.5)	–
Creditors including taxation	2.5	3.8	7.8	(0.1)	55.7	(1.2)
Borrowings	4.7	–	0.8	–	21.4	–
Minorities	(0.8)	0.2	(2.2)	0.3	(8.6)	7.8
Net assets (acquired)/disposed of	(86.5)	162.5	(80.3)	2.5	(102.0)	11.4
Goodwill on acquisitions of subsidiaries[1]	(2.9)	–	(46.7)	–	(112.3)	
Goodwill on acquisitions of joint ventures and associates	41.5	–	(8.0)	–	–	–
Goodwill in reserves written off on disposals	–	15.3	–	–	–	–
(Deficits)/surplus over book value on disposals	–	(79.5)	–	(0.7)	–	2.5
(Acquisition)/disposal price	(47.9)	98.3	(135.0)	1.8	(214.3)	13.9
Deferred (payments)/receipts[2]	(3.0)	–	(0.5)	2.1	7.0	(3.3)
	(50.9)	98.3	(135.5)	3.9	(207.3)	10.6

1) Goodwill on acquisition of subsidiaries comprises £3.9 million in respect of acquisitions in 2004 and an adjustment of £1.0 million relating to prior year acquisitions See note 11a).

2) Deferred payments and receipts include amounts for current years and payments and/or receipts in respect of prior years.

In September 2004, BOC acquired an additional 30 per cent ownership interest in Compania de Nitrogeno de Cantarell (CNC) from Duke Energy, increasing BOC's overall stake in CNC to 65 per cent. This followed a decision by Duke Energy that a sale of their interest was more in line with their long-term strategy. BOC continues to account for CNC as a joint venture as, in accordance with UK GAAP FRS9 (Associates and joint ventures), it is a company jointly controlled by BOC and another party.

On 30 July 2004 BOC completed the sale of its US packaged gas business to Airgas Inc. In February 2004 BOC disposed of its 50 per cent holding in Birlesik Oksijen Sanayi (Turkey). These disposals affected the ISP business segment.

b) Fair value of acquisitions

	CNC book value £ million	Other book value £ million	Total book value of businesses acquired £ million
Tangible fixed assets	–	(3.7)	(3.7)
joint ventures, associates and other investments	(74.1)	(6.5)	(80.6)
Stocks	–	(0.5)	(0.5)
Debtors	–	(5.3)	(5.3)
Cash at bank and in hand	–	(2.8)	(2.8)
Creditors including taxation	–	2.5	2.5
Borrowings	–	4.7	4.7
Minorities	–	(0.8)	(0.8)
Net (assets) acquired	(74.1)	(12.4)	(86.5)
Payment	32.6	18.3	50.9
Deferred payment	–	(3.0)	(3.0)
Consideration	32.6	15.3	47.9
Goodwill on acquisitions of subsidiaries	–	(2.9)	(2.9)
Goodwill on acquisitions of joint ventures and associates	41.5	–	41.5
	74.1	12.4	86.5

Provisionally there were no fair value adjustments in 2004.

The fair value of acquisitions in 2003 were:

	EMC Water Services book value £ million	Praxair Polska book value £ million	Air Products Canada packaged gases business book value £ million	Other book value £ million	Total book value of businesses acquired £ million	Total adjustments £ million	Total fair value of businesses acquired £ million
Intangible assets	–	–	–	(2.4)	(2.4)	–	(2.4)
Tangible fixed assets	(0.6)	(17.1)	(13.3)	(24.6)	(55.6)	(5.9)	(61.5)
Joint ventures, associates and other investments	–	–	–	(4.8)	(4.8)	–	(4.8)
Stocks	–	(0.6)	(1.9)	(0.2)	(2.7)	–	(2.7)
Debtors	(3.9)	(3.4)	(6.0)	(2.0)	(15.3)	–	(15.3)
Creditors including taxation	3.8	2.0	0.6	1.4	7.8	–	7.8
Borrowings	0.1	–	–	0.7	0.8	–	0.8
Minorities	–	–	–	(2.2)	(2.2)	–	(2.2)
Net (assets) acquired	(0.6)	(19.1)	(20.6)	(34.1)	(74.4)	(5.9)	(80.3)
Payment	31.1	29.2	25.6	49.6	135.5	–	135.5
Deferred payment	1.0	–	0.9	(2.4)	(0.5)	–	(0.5)
Consideration	32.1	29.2	26.5	47.2	135.0	–	135.0
Goodwill on acquisitions of subsidiaries	(31.5)	(10.1)	–	(5.1)	(46.7)	–	(46.7)
Goodwill on acquisitions of joint ventures and associates	–	–	–	(8.0)	(8.0)	–	(8.0)
	0.6	19.1	26.5	34.1	80.3	–	80.3

The fair value adjustments were all in respect of the acquisition of the Canadian packaged gases business of Air Products.

The fair value of acquisitions in 2002 were:

	Smiths Group book value £ million	Unique Gas and Petrochemicals Public Company Ltd book value £ million	Seiko Instruments Inc book value £ million	Other book value £ million	Total book value of businesses acquired £ million	Total adjustments £ million	Total fair value of businesses acquired £ million
Intangible assets	–	–	(0.5)	–	(0.5)	–	(0.5)
Tangible fixed assets	(9.0)	(25.3)	(2.9)	(44.9)	(82.1)	(3.6)	(85.7)
Joint ventures, associates and other investments	–	(0.6)	(0.1)	(12.3)	(13.0)	0.6	(12.4)
Stocks	(11.5)	(1.5)	(9.2)	(3.8)	(26.0)	5.1	(20.9)
Debtors	(12.6)	(9.7)	(4.6)	(11.1)	(38.0)	0.5	(37.5)
Cash at bank and in hand	–	(11.7)	(1.3)	(0.5)	(13.5)	–	(13.5)
Creditors including taxation	12.4	35.8	3.8	9.2	61.2	(5.5)	55.7
Borrowings	7.7	0.3	0.1	13.3	21.4	–	21.4
Minorities	–	0.2	–	(8.8)	(8.6)	–	(8.6)
Net (assets) acquired	(13.0)	(12.5)	(14.7)	(58.9)	(99.1)	(2.9)	(102.0)
Payment	6.6	39.7	72.1	88.9	207.3		207.3
Deferred payment	–	–	2.4	4.6	7.0	–	7.0
Considerations	6.6	39.7	74.5	93.5	214.3	–	214.3
Goodwill on acquisitions of subsidiaries	–	(17.5)	(60.2)	(34.6)	(112.3)	–	(112.3)
	6.6	22.2	14.3	58.9	102.0	–	102.0

The following fair value adjustments were made in 2003 to the book value of the assets and liabilities of the businesses acquired in 2002:

	Smiths Group £ million	Unique Gas and Petrochemicals Public Company Ltd £ million	Seiko Instruments Inc £ million	Total adjustments £ million
Valuations				
Tangible fixed assets	–	(0.6)	–	(0.6)
Joint ventures, associates and other investments	–	0.6	–	0.6
Alignment of accounting policies				
Tangible fixed assets	1.5	(4.5)	–	(3.0)
Stocks	4.8	–	0.3	5.1
Debtors	0.1	0.4	–	0.5
Taxation	–	2.2	–	2.2
Other				
Creditors	–	(7.8)	0.1	(7.7)
	6.4	(9.7)	0.4	(2.9)

c) *Exchange of business*

In January 2003, the Group combined its Japanese gases business Osaka Sanso Kogyo KK (OSK) with part of Air Liquide Japan to form Japan Air Gases Ltd. The net effect of the transaction was to exchange 55 per cent of the OSK business for a 45 per cent equity share in Japan Air Gases Ltd. This transaction was accounted for in accordance with UK GAAP (UITF31 — 'Exchange of businesses or other non-monetary assets for an interest in a subsidiary, joint venture or associate').

The unrealised profit of £8.2 million on the disposal of OSK was recognised in the statement of total recognised gains and losses.

	Total book value of business disposed £ million
Value of assets disposed	
Tangible fixed assets	169.3
Joint ventures, associates and other investments	3.0
Stocks	10.3
Debtors	69.2
Net liquid resources	30.9
Creditors including taxation	(86.5)
Minorities	(3.1)
	193.1
Adjustment to reflect retention of 45 per cent share	(86.9)
Net assets disposed	106.2

	Air Liquide Japan assets contributed book value £ million	Valuation adjustments £ million	Air Liquide Japan assets contributed at fair value £ million	OSK assets contributed at fair value £ million	Total fair value of combined business £ million
Value of assets acquired					
Tangible fixed assets	185.0	40.8	225.8	169.3	395.1
Joint ventures, associates and other investments	10.7	–	10.7	3.0	13.7
Stocks	19.4	–	19.4	10.3	29.7
Debtors	141.6	–	141.6	69.2	210.8
Net (borrowings)/liquid resources	(37.9)	–	(37.9)	30.9	(7.0)
Creditors including taxation	(129.0)	0.2	(128.8)	(86.5)	(215.3)
Minorities	(9.2)	–	(9.2)	(3.1)	(12.3)
	180.6	41.0	221.6	193.1	414.7
BOC Group share of assets (45 per cent)					186.6
Value of OSK retained by the Group (45 per cent)					(86.9)
Fair value of assets acquired					99.7

The following fair value adjustments were made to the book value of the assets and liabilities of the Air Liquide Japan business acquired:

	Total adjustments £ million
Valuations	
Tangible fixed assets	40.8
Provisions	9.3
Alignment of accounting polices	
Pension liabilities	(9.1)
	41.0

	£ million
Unrealised gain on disposal	
Consideration, fair value of assets acquired	99.7
Net assets disposed	(106.2)
	(6.5)
Negative goodwill credited on disposal of a subsidiary	14.7
Unrealised profit on disposal of a subsidiary	8.2

29. Related party transactions

During the year, interest income of £7.3 million (2003: £7.6 million, 2002: £8.3 million) was received from the Cantarell joint venture in Mexico. The Group had no other material related party transactions that might reasonably be expected to influence decisions made by the users of these accounts.

30. US accounting information

a) *Summary of differences between UK and US generally accepted accounting principles and other US accounting information*

The financial statements of The BOC Group plc are prepared in accordance with accounting principles generally accepted in the UK (UK GAAP), which differ in certain significant respects from accounting principles generally accepted in the US (US GAAP).

Set out below is a summary of the more significant adjustments which would be required if US GAAP had been applied, together with reconciliations of net profit, other comprehensive income and shareholders' funds from a UK GAAP to a US GAAP basis. Also presented on a US GAAP basis are a movement in shareholders' funds, a consolidated cash flow statement, information on earnings per share, information on stock based compensation and details of recently issued US accounting pronouncements.

Goodwill and other intangible assets

Under UK GAAP, goodwill arising on acquisitions before 1998 accounted for under the purchase method has been eliminated against shareholders' funds. Additionally, UK GAAP requires that on subsequent disposal or closure of a business, any goodwill previously taken directly to shareholders' funds is then charged against income. The Group adopted FRS 10 in 1999, which requires goodwill on subsequent acquisitions to be capitalised and amortised over a period not exceeding 20 years.

Under US GAAP, following the adoption of SFAS 142 (Goodwill and other Intangible Assets), which was effective for the Group from 1 October 2002, goodwill continues to be capitalised although amortisation is no longer charged to the income statement. Instead, an annual impairment test is carried out, with any identified impairment loss recorded in the income statement. Other intangible assets with a finite life continue to be amortised under both UK and US GAAP. UK GAAP is highly prescriptive with regard to the recognition of intangible assets, although US GAAP rules result in the recognition of a greater amount of intangible assets. Therefore, differences arise in the classification of some intangible assets and goodwill between UK and US GAAP. Amortisation that has been charged against goodwill under UK GAAP is added back in the reconciliation to net income on a US GAAP basis.

The average life of other intangible assets is ten years and the annual amortisation charge under US GAAP is expected to be approximately £1 million.

Impairment of goodwill

Under UK GAAP, goodwill impairment reviews are carried out at the end of the first financial year following an acquisition, and also when an indicator of impairment exists. The impairment is measured by comparing the carrying value of the goodwill with the higher of the net realisable value and the value in use.

Under US GAAP, goodwill impairment reviews are also conducted when an indicator of impairment exists, in addition to an annual goodwill impairment test, as required by SFAS 142. The impairment is measured by comparing the carrying value of a reporting unit to its fair value. Where the carrying value is greater than the fair value, the impairment loss is based on the excess of the carrying value of goodwill in the reporting unit over the implied fair value of the goodwill.

Profit or loss on the partial disposal of Group companies

Under UK GAAP (UITF 31), gains on the partial disposal of Group companies involving non-monetary consideration are recorded in the statement of total recognised gains and losses. Under US GAAP such gains and losses are recorded in the income statement.

Deferred tax

The Group adopted FRS 19 (Deferred tax) in 2002 for UK GAAP purposes. This requires that full provision for deferred tax is recognised in the financial statements. The adoption of FRS 19 has eliminated most of the differences that previously existed between UK GAAP and US GAAP in the accounting for deferred tax. As a result, the tax adjustment now primarily relates to the deferred tax effect of other US GAAP adjustments.

Revaluation of fixed assets

UK GAAP allowed for the periodic revaluation of land and buildings with depreciation then being calculated on the revalued amount. Any surplus or deficit (to the extent that the revaluation reserve was in surplus) on the revaluation was then taken directly to shareholders' funds. With the Group's adoption of FRS 15 in 2000, the Group no longer revalues fixed assets. Under US GAAP, revaluations of fixed assets are not permitted and, as a result, the reconciliation restates fixed assets to historical cost. The depreciation charge and any write downs of previously revalued assets are adjusted accordingly.

Impairment of tangible fixed assets

Under UK GAAP, a tangible fixed asset is reviewed for impairment if an indication exists that the asset may be impaired. If necessary, an impairment loss is recorded. A value in use calculation is carried out, based on discounted pre-tax future cash flows from the asset (or income generating unit to which the asset belongs).

Under US GAAP, a preliminary review of the tangible fixed asset is carried out using undiscounted future cash flaws. If the undiscounted future cash flows are less than the asset's carrying value, an impairment loss is required. The impairment loss will be calculated using discounted future cash flows, or the asset's market value.

Under US GAAP, the reversal of previously recognised impairment losses is not permitted.

Restructuring costs

Under UK GAAP, when a decision has been taken to restructure, supported by a detailed formal plan and the creation of a valid expectation in those affected that the restructuring will take place, the necessary provisions are made for impairment of asset values together with severance and other costs.

Under US GAAP (SFAS 146), the requirements for charging restructuring costs to income are more prescriptive and all significant actions arising from the restructuring plan and their completion dates must be identified by the balance sheet date.

Pensions

For UK GAAP reporting (FRS 17 — Retirement benefits), the pension asset or liability in the balance sheet represents the difference between the market value of pension scheme assets at the balance sheet date and the present value of pension scheme liabilities at that date, net of deferred tax.

Under US GAAP (SFAS 87), plan assets are valued by reference to market-related value at the date of the financial statements. Liabilities are assessed using the rate of return obtainable on fixed or inflation-linked bonds.

FRS 17 requires that past service costs are recognised in full in the period in which they become vested. SFAS 87 requires past service costs to be amortised over the remaining service lives of the employees to whom the amendments relate.

There is a significant difference in the treatment of actuarial gains and losses arising during the accounting period. UK GAAP recognises the actuarial gains and losses in full in the year in which they arise in the statement of total recognised gains and losses. Under US GAAP, the actuarial gains and losses which exceed ten per cent of the value of the assets or liabilities at the start of the accounting period are amortised over the remaining service lives of scheme members.

Where an additional minimum liability exists under US GAAP, (ie where the amount provided for any scheme does not cover the unfunded accumulated benefit obligation for that scheme), this must be recognised in the balance sheet under SFAS 87. The adjustment resulting from the recognition of an additional minimum liability is reported as an intangible asset to the extent of the unrecognised prior service cost, after eliminating amounts previously shown as a prepaid benefit cost. Any excess above these amounts is reported in comprehensive income.

Post retirement medical costs

For UK GAAP reporting (FRS 17 — Retirement benefits), the post retirement medical liability is discounted using the bond yield on suitable high quality corporate bonds, and disclosed net of related deferred tax.

For US GAAP (SFAS 106), the liabilities are assessed and discounted using the rates of return obtainable on high quality fixed income investments.

Differences between the UK and US GAAP figures arise largely from the treatment of actuarial gains and losses.

Securities investments

Under UK GAAP, current asset investments (of all types) are stated at the lower of cost and net realisable value. Fixed asset investments are stated at cost, or alternatively, at market value or at directors' valuation.

Under US GAAP, securities which are determined to be 'available-for-sale' are stated at fair value and any unrealised gains or losses included as a separate component of shareholders' funds. The deferred tax consequences of unrealised gains or losses are also charged or credited to shareholders' funds.

Contingent consideration

Under UK GAAP, contingent consideration is provided for as a liability when the likelihood of payment is considered to be probable.

Under US GAAP, contingent consideration is not recognised until the liability is determined beyond reasonable doubt. The elimination of contingent consideration for US GAAP purposes also impacts on the value of goodwill arising on acquisitions, therefore there is no net impact on shareholders' funds.

Financial instruments

The Group enters into a number of currency swaps, interest rate swaps and forward foreign exchange contracts to hedge its exposure to currency and interest rate risks. Under UK GAAP, such instruments are shown at their carrying value.

Under US GAAP, these instruments are marked to market and any change in value is recognised in either the income statement or through comprehensive income in accordance with SFAS 133 depending on whether a derivative is designated as part of a hedge transaction, and if it is, the type of hedge transaction.

Accounting for swaps

Under UK GAAP, gains or losses on closing out interest rate swap contracts taken to hedge the Group's fixed/floating interest rate position can be taken to profit immediately.

US GAAP requires any gain or loss to be deferred over the remaining hedge period.

Share of results and net assets of joint ventures and associates

The Group's share of the results and net assets of its joint ventures and associates (as calculated under UK GAAP) is shown within fixed asset investments. For the purposes of the reconciliations set out below, the

Group's share of the results and net assets of its joint ventures and associates has been adjusted to recognise a difference in the method of reporting profits under US GAAP.

Sale and leaseback transactions

Under UK GAAP, any profit or loss on the sale and operating leaseback of fixed assets can generally be taken to profit immediately.

US GAAP requires any gain or loss to be deferred over the contract lease period.

Comprehensive income

Under US GAAP SFAS 130 establishes requirements for the reporting of comprehensive income and its components (revenue, expenses, gains and losses) in a full set of general purpose financial statements. Components of comprehensive income for the Group determined on a UK GAAP basis include profit for the financial year, pension actuarial gains and losses, and foreign currency translation gains and losses. Information regarding the Group's foreign currency translation gains and losses is included in the statement of total recognised gains and losses under UK GAAP on page 81.

b) Income statement in US GAAP format

The Group profit and loss account on page 78 complies with UK GAAP. For SEC reporting purposes this presentation would be considered 'non GAAP' and therefore disclosed below is the income statement which meets the SEC reporting format set forth in Item 10 of Regulation S-X. The financial numbers disclosed within the income statement are prepared under UK GAAP.

	2004 £ million	2003 £ million	2002 £ million
Revenue	3,885.4	3,718.3	3,657.7
Operating expenses			
Payroll costs	(1,015.6)	(1,037.8)	(957.9)
Depreciation and amortisation	(324.0)	(333.4)	(330.9)
Other operating expenses	(2,060.9)	(1,908.5)	(1,963.5)
Total operating expenses	(3,400.5)	(3,279.7)	(3,252.3)
Net operating income	484.9	438.6	405.4
Other income, net	15.8	9.4	33.0
Net interest expense	(88.4)	(96.1)	(103.1)
Income taxes	(101.7)	(96.4)	(106.2)
Minority interests	(46.6)	(36.4)	(26.2)
Net income	264.0	219.1	202.9
Earnings per share – basic	53.5p	44.5p	41.4p
Earnings per share – diluted	53.5p	44.5p	41.2p

c) Reconciliation of net profit

	2004 £ million	2003 £ million	2002 £ million
Years ended 30 September			
Net profit as reported in the Group profit and loss account under UK GAAP	264.0	219.1	202.9
Pensions	7.5	62.5	35.4
Post retirement medical costs	(2.4)	–	0.3
Revaluations realised on asset disposals	–	1.1	5.8
Write-down of previously revalued assets	–	–	20.5
Depreciation of revalued fixed assets	0.2	0.1	0.7
Amortisation of goodwill previously charged to reserves	–	–	(7.2)
Non-amortisation of goodwill under SFAS142	14.0	13.9	3.5
Amortisation of other intangibles	(0.5)	(0.5)	–
Unrealised profit on disposal of subsidiary	–	8.2	–
Other adjustments on profit on disposal of subsidiary	–	(20.7)	–
Share of results of joint ventures and associates	0.3	0.6	–
Interest rate swaps	1.6	1.7	1.9
Financial instruments	(15.7)	(2.8)	19.5
Adjustment on disposal of the US packaged gas business	39.9	–	–
ESOPs and other share options	3.5	1.7	(3.4)
Sale and leaseback	0.1	0.1	0.2
Taxation effect of above adjustments	(14.8)	(20.7)	(24.7)
Net income under US GAAP	297.7	264.3	255.4

All net income arose from continuing operations.

	2004 £ million	2003 £ million	2002 £ million
Average number of 25p Ordinary shares			
Basic	493.0	492.5	490.4
Diluted	493.8	492.7	492.2

	2004 pence	2003 pence	2002 pence
Earnings per share			
Basic	60.4	53.7	52.1
Diluted	60.3	53.6	51.9

d) Reconciliation of shareholders' funds

	2004 £ million	2003 (restated) £ million
At 30 September		
Shareholders funds reported in the Group balance sheet under UK GAAP	1,675.3	1,686.7
UK minority interests	202.8	177.3
	1,878.1	1,864.0
Pensions	154.7	48.8
Post retirement medical costs	(12.2)	(12.5)
Revaluations of fixed assets	(36.8)	(37.7)
Goodwill previously charged to reserves	62.7	65.7
Non-amortisation of goodwill under SFAS142	31.4	17.4
Amortisation of other intangibles	(1.0)	(0.5)
Goodwill on fair value adjustments	—	1.8
Interest rate swaps	(2.7)	(4.6)
Share of net assets of joint ventures and associates	17.6	4.5
Securities investments	7.3	39.8
Consolidation of variable interest entity under FIN46	(29.7)	–
Goodwill on disposal	4.4	–
Fixed asset impairments	13.3	–
Restructuring provisions	6.5	–
Financial instruments	(2.0)	13.7
Provision for executive share schemes	0.9	0.9
Sale and leaseback	(1.9)	(2.2)
Deferred tax	10.2	49.6
Minority interests	(180.7)	(176.2)
Shareholders' funds under US GAAP	1,920.1	1,872.5

e) Movements in shareholders' funds on a US GAAP basis

	2004 £ million	2003 (restated) £ million
Shareholders' funds at 1 October	1,872.5	2,061.0
Net income for the year	297.7	264.3
Dividends	(197.3)	(192.1)
Shares issued	8.7	3.7
Movement in treasury stock	2.5	(6.3)
Pensions	53.3	(291.8)
Exchange adjustment	(98.1)	30.6
Other movements	(19.2)	3.1
Shareholders' funds at 30 September	1,920.1	1,872.5

f) Consolidated cash flow statement

The Group cash flow statement on page 80 has been prepared in accordance with UK accounting standard FRSI, the objectives and principles of which are similar to those set out in US accounting principle SFAS95, Statement of Cash Flows. The principal differences between the standards relate to classification of items within the cash flow statement and with regard to the definition of cash and cash equivalents.

Under FRSI, cash flows are presented separately for: a) operating activities; b) dividends from joint ventures and associates; c) returns on investments and servicing of finance; d) tax paid; e) capital expenditure and financial investment; f) acquisitions and disposals g) equity dividends paid; h) management of liquid resources; and i) financing. Under SFAS95, however, only three categories of cash flow activity are reported: a) operating activities; b) investing activities, and c) financing activities. Dividends from joint ventures and associates, cash flows from returns on investments and servicing of finance (excluding dividends paid to minorities) and tax paid under FRSI would be included in operating activities under SFAS95; capital expenditure and acquisitions and disposals would be included in investing activities under SFAS95; equity dividends would be included as a financing activity under SFAS95.

Under FRSI, cash is defined as cash in hand and deposits repayable on demand with any qualifying financial institution, less overdrafts from any qualifying financial institution repayable on demand. Under SFAS95, cash is defined as cash in hand and deposits but also includes cash equivalents which are short-term, highly liquid investments. Generally only investments with original maturities of three months or less come within this definition.

Set out below, for illustrative purposes, is a summary consolidated statement of cash flows under SFAS95.

	2004 £ million	2003 £ million	2002 £ million
Net cash provided by operating activities	673.5	562.4	620.2
Net cash used by investing activities	(45.2)	(389.2)	(550.6)
Net cash used by financing activities	(413.0)	(292.7)	(112.1)
Net increase/(decrease) in cash and cash equivalents	215.3	(119.5)	(42.5)
Cash and cash equivalents at 1 October	76.4	181.9	259.0
Exchange and other movements	(2.0)	14.0	(34.6)
Cash and cash equivalents at 30 September	289.7	76.4	181.9

g) Stock-based compensation

For US reporting purposes the company applies APB Opinion 25, Accounting for Stock Issued to Employees and related interpretations, in accounting for its share option plans. By applying this statement the employee share schemes are deemed non-compensatory and therefore do not result in an expense for financial reporting purposes. With the exception of the Long-Term Incentive Plan, grants of share options under executive schemes are at the market price of the company's shares at the time of grant. The schemes are deemed compensatory and a charge is only recognised when certain performance conditions are met.

If compensation cost for the Group's share option plans had been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS123, Accounting for Stock-Based Compensation, the Group's net income under US GAAP would have been:

	2004 £ million	2003 £ million	2002 £ million
Reported net income	297.7	264.3	255.4
Add stock compensation expense recognised in accordance with APB25 (net of related tax)	–	–	2.5
Deduct stock compensation expense determined in accordance with SFAS123 (net of related tax)	(5.7)	(7.1)	(6.9)
Pro forma net income	292.0	257.2	251.0

	2004 pence	2003 pence	2002 pence
Earnings per share:			
Basic – as reported	60.4	53.7	52.1
Basic – pro forma	59.2	52.2	51.2
Diluted – as reported	60.3	53.6	51.9
Diluted – pro forma	59.1	52.2	51.0

The Black-Scholes model was used to measure the compensation expense under SFAS123. The assumptions used for grants in 2004 included a dividend yield of 4.5 per cent (2003: 4.5 per cent, 2002: 4.0 per cent), expected share price volatility of 29.5 per cent (2003: 30.6 per cent, 2002: 31.0 per cent), a weighted average expected life of 4.9 years (2003: 5.0 years, 2002: 5.0 years) and a weighted average interest rate of 4.8 per cent (2003: 4.0 per cent, 2002: 4.9 per cent). The weighted average interest rate is based on UK Gilts on the date of grant with a maturity similar to the related options.

h) *Goodwill*

For US reporting purposes the company applies SFAS142 in accounting for goodwill. The changes in the carrying value of goodwill for the year ended 30 September 2004 are as follows:

	Process Gas Solutions £ million	Industrial and Special Products £ million	BOC Edwards £ million	Afrox hospitals £ million	Gist £ million	Corporate £ million	Total £ million
Balance at 1 October	59.5	82.7	121.0	11.6	0.7	2.7	278.2
Acquired during year	–	0.6	–	3.3	–	–	3.9
Adjustments related to prior year acquisitions	–	–	(2.9)	0.4	–	–	(2.5)
Impairments in year	–	–	(2.5)	–	–	–	(2.5)
Exchange adjustment	(3.7)	(4.2)	(6.6)	(0.3)		(0.2)	(15.0)
Balance at 30 September	55.8	79.1	109.0	15.0	0.7	2.5	262.1

i) *Recently issued accounting pronouncements implemented in the year*

SFAS132 (revised) – Employers' disclosures about pensions and other post retirement benefits

SFAS132 (revised) was issued in December 2003 and is effective for years ending after 15 June 2004. This statement revises employers' disclosures about pension plans and other post retirement benefit plans. It does not change the measurement or recognition of those plans required by SFAS87, SFAS88 and SFAS106 and retains the disclosure requirements contained in SFAS132. It requires additional disclosures about the types of plan assets, investment strategy, plan obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit post retirement plans. These additional disclosure requirements are presented within note 8c) to the financial statements.

FIN46 (revised) – Consolidation of variable interest entities

FIN46 (revised) was issued in December 2003. Application of this interpretation is required for all public entities that have interests in variable interest entities for periods ending after 15 December 2003. Application by public entities for all other types of entities is required in financial statements for periods ending after 15 March 2004. This interpretation requires the primary beneficiary to consolidate a variable interest entity if it holds a variable interest that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's residual returns if they occur, or both. The effect of FIN46 (revised) has led to the Group's interest in Compania de Nitrogeno de Cantarell being accounted for as a subsidiary under US GAAP. This resulted in additional total assets of £456.9 million, total liabilities of £494.4 million and minority interests of £13.1 million. There is no material impact on the income statement. The £29.7 million adjustment in respect of the variable interest entity relates to the £13.1 million minority interests and other specific US GAAP adjustments within the entity.

EITF01-8 – Determining whether an arrangement contains a lease

In May 2003, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue 0l-8. Issue 01-8 provides guidance for determining whether an arrangement contains a lease that is within the scope of SFAS13 Accounting for Leases. If it is determined that a lease exists, the lease and non-lease components of a combined sales arrangement must be accounted for separately. Issue 01-8 is effective prospectively for arrangements initiated, modified, or acquired after 1 July 2003.

Management has evaluated the impact of EITF Issue 01-8 on its on-site supply agreements and has concluded that it does not have a material impact on the Group's results or financial position.

j) Recently issued accounting pronouncements not yet implemented

EITF04-1 – Accounting for Pre-existing Relationships between the Ponies to a Business Combination

EITF04-1 applies when two parties that have a pre-existing contractual relationship enter into a business combination. Specifically, the issue is whether a consummation of a business combination between two parties that have a pre-existing contractual relationship should be evaluated to determine if a settlement of a pre-existing contractual relationship exists, thus requiring accounting separate from the business combination. If separate accounting is required, then the measurement of the settlement amount will be decided. Finally, if it is determined that assets of the acquired entity that are related to a pre-existing contractual relationship with the acquiring entity should be recognised as part of the business combination, whether the acquiring entity should recognise those assets as intangible assets apart from goodwill will be decided.

k) Other information

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

31. Comparative information

The application of UITF37 (Purchases and sales of own shares) and UITF38 (Accounting for ESOP trusts) has not had any impact on the Group profit and loss account. The impact on the balance sheet at 30 September 2004 has been to reduce fixed assets and shareholders' funds by £42.1 million (Parent: £41.6 million).

The prior year adjustment of £48.1 million (Parent: £42.5 million) comprises:

a) a reclassification of the cost of own shares of £48.8 million (Parent: £43.2 million) from fixed assets – investments to shareholders' funds; and

b) a reclassification of the provision of £0.7 million (Parent: £0.7 million) previously held against own shares to shareholders' funds.

The restatement impact is shown in the relevant notes: 13 (Fixed assets – investments) and 24 (Reserves).

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INFORMATION ON THE BOC GROUP PLC

The information included in this section ‘‘Information on The BOC Group plc,’’ extracted from the Annual Report and Accounts 2005 published by The BOC Group plc (pages B-2 through B-44) and ‘‘The BOC Group Results for the 6 Months to 31 March 2006’’ (pages B-45 through B-49), has not been verified by the Linde Group. The page numbering of cross-references within this section refer to the publicly available sources from which the material in this section was taken and not to sections within this offering circular.

Group profile

Introduction

The BOC Group began its business life over 100 years ago as the Brin's Oxygen Company. The company was incorporated in England in 1886 and adopted its present name on 1 March 1982.

A technology to extract oxygen from the air in commercial quantities had just been developed and in 1886 the Brin brothers started production at a factory in Westminster, London. Two uses had already been found for oxygen. One was to intensify limelight, which was then used in theatres. The other was to assist patients' breathing during and after surgery. New technology was soon developed that allowed air to be separated into all its major components – nitrogen, oxygen and argon. By 1960, industrial gases were in widespread use and BOC's business was firmly established. Tonnage plants were supplying steelworks with oxygen and the customer base had been broadened to extend from metal cutting and welding to food and medicine. The business had also spread overseas with subsidiaries or associated companies as far away as Australia and South Africa. During the 1980s, BOC's South African subsidiary began to invest in private hospitals. This diversification was the basis of the Afrox hospitals segment.

BOC acquired the vacuum equipment company Edwards High Vacuum International Limited in 1968 and this formed the basis of what was to become the BOC Edwards line of business today.

The BOC Distribution Services business (now called Gist) was first established in 1970, initially providing a chilled food distribution service for Marks & Spencer and relying upon distribution skills and liquid nitrogen chilling technology, acquired as a result of BOC's involvement in gases.

In 1978, BOC completed the acquisition of Airco Inc in America, a predominantly gases business that doubled the Group's size and brought BOC for the first time into the US gases market. In the period from 1970 to 1990 The BOC Group significantly increased its presence in the Asia/Pacific region through participation in several joint ventures or associated companies. BOC established strong market positions in Thailand, Indonesia, Taiwan, the Philippines, China and Korea.

An investment in 1982 gave BOC effective management control of the Japanese gases company Osaka Sanso Kogyo KK (OSK). BOC's holding in OSK was raised to 97 per cent before BOC and Air Liquide merged their industrial and medical gases businesses in Japan in January 2003. BOC's subsidiary in Japan has retained a 45 per cent interest in the joint venture company, which is called Japan Air Gases Ltd.

In the period from 1998 to 2001, BOC increased investments in its gases companies in Thailand, Indonesia and the Philippines by acquiring the interests of joint venture partners or minority shareholders.

The BOC Group has an international portfolio of companies operating and reporting as three lines of business. These are Process Gas Solutions (PGS), Industrial and Special Products (ISP) and BOC Edwards. In addition two separately managed specialist businesses, Afrox hospitals and Gist, are reported as business segments. Until a disposal in March 2005, results for Afrox hospitals were fully consolidated. Since then BOC has reported its 20 per cent share of this business.

BOC Process Plants was combined with Linde Engineering in the US with effect from September 2002. BOC retains an interest in the manufacture of industrial gas equipment through its Cryostar business based in France. Cryostar makes specialist cryogenic pumps and expansion turbines that are used by most manufacturers of industrial gas plant. In recent years Cryostar has also developed a strong position in the market for shipboard compressors and heat exchangers used aboard liquefied natural gas (LNG) tankers. Management believes that Cryostar is the leading manufacturer of its product range worldwide.

The main exports of the Group in 2005 were special products from the UK, helium from the US and vacuum equipment and semiconductor manufacturing equipment from the UK, the US and Japan. Trade between Group undertakings is conducted at fair market prices.

Analysis of results by business

(including share of joint ventures and associates)

	Turnover		Operating profit		Adjusted operating profit	
	£ million	%	£ million	%	£ million	%
Process Gas Solutions	1,466.3	32	207.2	38	207.2	37
Industrial and Special Products	1,721.7	37	289.4	53	289.4	51
BOC Edwards	826.0	18	17.4	3	38.1	7
Afrox hospitals	275.1	6	37.2	7	37.2	7
Gist	315.9	7	24.5	5	24.5	4
Corporate	–	–	(32.2)	(6)	(32.2)	(6)
	4,605.0	100	543.5	100	564.2	100

Adjusted operating profit excludes exceptional items. See also pages 40 and 41 of the operating review.

The BOC Group contributes to the economies of some 50 countries throughout the world. The UK is the largest single source of sales revenue for the Group's products and services, followed by the US. Other major geographic areas for the Group are Australia, South Africa, Japan and other markets in the Asia/Pacific region. The business therefore operates from a broad geographical base with local manufacturing in most of the key overseas markets.

Analysis of results by region

(including share of joint ventures and associates)

	Turnover		Operating profit		Adjusted operating profit	
	£ million	%	£ million	%	£ million	%
Europe	1,300.8	28	138.6	25	143.7	25
Americas	1,222.1	27	84.4	16	100.0	18
Africa	586.0	13	91.3	17	91.3	16
Asia/Pacific	1,496.1	32	229.2	42	229.2	41
	4,605.0	100	543.5	100	564.2	100

Adjusted operating profit excludes exceptional items. See also pages 40 and 41 of the operating review.

The UK accounts for the largest part of the Group's activities in Europe but BOC has significant gases subsidiaries in Ireland and Poland, vacuum products manufacturing in France and a pharmaceutical packaging machinery operation in the Netherlands.

Gist, BOC's supply chain solutions business, operates principally in the UK but also has operations in other countries.

Subsidiaries in the US are engaged in the Group's three lines of business. The Group's other principal subsidiaries, joint ventures and associates in the Americas are located in Canada, Venezuela, Colombia, Chile and Mexico.

The largest Group subsidiary in Africa is African Oxygen Limited (Afrox), a South African public company in which the Group owns 56 per cent of the equity. The largest shareholder, other than BOC, holds less than 15 per cent of the equity. Afrox, primarily through wholly-owned subsidiaries, is engaged in the manufacture and sale of products within the PGS and ISP lines of business. Afrox also has a 20 per cent interest in private hospitals, clinics and other health care services in southern Africa.

There are other Group or Afrox subsidiary companies in Africa located in Botswana, Kenya, Malawi, Mozambique, Namibia, Nigeria, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. These companies are engaged primarily in the manufacture and/or sale of products in the ISP line of business.

BOC has businesses in most of the Asia/Pacific markets, including Japan, Korea, Thailand, Taiwan, Indonesia, Malaysia, Singapore, China, the Philippines, India, Pakistan, Bangladesh, Australia and New Zealand. In Australia, the Group's business is conducted by BOC Limited. This company, as well as its subsidiaries, joint ventures and associates, is engaged in the manufacture and sale of products in the PGS and ISP lines of business. BOC participates in the liquefied petroleum gas market in Australia through a 50 per cent shareholding in Elgas Limited. Elsewhere in the Pacific region, the Group conducts its business through subsidiaries, joint ventures and associated companies.

Management organisation

BOC's management structure is based on three global lines of business and, throughout the period 2003 to 2005, on two specialist businesses. Each line of business serves a clearly defined type of customer and each pursues its own strategy for growth and performance at a local level. The organisation is designed to maximise BOC's global as well as local strengths. The lines of business have global responsibility to set strategy and prioritise investment. They include operational business units and these local units are responsible to the Group chief executive for delivering financial, safety and operational performance. The business units contribute to the development of the strategies of the lines of business and customise and implement them in local markets. The business unit heads collaborate in order to share best practice and to maximise growth and profit opportunities wherever they may appear.

Process Gas Solutions (PGS) manages all aspects of BOC's business with customers requiring bulk supplies of industrial gases from on-site plants or by pipeline as well as deliveries of liquefied gases. Typical customers are found in the oil and chemicals, food and beverage, metals, and glass sectors all round the world. Marketing, business development and the execution of investments to provide customer specific solutions for the supply of industrial gases are handled by Process Systems, which forms part of PGS.

Industrial and Special Products (ISP) covers BOC's business with customers in the fabrication, medical and leisure sectors as well as the special products and liquefied petroleum gases businesses.

BOC Edwards embraces all aspects of business with semiconductor industry customers worldwide including the supply of bulk gases and electronic materials, vacuum and abatement technology, chemical management systems and semiconductor-related services. BOC Edwards also serves general vacuum markets around the world and manufactures pharmaceutical freeze-drying and packaging machinery.

The segment reported as Afrox hospitals operated through Afrox Healthcare Limited up to the end of March 2005. It owned and managed private hospitals and clinics in southern Africa. BOC's majority-owned subsidiary, African Oxygen Limited (Afrox), held 69 per cent of Afrox Healthcare Limited (AHealth) when the company was sold to a consortium led by two major black economic empowerment investors in March 2005. Afrox has retained a significant interest in the hospitals business through a 20 per cent holding in the new company.

In 2001, BOC Distribution Services was re-named Gist to reflect the changing nature of its business. Gist operates as a separate business unit outside the lines of business structure. It remains focused on developing business with major customers, including Marks & Spencer, and has developed capability in supply chain consultancy and end-to-end supply chain solutions.

Corporate development

Over the last three years BOC has continued to invest in its core businesses at the same time as divesting assets and businesses that were no longer consistent with its strategy.

In October 2002, BOC acquired Environmental Management Corporation (EMC), a privately owned water services company based in St Louis, Missouri. EMC manages water and wastewater treatment facilities for both industrial and local municipal customers around the US. EMC forms part of the PGS line of business, which is expanding the range of solutions offered to its industrial customer base.

BOC and Air Liquide merged their industrial and medical gases businesses in Japan in January 2003 and BOC's subsidiary in Japan has retained a 45 per cent interest in the combined company called Japan Air Gases Ltd.

At the end of January 2003, BOC acquired the partial oxidation syngas plant at Clear Lake, Texas, from Celanese. Under the agreement BOC fulfils a significant proportion of the industrial gas requirements for the Celanese chemical facility at Clear Lake.

In March 2003 BOC announced an agreement to purchase the Canadian packaged gas and related welding equipment business of Air Products. The acquisition was completed in April 2003 following approval from the Canadian regulatory authority.

In June 2003, BOC announced an agreement to obtain half the output of a new helium extraction facility to be constructed in Qatar. Deliveries from the new source are now scheduled to commence during 2006.

In May 2004 BOC agreed to buy Duke Energy's 30 per cent ownership interest in the Cantarell joint venture company for US$59.7 million in cash. This increased BOC's overall stake to 65 per cent on completion in September 2004. This company supplies Pemex with nitrogen for the pressurisation of its oilfields in the Gulf of Mexico.

BOC completed the disposal of the packaged gas part of its US ISP business to Airgas Inc on 30 July 2004. The initial consideration received was US$175 million in cash and a final payment of US$20 million that had been subject to performance conditions was recognised in 2005. These funds were received in November 2005. All packaged gases and associated hardgoods were included in the sale. This comprised compressed industrial, speciality (excluding electronic) and medical gases in the US, sold through BOC retail and distributor channels. The sale did not include BOC's bulk liquid helium, bulk medical gases and distributor businesses.

In October 2004, BOC purchased a 50 per cent holding in Asia Union Electronic Chemical Corporation (AUECC). This acquisition expanded BOC Edwards' electronic materials offering to include the purification, blending, packaging and distribution of wet chemicals for flat panel display, semiconductor and solar cell manufacturers throughout Asia.

In December 2004, BOC sold its shares in Unique Gas and Petrochemicals thereby divesting interests in the LPG and bulk ammonia businesses in Thailand but the cylinder and aqueous ammonia business was retained.

At the end of January 2005, BOC acquired Calor Gas Limited's UK aerosol propellants business. This includes the sales, marketing and distribution of bulk and packaged propane, isobutene and butane blends in the UK. The acquisition also included Calor's CARE range of hydrocarbon refrigerants.

The segment reported as Afrox hospitals operated through Afrox Healthcare Limited up to the end of March 2005. It owned and managed private hospitals and clinics in southern Africa. BOC's majority-owned subsidiary, African Oxygen Limited (Afrox), held 69 per cent of Afrox Healthcare Limited (AHealth) when the company was sold to a consortium led by two major black economic empowerment investors in March 2005. Afrox has retained a significant interest in the hospitals business through a 20 per cent holding in the new company.

In September 2005, Gist acquired GVan Dongen Holding BV, a European temperature-controlled transport operator. The business, which had an annual turnover of some 46 million euros, expands Gist's existing primary food business into continental Europe by providing fresh chill and ambient transport services to food manufacturers in the Netherlands, Spain, Germany, Portugal and France.

Industrial gases

The BOC Group is one of the major producers of industrial gases in the world. Its products include the atmospheric gases (nitrogen, oxygen and argon) produced by air separation plants as well as hydrogen, carbon monoxide and syngas (a mixture of hydrogen and carbon monoxide) made by technologies including steam-reforming or partial oxidation of hydrocarbons. The Group also markets carbon dioxide, helium and liquefied petroleum gas. These are generally derived as by-products from chemical processes or from natural sources and are also purchased from other producers. In addition, the Group markets dissolved acetylene and a wide range of special gases, medical gases, gas mixtures and gaseous chemicals.

Industry structure and consolidation The industrial gases business is capital-intensive, with increasing demand, together with economies of scale, leading to the need for large production units and distribution networks. The need for fixed asset investments, the trend towards global customers and the benefits from the transfer of applications technology worldwide have resulted in the business being handled by a relatively small number of companies internationally.

One or more of the other major international producers compete in each of the industrial gases markets served by the Group, and in many of the markets there are smaller local producers as well. International competitors include Air Liquide, Praxair, Air Products and Chemicals, Linde and Nippon Sanso. The world market for gases and related products is estimated to be some £25 billion a year.

Principal industrial gas products Nitrogen possesses two key characteristics that make it the world's most widely used and versatile industrial gas. Nitrogen is almost inert and when liquefied it is intensely cold. This makes liquid nitrogen a highly effective, versatile and non-polluting agent for freezing and chilling.

Under normal conditions nitrogen is chemically inactive. This makes it an important purging and blanketing gas in the chemical and refining industry as well as in the electronics industry.

Oxygen, in contrast to nitrogen, is useful for its reactivity. It supports combustion and it supports life. Oxygen has been used in welding and medicine for over 100 years and in steel production since the 1950s.

Iron and steel producers use oxygen to accelerate melting and to improve metal quality during the refining process. It is also used by the oil and chemicals industries and many others for a variety of oxidation processes. Mixed with fuel gases, oxygen provides a heat source for many welding, cutting and metal fabrication processes.

Argon makes up less than one per cent of the atmosphere but it is the most abundant truly inert gas. It is used to provide a shielding atmosphere in welding, metal fabrication, aluminium processing, microelectronics, glass coating, advanced ceramics and other industrial processes. It is also used in the steel industry, principally in the production of stainless steel.

Hydrogen is typically produced by steam reforming or partial oxidation of natural gas, petroleum gas, or liquid or solid hydrocarbon feedstocks. Hydrogen may also be recovered from by-products purchased by BOC from external suppliers. Hydrogen is used primarily in the oil and chemicals industries for applications aimed at upgrading crude oil through hydrocracking to form lighter fractions and to remove sulphur in the production of cleaner fuels. The chemicals industry also uses hydrogen where it is required as an active ingredient in many large-scale processes.

Helium is extracted from natural gas deposits. Only a few sources in the world contain a sufficient proportion of helium to justify its separation. The Group's supplies now come from the US, Poland and Russia and are secured by long-term contracts. In June 2003, BOC announced an agreement to obtain half the output from a new helium extraction facility to be constructed in Qatar. Deliveries from this new source are now expected to begin in 2006. Due to its high value, helium is the only major industrial gas to be extensively traded internationally. Helium is used in welding, leak detection, hospital MRI scanners and in the production of optical fibres. Helium gas mixtures are used in balloons.

Carbon dioxide supplied by BOC is obtained as a by-product from other companies' manufacturing processes, from natural sources or recovered in the generation process for hydrogen or syngas and put to constructive use. Solid carbon dioxide is, like liquid nitrogen, used for chilling and freezing in the food industry. As a gas it is used to carbonate and dispense beverages of all kinds.

Acetylene is normally supplied in cylinders and used together with oxygen in metal cutting and welding applications. BOC is a major manufacturer of dissolved acetylene.

Liquefied petroleum gas (LPG) is a fuel gas with a wide variety of domestic, industrial and transport applications. BOC is a major distributor of LPG in South Africa, and its joint venture company Elgas Limited is a major distributor in Australia. BOC has smaller market positions in several other countries.

Production of industrial gases Oxygen was first extracted from the atmosphere by a chemical process. This was superseded over 80 years ago by the cryogenic (low temperature) process involving the liquefaction and distillation of air. The cryogenic process is still by far the most widely used, but non-cryogenic techniques (pressure swing adsorption and membrane diffusion), which were first developed during the 1970s, are becoming increasingly significant for smaller or less demanding on-site applications.

Cryogenic air separation is a mature and stable technology, although incremental technical advances are still yielding improvements in capital cost, operating cost, ease of operation and reliability. The only significant 'raw material', apart from the air itself, is electricity, which is used in large quantities to drive compressors, pumps and other equipment. The production process in modern air separation plants is highly automated, and remote operation of BOC's plants from control centres is becoming increasingly common.

The production of hydrogen and syngas uses steam reforming or partial oxidation of hydrocarbon feedstocks such as natural gas, petroleum or coal to separate the hydrogen and carbon compounds. The choice of feedstock is related to their prices in local markets.

Distribution of industrial gases Industrial gases may be supplied to customers in a variety of ways; through pipelines from on-site or nearby cryogenic or non-cryogenic plants, by deliveries of liquefied gases in road or rail tankers, in portable cryogenic containers or in cylinders (also called compressed or packaged gases).

Distribution is an important competitive factor in the industrial gases business and the methods of distribution vary according to the nature of the products themselves and the customer's volume requirements. Most gases have to be stored and distributed either under great pressure, which requires them to be carried in heavy and bulky cylinders, or at extremely low temperatures in specially insulated tankers, which limits how far they can be transported before carriage costs become unacceptable. Pipeline delivery involves high capital costs and the routing is inflexible. As a result, there is little international trade in industrial gases. Production has to occur in or near the market being served and there is a trend towards production at customers' own sites.

Business segments

The BOC Group reports financial results for the three lines of business and for Afrox hospitals and Gist separately.

Process Gas Solutions (PGS)

This line of business covers BOC's business with larger-scale industrial customers worldwide, typically in the oil and chemicals, food and beverage, metals, and glass sectors. Gases and services are supplied as part of customer-specific solutions that create the most value for customers at the lowest cost to BOC. These range from supply by pipeline or from dedicated on-site plants to the largest users, to supply by road tanker in liquefied form to others.

Tonnage (pipeline) customers are usually supplied on the basis of long-term contracts, typically containing a fixed facility charge together with a variable charge for product supplied in excess of a set minimum quantity. Revenues from these contracts thus have a measure of stability with respect to changes in demand for product. Tonnage plants are often built to produce merchant gases in addition to those required by the tonnage customer and these gases can be sold to other customers. The BOC Group has substantial positions in the tonnage markets of the UK, the US, Australia, South Africa and Asia as well as in some smaller markets. The products supplied to tonnage customers have traditionally been the atmospheric gases oxygen, nitrogen and argon. More recently, hydrogen and syngas are becoming significant tonnage products as are associated utilities including steam and power.

The delivery of liquefied gases by road or rail to the customer's site is normally limited by transport costs to a radius of about 200 miles. Product for this market is supplied either from merchant plants or from tonnage plants incorporating liquefiers. Larger users are typically supplied with product in liquid form delivered in cryogenic tankers into special storage vessels installed at customer premises. Tankers and vessels are often BOC Group owned. Liquefied gases are usually supplied on the basis of contracts with terms of one to five years. Revenues are generally based upon the actual quantity of gas consumed, with an additional fixed charge for the use of storage equipment.

The growth of sales and profit in this line of business is driven by investment in new production facilities. Such investment is predominantly the result of opportunities to satisfy long-term supply contracts with one or more heavy industrial customers for each plant.

Marketing, business development and the execution of investments to provide customer-specific solutions for the supply of industrial gases are handled by Process Systems, which forms part of PGS.

Business development In October 2002, BOC acquired Environmental Management Corporation (EMC), a privately owned water services company based in St Louis, Missouri. EMC manages water and wastewater treatment facilities for both industrial and local municipal customers around the US. EMC's management services extend to steam systems, cold and chilled water systems and wastewater treatment. Customers include small to medium-sized municipalities and industrial customers, many of which are in the food sector. EMC forms part of the PGS line of business and BOC's strategy is to expand the range of solutions offered to its industrial customer base.

At the end of January 2003, BOC acquired the partial oxidation syngas plant at Clear Lake, Texas, from Celanese. Under the agreement BOC fulfils a significant proportion of the industrial gas requirements for the Celanese chemical facility at Clear Lake. The Celanese facility is located on the Houston ship canal, and includes a world scale vinyl acetate monomer plant and the world's largest acetic acid plant. These require large quantities of oxygen and nitrogen as well as carbon monoxide.

A new hydrogen and carbon monoxide (HyCO) plant supplying the Thai Polycarbonate Company for the manufacture of plastic resins began production in 2003.

In October 2003, BOC commissioned a new hydrogen plant supplying Citgo's oil refinery at Lemont, Illinois. The hydrogen is used in the removal of sulphur to produce clean fuels.

In the same month BOC, and its joint venture partners, announced plans to invest over US$100 million in developing three schemes in China, at Taiyuan, Suzhou and in the Pearl River region.

BOC-TISCO, the joint venture between BOC Gases and Taiyuan Iron and Steel Corporation (TISCO), has under construction two new air separation units (ASUs) to supply 1,400 tonnes a day of oxygen each to TISCO's plant in Shanxi province in north-central China. The new ASUs represent an investment of US$82 million and they are scheduled to begin coming on stream during 2006. This investment is in response to strong demand for stainless steel in China and will support TISCO's vigorous expansion plans.

Pearl River Gases (PRG), a joint venture between Guangzhou Iron & Steel (GIS) and BOC's joint venture, Hong Kong Oxygen, invested in two further ASU's during 2005. These add some 400 tonnes a day of oxygen capacity to support the expansion of steelmaking in southern China.

Also in 2005, BOC's wholly owned subsidiaries in Suzhou constructed new on-site supply scheme pipelines to meet increasing demand for industrial gases from key customers in Suzhou Industrial Park and the Suzhou New District Industrial Park.

A new hydrogen plant to supply both a Sunoco refinery, and a nearby BP refinery is under construction at Toledo, Ohio. The hydrogen will be used by both BP and Sunoco in the production of ultra-low sulphur gasoline and diesel fuels. The complex will be capable of supplying over 120 million standard cubic feet a day of hydrogen. BOC's partner for engineering and construction is Linde BOC Process Plants of Tulsa, Oklahoma. BOC is investing more than US$100 million in the facility.

In May 2004 BOC agreed to buy Duke Energy's 30 per cent ownership interest in the Cantarell joint venture company for US$59.7 million in cash. This increased BOC's overall stake to 65 per cent on completion in September 2004. This company supplies Pemex with nitrogen for the pressurisation of its oilfields in the Gulf of Mexico.

In December 2004, BOC announced a new, 20-year agreement to supply an additional 300 million standard cubic feet a day (scf/d) of nitrogen to be used at the Cantarell and Ku Maalob Zaap oil fields. The additional supply will lift the total nitrogen output by 25 per cent to 1.5 billion scf/d at the site. Construction of a fifth production module has commenced and the new facility is scheduled to begin production in 2007.

In China, significant new business was won in the chemical sector. BOC has agreed to form a joint venture with the Sinopec Shanghai Petrochemical Company (SPC) at Jinshan, near the Caojing chemical complex, to invest in existing assets and then add further air separation capacity to satisfy the industrial gases requirements of SPC in the region. This follows the establishment in 2003 of a similar joint venture with Sinopec YPC to supply the Sinopec and BASF joint venture petrochemical complex at Nanjing.

BOC's subsidiary in Thailand is investing in a venture establishing a 1,300 tonnes-a-day plant to supply TOC Glycol Co. Ltd. (TOCGC) in Map Ta Phut and to increase merchant capacity in the area. When completed in 2006, this will be the largest air separation unit in Thailand. It will be owned and operated by a joint venture between BOC's Thai subsidiary, TIG, and Bangkok Industrial Gas Company.

In January 2005 BOC formed a joint venture with Maanshan Iron & Steel Company (Ma Steel) to invest initially in the construction of two large air separation units. Each will be capable of supplying 1,400 tonnes a day of oxygen to meet the growing needs of Ma Steel in Maanshan City, China. Total production of oxygen, nitrogen and argon is expected to total some 5,000 tonnes a day when commissioned during 2007.

At the same time BOC India Ltd announced that it had been awarded a contract to supply gases requirements of approximately 1,400 tonnes a day for an expansion programme by Jindal Vijaynagar Steel Limited at Bellary in southern India. A plant with an oxygen capacity of 855 tonnes a day will be constructed and is expected to be commissioned in 2006.

In April 2005, BOC agreed to invest approximately US$40 million in equipment and pipelines in order to supply hydrogen to Valero's 170,000 barrel a day refinery at Lima, Ohio and to supply other customers in the area. Construction of the plant has begun and it is expected to start supplying hydrogen during 2006.

In June 2005, BOC announced further refinery hydrogen business in the US with the proposed investment of nearly US$50 million at Salt Lake City to supply Chevron and Holly Corporation's Utah subsidiary with hydrogen for cleaner fuels production at their refineries. The refiners are upgrading their facilities in accordance with the US Environmental Protection Agency's lower-sulphur requirements for gasoline and diesel fuels.

Chevron is installing additional hydrotreating capacity at its 49,000 barrel per day (bpd) refinery and will take hydrogen and steam from BOC's plant, which will be located on the Chevron site. Holly will also receive hydrogen for new hydrotreating capacity at its nearby 26,000 bpd Woods Cross refinery through a five-mile pipeline connection from the BOC facility.

Construction of the hydrogen plant has started and production is expected to begin in 2006.

Industrial and Special Products (ISP)

Gases for cutting and welding, hospitality, laboratory applications and a variety of medical purposes are mainly distributed under pressure in cylinders. The ISP line of business covers products and services provided to this section of the market together with sales of packaged chemicals and liquefied petroleum gas (LPG). Customers are typically in the fabrication, engineering, automotive, refrigeration, hospitality or medical sectors. The customer base is therefore broad and varied. The number of separate customers served by ISP is much greater than the other two lines of business and the quality of service is often the key factor in securing existing or obtaining new customers. In order to raise service standards at the same time as reducing costs, national customer service centres have been successfully established in all the major markets.

In addition to supplying gases, BOC also supplies a range of associated equipment in many of its major markets. This includes cutting and welding products and, in some markets, associated safety equipment.

BOC has devoted considerable attention over the last few years to understand the requirements of different types of customer in its major markets and to provide the required service at an appropriate price. Such customer segmentation programmes have been implemented in the UK, South Africa, Australia, Asia, Latin America and are in progress elsewhere.

The cutting and welding applications are a relatively mature part of the industrial gases business and growth opportunities are principally in other segments of the market such as medical applications, safety products, packaged chemicals, hospitality and services. BOC is pursuing these opportunities by the development of new products, packages and services as well as by marketing initiatives to take advantage of BOC's global capabilities by introducing existing products to new regions. Electronic commerce has also become an important tool for sustaining and growing sales by making it easier for customers to manage their business with BOC as a supplier.

BOC is a leading supplier of helium and has liquid helium distribution centres, or transfills, in many markets around the world. With 48 helium transfills in its global network, management believes that this is the largest of its kind. Helium has a broad range of applications, including welding and the refrigeration of medical scanner magnets, and is vital to the production of optical fibres, semiconductors and special alloys. It is also used for leak detection, underwater breathing mixtures and lifting.

Business development In April 2002, BOC acquired Matheson Gas Products Canada Inc, one of Canada's leading providers of special gases and equipment. Unique Gas and Petrochemicals Public Company Limited (UGP), a leading distributor of liquefied petroleum gas (LPG) and ammonia in Thailand, was acquired in May 2002. BOC's associated company in Malaysia acquired 35.6 per cent of the gases company Nissan Industrial Oxygen Inc (NIOI) in March 2002 and, following a tender offer, increased its holding to 100 per cent in September 2002. At the end of August 2002, BOC announced an agreement to purchase Praxair's Polish gases business. The transaction was completed in January 2003 following approval by the Polish competition authority. The business acquired includes a high proportion of ISP sales.

Since 2002, BOC has continued its global roll-out of a light-weight medical cylinder with an integrated valve and regulator for homecare patients and emergency services. Heliox, a helium and oxygen mixture formulated to ease the respiratory effort associated with airway obstruction, was launched in the UK and in some other markets.

Capacity at BOC's Otis, Kansas, helium plant was expanded in 2002 to match market demands. In addition, BOC has access to helium produced by other US plants, as well as to product from Poland and Russia. In 2003 BOC and KRIO, a division of the Polish Oil and Gas Company, entered into a new helium supply agreement. BOC will purchase for export all of KRIO's helium that is not sold to its domestic customers in Poland. BOC has been KRIO's sole customer for bulk liquid helium since the original agreement was signed in 1972. In June 2003, BOC announced an agreement to obtain half the output from a new helium extraction facility to be constructed in Qatar. Deliveries from this new source are now expected to begin in 2006.

Magnetic resonance imaging (MRI) systems use liquid helium to cool superconducting magnets. BOC provides helium as well as a liquid nitrogen filling service to meet MRI operators' total requirements. In 2002, ISP signed a major helium supply scheme with Oxford Magnet Technology (now Siemens) in the UK.

BOC continued to invest in refrigerant filling facilities and in 2003 new filling facilities were installed in Hong Kong, Malaysia and the Philippines. Each of these was built to a standardised global design. BOC now supplies refrigerants in 19 countries compared with six countries in 1999. In June 2003, BOC announced a global alliance with Hudson Technologies to promote technology for cleaning and recycling used refrigerants.

Significant progress in developing web-based customer portals has been made. Amongst others, ISP has launched customer portals in the UK, Australia and New Zealand. Thousands of customers are now able to access detailed material on BOC's product service offers, manage and settle their accounts and place orders on-line.

BOC acquired the Canadian packaged gas and related welding equipment business of Air Products in April 2003.

BOC completed the disposal of the packaged gas part of its US ISP business to Airgas Inc on 30 July 2004. The initial consideration was US$175 million in cash and a final payment of US$20 million that had been subject to performance conditions was received in November 2005. All packaged gases and associated hardgoods were included in the sale. This comprised compressed industrial, speciality (excluding electronic) and medical gases in the US, sold through BOC retail and distributor channels. The sale did not include BOC's bulk liquid helium, bulk medical gases and distributor businesses.

In December 2004 BOC sold its shares in Unique Gas and Petrochemicals, thereby divesting interests in the LPG and bulk ammonia businesses in Thailand but the cylinder and aqueous ammonia business was retained.

In January 2005, BOC acquired Calor's aerosol propellants business in the UK. This includes sales and distribution of bulk and packaged hydrocarbon blends together with Calor's CARE hydrocarbon refrigerants range and propylene business.

In March 2005, BOC announced plans to build a new liquid plant to extract helium from a natural gas supply at Darwin, Australia. When it begins production in 2007, it will be the only helium production plant in Australia, and will serve not only domestic Australian demand but also customers in New Zealand and Asia.

BOC Edwards

This line of business specialises in gases, services and equipment for the semiconductor industry as well as vacuum products for a range of other industries. The major markets for BOC Edwards' products are in Asia, north America and Europe. Until September 2005 it was organised into four customer-facing divisions for sales and marketing in Asia/Pacific, Japan, the US and Europe and into four manufacturing divisions, Vacuum and Exhaust Management, Chemical Management, Bulk Gases and Electronic Materials. Kachina (semiconductor process tool component management service), Coating Technology and Pharmaceutical Systems were managed separately. BOC Edwards is now organized around five global business units, Electronic Materials, Electronic Bulk Gases, Semiconductor Equipment, General Vacuum Equipment and Pharmaceutical Systems.

Management believes that BOC Edwards has a unique position as a fully integrated supplier of gases, vacuum, chemical, slurry and exhaust management products, as well as services to the global semiconductor industry and is a leader in the design and manufacture of vacuum pumps, instrumentation and systems for both general vacuum and semiconductor applications and of freeze-drying systems for the pharmaceutical industry.

The vacuum and exhaust product ranges are manufactured or assembled primarily in the UK, with additional manufacturing and assembly in the US, Japan, Korea, China and Brazil. They include vacuum pumps, coating systems, exhaust management systems, temperature control systems and heat exchangers, instrumentation and controls, vacuum accessories and leak-detection equipment. The range also includes specially designed systems for specific applications, depending on customer requirements.

BOC Edwards also specialises in the design, manufacture and installation of the systems used to deliver liquid process chemicals, including planarisation slurries to the point of use within semiconductor fabrication facilities. Manufacture of these products is located mainly in the US.

In addition to the semiconductor industry, the leading customers are in the chemicals, scientific instruments and other industries, as well as in educational and research establishments. General vacuum products are sold to such customers by a separate sales force.

BOC Edwards' service facilities, including plants for cleaning semiconductor process tool parts, are located near concentrations of semiconductor fabrication facilities around the world.

Technology is important to maintain a competitive edge in this business, and considerable resources are committed to enable the business to address new applications and markets. The major research centres are in the UK, north America and Japan.

The Group's vacuum products are sold directly by Group companies to end-users and also through distributors and agents. Management believes that the Group is a leading manufacturer of the types of vacuum products that it makes and provides. The business is highly competitive, with product design and quality, leading to the lowest cost of ownership, being very significant factors.

Sales opportunities for much of BOC Edwards' semiconductor equipment business are dependent upon capital investment by the semiconductor industry. Management believes that semiconductor production remains on a long-term growth trend but capital investment by semiconductor manufacturers has been subject to sharp variations for a number of reasons, some of which arise from advances in technology.

The products of BOC Edwards Pharmaceutical Systems are tailored specifically to individual customer requirements in the pharmaceutical industry and are used mainly for injectable products. Freeze-drying systems are made in Tonawanda, New York, US. Filling, sterilising and packaging lines for the pharmaceutical industry are made at Dongen in the Netherlands and Beijing in China.

Business development Throughout the period 2003 to 2005, new ranges of dry pumps for the semiconductor industry were introduced as well as a comprehensive new range of exhaust management products. These new products meet the needs of 300mm wafer and flat panel manufacturing facilities.

In 2004 a new range of high-speed iGX pumps were introduced, offering attractive features for semiconductor applications such as small size, reduced power consumption and lower lifetime costs.

The range of exhaust management products was also expanded with new burners, wet scrubbers and an advanced plasma-based system for the destruction of reaction products without the use of methane fuel.

Production of nitrogen trifluoride (NF_3) gas for the semiconductor industry was started at a plant in South Africa during 2000 and production capacity was further increased during 2003. This product is an important etchant that is also used for in-position cleaning of semiconductor process equipment.

On-site fluorine generators were installed at a number of semiconductor and flat panel display manufacturing facilities during 2004 and a fab-wide pilot programme at LG Philips in Korea was extended during 2005.

BOC Edwards' range of electronic materials in Asia was expanded in October 2004 with the addition of ultra-pure wet chemicals through a partnership with Asia Union Electronic Chemical Corporation (AUECC) and through that company with Huayi, a chemical manufacturer in China.

Afrox hospitals

African Oxygen Limited (Afrox) sold its 69 per cent controlling interest in its hospitals business (Afrox Healthcare Limited) to a consortium led by two major black economic empowerment investors in March 2005. Afrox has retained a significant interest in the hospitals business through a 20 per cent holding in the new company.

In the period 2003 to 2004 and in 2005 prior to the disposal, Afrox Healthcare Limited owned 60 hospitals and clinics and had a minority interest in a further seven hospitals managed by others. It also managed the Lifecare group of chronic-care hospitals. In addition to hospitals and clinics, which were the core business, Afrox Healthcare Limited also included Afrox Healthcare Services, which facilitated a direct medicines service for chronic medication, and provided occupational health services, nursing training and laboratory services.

Gist

Gist is a provider of specialist supply chain solutions. The name Gist was adopted during 2001 to reflect both the continuing focus on supply chain operations and an increased emphasis on supply chain consulting, end-to-end supply chain solutions and logistics support to e-fulfilment opportunities. This realignment of the business followed a planned withdrawal from most non-Marks & Spencer primary temperature controlled operations in the period 1999 to 2000.

High quality supply chain operations remain at the core of the business. Gist manages a range of supply chains on behalf of retailers, mainly in the UK, as well as some overseas. For over 30 years Gist has been the largest supply chain provider for Marks & Spencer. Gist currently handles all of its UK food distribution and the consolidation and dispatch of all overseas shipments to subsidiaries and franchised operations.

During 2003, Gist ceased to operate general merchandise logistics and garment stockholding operations on behalf of Marks & Spencer.

Gist has provided supply chain consultancy services to major supermarket and catalogue retailers in the UK and demonstrated its capabilities in managing international supply chains. In addition an on-line wholesaling operation has extended the range of Gist's skills offered externally.

During September 2005, Gist expanded its primary business in continental Europe with the acquisition of GVan Dongen Holding BV, a temperature-controlled transport operator based in the Netherlands and Spain. This is to provide chilled and ambient transport to food manufacturers in the Netherlands, Spain, Germany, Portugal and France, and adds to Gist's existing operations in the Czech Republic and the Netherlands.

Strategy

The BOC Group has an annual planning cycle culminating in a board review, typically held in March each year. The strategy is aligned with the Group objectives, published in 2004, which are: 'Over a sustained period, consistently to outperform our peers in terms of safety, customer service, revenue growth, earnings and cash generation. We will be the employer of choice for all existing and future employees'.

Since 2000, the main components of the strategy have been:

- To establish a leading position for BOC in growth markets: BOC has continued to invest in production and infrastructure facilities in the growth markets of Asia in general and China in particular. It has also expanded by acquisition, notably adding to its gases businesses in Poland and Canada and increasing BOC Edwards' range with the turbomolecular pump business of Seiko Instruments. Each line of business additionally has its own growth strategies; in Process Gas Solutions the emphasis has been on increasing the percentage of tonnage business, particularly in the refining and chemicals sectors.
- To improve the return on capital employed: BOC has actively pursued opportunities to improve or divest underperforming assets resulting in, amongst others: the formation of Linde BOC Process Plants LLC in the US; the combination of OSK with part of Air Liquide Japan to form Japan Air Gases; and the sale of the US packaged gas business.
- To improve business and operational efficiency: BOC has sponsored cost reduction and improved efficiency programmes across all of its operating entities.
- To maximise the benefits of BOC's operating model: BOC's structure of lines of business and business units allows global strategies to be implemented successfully while enabling local response to be tailored to local market needs. The operating model has now been extended to all parts of the world, with Asia being the most recent.
- To recruit, retain and develop the best people: BOC has developed a wide range of people programmes to ensure it has the calibre and quantity of people needed to implement its growth strategy successfully.

The components of the strategy are referred to elsewhere in this annual report, notably in the sections on employees, operating review and financial review.

Risk factors

This document contains certain forward-looking statements which involve risk and uncertainty as they relate to future events and circumstances. The following risk factors, as well as those discussed on pages 56 and 57 of the financial review could cause actual results to differ materially from those expressed or implied by these forward-looking statements:

BOC is affected by the semiconductor business cycle
Manufacturers of semiconductors represent BOC Edwards' major customer base, and BOC Edwards' profitability is directly linked to the demand of these manufacturers for vacuum equipment, services and industrial gases. The semiconductor industry has experienced significant growth over the long term, but is cyclical in nature. Any improvements in the level of demand for BOC Edward's products or services may not be sustained due to reduced demand from end users of technology products and/or excess supply of semiconductors. The competitive nature of the semiconductor industry can reduce profit margins for suppliers of products and services to semiconductor manufacturers. Either of these factors or a combination could adversely impact BOC's financial results. Any long-term reduction in the growth pattern of the semiconductor industry could also have a negative impact on BOC's financial results.

Acquisitions may not be successful in achieving intended benefits and synergies
BOC has completed a number of acquisitions in recent years as part of its growth strategy and may make acquisitions in the future. While BOC identifies expected synergies, cost savings and growth opportunities prior to completing any acquisition, these benefits may not be achieved owing to, among other things:
- delays or difficulties in completing the integration of acquired companies or assets;
- higher than expected costs or a need to allocate resources to manage unexpected operating difficulties;
- diversion of the attention and resources of BOC's management;
- inability to retain key employees in acquired companies;
- inability to retain key customers; and
- assumption of liabilities unrecognised in due diligence.

The growth of BOC's gases business will depend on the ability to win and execute large projects profitably
BOC, through its Process Gas Solutions (PGS) line of business, has a strategy for growth that requires significant investment each year to serve key customers in different geographies. Failure to execute projects successfully for these customers will impact PGS's ability to win new projects from these customers, and therefore may impact BOC's future financial results. The specific risks associated with major projects include:
- failure to complete the project on time owing to unforeseen construction problems (which may require BOC to pay penalties under the terms of the customer contract);
- failure of the plant to deliver the contracted volumes and quantities of product required by the customer because of design errors or errors in manufacturing or construction (which may require BOC to pay penalties under the terms of the customer contract); and
- inability to operate the plant at costs assumed in BOC's financial evaluation of the project.

The safety of BOC's operations is critical to success
Industrial gases are hazardous substances and BOC recognises that managing safety in operations, transportation and products is critical to achieve growth and financial results. Failure to maintain high levels of safety can result in a number of negative outcomes, including:
- fines and penalties for breaches of safety laws;
- liability payments and costs to employees or third parties arising from injury or damage;
- exclusion from certain market sectors deemed important for future development of the business (such as medical gases); and
- damage to reputation.

Additionally managing social, environmental and ethical matters is key to BOC's reputation.

BOC operates in over 50 different countries and is therefore exposed to economic, political, business and natural catastrophe risks associated with international operations
BOC's overall success as a business with global operations depends, in part, upon its ability to succeed in differing economic, political and business conditions. BOC encounters different legal and regulatory

requirements in numerous jurisdictions. These include taxation laws, environmental regulations, regulations concerning operational standards and competition laws. BOC is also confronted by political risks such as the expropriation of assets and the inability to export currency. The business risks and challenges faced in each geography include the need to manage credit risks of local customers, appointing and retaining key staff, general economic conditions locally and currency fluctuation. Recognition of changing market conditions in local geographies is critical to BOC's long-term success, particularly those where BOC anticipates significant investments to achieve growth, for example China. Additionally, a good understanding of political and economic risks is essential to achieve success from investments in new geographies. BOC's operations are exposed to varying degrees of natural catastrophe risk, such as earthquake and flood, as well as security risk, in the different countries in which BOC operates.

BOC operates in a highly competitive environment

The industrial gases market is very competitive, with several large competitors and a significant number of smaller local competitors in different territories. Although the current trend in the industry is to seek price increases for industrial gases, the industry has experienced falling prices in previous years. There is no guarantee that the current trend will continue and there is a risk that competitors will seek to maintain or increase market shares by reducing prices. These price reductions would result in lower revenues, profits and cash flows.

BOC relies on development of, or access to, technology to support business growth

BOC's success is dependent in part on its continued investment in technology to develop new products and services across all businesses, new applications for existing products or to design effective means for producing industrial gases. Failure to access or develop technology or anticipate, manage or adopt technological changes in operations or product applications on a timely basis will have a material impact on BOC's future results. For example, the rapid development of technology in the semiconductor sector requires BOC Edwards to be aware of changes in customer technology requirements and to introduce new products to meet those requirements in a timely manner. Failure to do so could result in reduced market share and profitability.

Recognising and anticipating changes in the manufacturing economy is key to BOC's success

BOC's industrial gas businesses serve a wide range of manufacturing customers in major geographies such as the US, UK, Japan and Australia. This is particularly true of the Industrial and Special Products line of business which provides products and services to customers involved in the welding and cutting of metal, a major source of revenue for this division. As customers in these traditional manufacturing-based economies seek to move their manufacturing operations to lower cost territories in, for example, Asia and Latin America, the risk arises that BOC's operations in the major geographies will have lower growth opportunities. Failure to recognise these trends and manage the consequences, through the development of alternative markets and/or meeting demand in higher growth territories, could have a negative impact on future Group financial results.

BOC's success depends to a significant extent on its key personnel and employees

BOC's performance depends on the skills and efforts of its employees and management team across all of its businesses. BOC recognises that failure to attract new talent and retain existing expertise, knowledge and skills in operations, products and infrastructure areas such as information technology could have a negative impact on revenues and profits. In addition, the success of BOC's acquisitions may depend, in part, on BOC's ability to retain management personnel of acquired companies.

Litigation may have an adverse impact on financial results

The global nature of BOC's business exposes it to the potential for litigation from third parties. From time to time BOC is involved in lawsuits, resulting from current and past operations or products. The outcome of these lawsuits may result in damages and awards which could have a material impact on BOC's profitability, its business operations or financial condition. Examples of litigation in the US for past products include allegations of injury arising from the use of welding electrodes previously manufactured and distributed by BOC in the US.

Increased energy costs could reduce profitability

The production of industrial gases requires significant amounts of electrical energy. Energy costs are a key component of the cost of manufacturing industrial gases, and increases in these costs can impact profitability if they cannot be passed on to customers. Accurately predicting trends in energy costs is difficult to achieve as energy costs are to a large extent subject to factors beyond the company's control – for example, political conditions in oil producing regions. BOC also operates large fleets of commercial vehicles in certain major geographies. An increase in energy costs associated with the use of these commercial vehicles may negatively impact profit levels.

Further consolidation between major competitors may impact BOC's competitive position

A merger between any of the major competitors to BOC within the principal geographies, subject to competition authority consent, could result in a longer-term deterioration of BOC's competitive position resulting in reduced levels of growth. Possible consequences could include:

- an uncompetitive cost base for large projects;
- an inability to participate in further consolidation due to competition concerns;
- retention and/or recruitment of key personnel;
- weakened geographical positions.

Managing joint venture relationships is a key success factor for BOC

BOC needs to ensure that the selection of joint venture partners in new ventures and the relationships with partners in existing relationships is managed effectively to ensure the full potential for the joint venture is achieved. Failure to achieve alignment of objectives and manage relationships effectively may negatively impact future growth and profit levels.

Failure to renew major contracts could reduce profitability

All of BOC's businesses operate in very competitive markets. The loss of major contracts through competitive forces, changes in customer purchasing strategy or changes in customer location, could have a negative impact on Group financial results.

Identifying growth opportunities and productivity improvements are necessary for longer term success

Failure to identify and execute growth and productivity opportunities effectively will limit increases in profitability. These risks can materialise from inadequate processes or a lack of resources to identify opportunities and exploit them.

Adoption of accounting changes or new regulations can increase costs and reduce profitability

The implementation of new accounting requirements (for example, International Financial Reporting Standards) or regulations (for example, the US Sarbanes-Oxley Act) can incur significant costs which reduce profitability. Increased costs arise through recruitment of additional resources, consultancy fees to support implementation or increased external audit fees.

Operating review

Introduction

The Group's results are prepared under UK Generally Accepted Accounting Principles (GAAP) and comply with UK Companies Act requirements. While the UK GAAP reporting basis provides the core information for users of this report and accounts to understand the financial performance of the Group, management believes that users will be assisted in understanding the performance relative to previous periods by presenting the results in an alternative manner. This presentation isolates the impact of currency movements from year to year and eliminates the impact of exceptional or non-recurring items. This is consistent with the basis used by management to measure performance of the business and is a component of variable compensation plans. The elements of this alternative presentation are described in more detail below.

Impact of currency movements

The Group has operations in some 50 countries around the world and the majority of its profit is generated outside the UK. Results of overseas operations are translated at the average rates of exchange against sterling for the year. Changes in such rates from year to year can significantly affect the Group's results when these are presented in pounds sterling. In some cases, such changes may make it difficult to understand underlying business performance trends without providing additional information. For example, the average value of the US dollar to pounds sterling changed by three per cent in 2005 compared with 2004. It is important to highlight such currency movements to users of financial information to help them understand business and regional performance.

Consequently, management has for many years monitored business performance on a 'constant currency' basis. This basis eliminates the impact of changes in the rates of exchange used to translate the results of overseas businesses into sterling by retranslating the results of the comparative year at the rates of exchange used in the current year. This is the basis for all internal management reporting throughout the year.

In this operating review, the comparison of financial performance between years may in places be referred to as on this 'constant currency' basis. Comments on all segmental performance are on a constant currency basis.

The impact of changes in the rates of exchange used to translate the results of overseas businesses into sterling is shown in the table below.

	2003 results (as reported) £ million	Impact of movements in currency £ million	2003 results (at 2004 rates of exchange) £ million	2004 results (as reported) £ million	Impact of movements in currency £ million	2004 results (at 2005 rates of exchange) £ million
Turnover (including share of joint ventures and associates)						
Process Gas Solutions	1,242.7	(71.1)	1,171.6	1,275.2	(9.4)	1,265.8
Industrial and Special Products	1,751.2	(19.6)	1,731.6	1,782.3	6.9	1,789.2
BOC Edwards	684.1	(39.4)	644.7	816.5	(5.5)	811.0
Afrox hospitals	353.4	41.4	394.8	432.1	11.6	443.7
Gist	291.8	(0.1)	291.7	293.2	0.2	293.4
Total	4,323.2	(88.8)	4,234.4	4,599.3	3.8	4,603.1
Operating profit						
Process Gas Solutions	177.1	(10.3)	166.8	189.5	(0.6)	188.9
Industrial and Special Products	238.2	3.1	241.3	253.9	3.0	256.9
BOC Edwards	7.9	(1.1)	6.8	46.8	0.4	47.2
Afrox hospitals	46.1	5.4	51.5	59.8	1.6	61.4
Gist	29.2	0.1	29.3	25.1	–	25.1
Corporate	(59.9)	6.1	(53.8)	(15.6)	0.5	(15.1)
Total	438.6	3.3	441.9	559.5	4.9	564.4
Adjusted operating profit						
Process Gas Solutions	184.0	(10.5)	173.5	190.3	(0.6)	189.7
Industrial and Special Products	242.7	2.8	245.5	269.5	2.6	272.1
BOC Edwards	18.5	(1.5)	17.0	47.8	0.4	48.2
Afrox hospitals	46.1	5.4	51.5	59.8	1.6	61.4
Gist	29.2	0.1	29.3	25.1	–	25.1
Corporate	(14.9)	1.5	(13.4)	(15.6)	0.5	(15.1)
Total	505.6	(2.2)	503.4	576.9	4.5	581.4

Exceptional or non-recurring items

Management believes that to present the results of the Group in the most meaningful way, items of an exceptional nature should be separately identified and disclosed. This enables users of the information to have a better understanding of underlying business performance. Examples of such items in 2005 include the profit on disposal of the Afrox hospitals business in Africa and costs of restructuring in BOC Edwards. Included in 2004 were the loss on disposal of the packaged gas business in the US, costs relating to the subsequent restructuring of the remaining US business and charges relating to the integration process in Japan that began in 2003 following the merger of the industrial and medical gases businesses there of BOC and Air Liquide to form Japan Air Gases.

Exceptional items include those items classified as both operating and non-operating under UK GAAP.

The review of results excluding exceptional items is part of the normal internal management reporting process. The growth in operating profit excluding exceptional items is also one of the measures used in the variable element of the senior management compensation scheme.

Further information regarding the exceptional items is given in the financial review on page 55. An analysis of all operating and non-operating exceptional items is given in note 2 b) to the financial statements on page 97.

In this review, the adjustments to eliminate exceptional items have been made to operating profit (both Group and by segment), profit before tax and earnings per share. Exceptional items are commented on in the Group results section as well as in the individual business segments to which they relate. A reconciliation of these adjusted items to the equivalent UK GAAP measure is shown in the profit and loss account on page 86. When any results or measures used in this review have been adjusted to exclude exceptional items, they are referred to as 'adjusted'.

Within the individual business segments of the operating review, operating exceptional items are commented on separately. Comments on other aspects of financial trends and performance are based on adjusted operating profit. This provides more meaningful comment on underlying business performance.

A reconciliation of adjusted operating profit to operating profit is given in the table below.

	2005			2004			2003		
	Adjusted operating profit £ million	**Operating exceptional items £ million**	**Operating profit £ million**	Adjusted operating profit £ million	Operating exceptional items £ million	Operating profit £ million	Adjusted operating profit £ million	Operating exceptional items £ million	Operating profit £ million
Process Gas Solutions	**207.2**	**–**	**207.2**	190.3	(0.8)	189.5	184.0	(6.9)	177.1
Industrial and Special Products	**289.4**	**–**	**289.4**	269.5	(15.6)	253.9	242.7	(4.5)	238.2
BOC Edwards	**38.1**	**(20.7)**	**17.4**	47.8	(1.0)	46.8	18.5	(10.6)	7.9
Afrox hospitals	**37.2**	**–**	**37.2**	59.8	–	59.8	46.1	–	46.1
Gist	**24.5**	**–**	**24.5**	25.1	–	25.1	29.2	–	29.2
Corporate	**(32.2)**	**–**	**(32.2)**	(15.6)	–	(15.6)	(14.9)	(45.0)	(59.9)
Total Group	**564.2**	**(20.7)**	**543.5**	576.9	(17.4)	559.5	505.6	(67.0)	438.6

Other non GAAP measures

This review also presents return on capital employed (ROCE) and adjusted return on capital employed. Adjusted return on capital employed removes exceptional items from the measure of operating profit used in the calculation. Adjusted return on capital employed is used by management for reasons similar to those described above.

A reconciliation of these two measures is shown below.

	2005			2004			2003		
	Operating profit £ million	**Average capital employed £ million**	**ROCE %**	Operating profit £ million	Average capital employed £ million	ROCE %	Operating profit £ million	Average capital employed £ million	ROCE %
Adjusted ROCE	**564.2**	**3,478.3**	**16.2**	576.9	3,752.4	15.4	505.6	4,010.5	12.6
Operating exceptional items	**(20.7)**	**–**		(17.4)	–		(67.0)	–	
ROCE	**543.5**	**3,478.3**	**15.6**	559.5	3,752.4	14.9	438.6	4,010.5	10.9

1. ROCE is operating profit as a percentage of the average capital employed excluding net pension liabilities.

The Group commentary in this review also comments on free cash flow. Free cash flow is a measure often referred to by BOC management and other users of financial information to highlight the cash flow available from underlying ongoing business operations before acquisition and disposal activity. Whether or not this remains positive over time is an indicator that dividends to shareholders are being paid out of cash generated by existing Group businesses. As such it is a useful additional measure of financial performance.

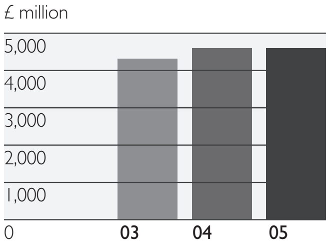
A reconciliation of this measure to the nearest equivalent UK GAAP measure, net cash flow, is shown below.

	2005 **£ million**	2004 £ million	2003 £ million
Free cash flow	**18.6**	257.9	141.8
Exceptional cash items	**(16.9)**	(11.9)	(28.3)
Acquisitions and disposals[1]	**59.2**	92.5	(118.3)
Other items within capital expenditure and financial investment:			
Purchases of intangible fixed assets	**(0.6)**	(0.2)	(1.2)
Net sales/(purchases) of current asset investments	**4.7**	(0.9)	16.6
Purchases of trade and other investments	**(3.4)**	(3.8)	(3.3)
Sales of trade and other investments	**30.0**	5.6	5.3
Net cash inflow before use of liquid resources and financing	**91.6**	339.2	12.6

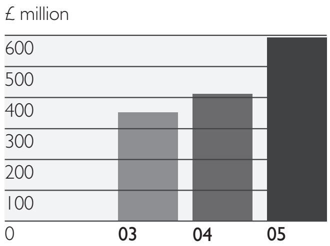
1. Acquisitions and disposals in 2005 is shown after an adjustment of £69.6 million relating to the disposal of the Afrox hospitals business. This comprises £54.2 million for the minority interest element of the special dividend paid to the shareholders of African Oxygen Limited following receipt of the proceeds of disposal and £15.4 million for the tax paid on the special dividend.

Operating review (comparing 2005 with 2004)

Turnover, including share of joint ventures and associates



Profit before tax



Group

Turnover including the Group share of joint ventures and associates was £4,605.0 million in 2005, similar to the £4,599.3 million reported in 2004. Operating profit was £543.5 million, down three per cent compared with £559.5 million in 2004. After crediting operating and non-operating exceptional items totalling £87.9 million and charging net interest and other financing items of £58.5 million, profit before tax was £593.6 million, up 44 per cent compared with £412.3 million in 2004. Earnings per share were 74.1p, up 39 per cent compared with 53.5p in 2004. Excluding the exceptional items, adjusted operating profit for the year was £564.2 million, adjusted profit before tax was £505.7 million and adjusted earnings per share were 67.5p, a record level for BOC.

Comparisons with 2004 are affected by exchange rate movements. For the currencies that principally affect the Group's results, movements in the Australian dollar and the South African rand were favourable and movements in the US dollar and Japanese yen were adverse. If the results of a year ago had been translated at the rates applied to this year, turnover would have been increased by £3.8 million. There would have been an increase in operating profit of £4.9 million and an increase in adjusted operating profit of £4.5 million. Adjusted profit before tax would have been £5.2 million higher and adjusted earnings per share would have been 0.5p higher.

The table set out below summarises results reported both under UK GAAP and as adjusted. Results for 2004 are shown both as reported in that year and on a constant currency basis.

	2005	2004	2004 (at 2005 exchange rates)[1]
Turnover including share of joint ventures and associates (£ million)	**4,605.0**	4,599.3	4,603.1
Operating profit (£ million)	**543.5**	559.5	564.4
Adjusted operating profit (£ million)[2]	**564.2**	576.9	581.4
Profit before tax (£ million)	**593.6**	412.3	420.5
Adjusted profit before tax (£ million)[2]	**505.7**	504.3	509.5
Earnings per share	**74.1p**	53.5p	54.5p
Adjusted earnings per share[2]	**67.5p**	63.2p	63.7p

1. A reconciliation of turnover, operating profit and adjusted operating profit for 2004 at 2004 and at 2005 rates of exchange is shown on page 40.
2. A reconciliation of adjusted results with UK GAAP results is shown on page 41 and in the profit and loss account on page 86.

Exceptional items in 2005 amounted to a profit of £87.9 million. This comprised £84.9 million profit on the disposal of a majority shareholding in Afrox Healthcare Limited, £13.2 million profit relating to the disposal in 2004 of the US packaged gas business, £10.5 million profit on the disposal of the majority of a shareholding in the US beverage dispense company, NuCo2 Inc, partly offset by a charge of £20.7 for restructuring in BOC Edwards.

Exceptional items in 2004 amounted to a charge of £92.0 million. This comprised a loss of £79.5 million on disposal of the US packaged gas business, a charge of £14.8 million for restructuring the remaining business in the US following the disposal, a charge of £2.6 million relating to the integration of the industrial and medical gases businesses of BOC and Air Liquide in Japan, and a profit of £4.9 million on the disposal of fixed assets.

Adjusted return on capital employed for the year to 30 September 2005 was 16.2 per cent. Return on capital employed for the year to 30 September 2005 was 15.6 per cent. Free cash flow (as defined on page 41) was £18.6 million in 2005. Net cash flow, after acquisitions, disposals and other investing activities, and including exceptional cash items, was £91.6 million in 2005. A reconciliation of these measures is shown on page 41.

A first interim dividend for 2005 of 15.9p per share was paid in February 2005 and a second interim dividend of 25.3p per share was paid in August 2005. In aggregate this was a 3 per cent increase over the annual dividend of the previous year. A first interim dividend for 2006 of 16.3p per share has been declared for payment in February 2006.

Capital expenditure by subsidiaries (including interest capitalised) was £397.3 million in 2005, compared with £256.1 million in 2004. This was covered by cash inflow from operating activities. Capital expenditure by joint ventures and associates was £285.9 million in 2005, of which the BOC share was £144.0 million. Equivalent expenditure in 2004 was £109.0 million, of which the BOC share was £49.2 million. The Group also made acquisitions of businesses of £57.1 million in 2005 and proceeds from disposals were £224.1 million. Equivalent items in 2004 were £50.9 million and £98.3 million respectively.

Process Gas Solutions (PGS)

	2005 £ million	Change on 2004	Change on 2004[1] (constant currency)
Turnover	**1,466.3**	+15%	+16%
– Europe	**332.3**	+13%	+12%
– Americas	**631.5**	+21%	+25%
– Africa	**38.6**	+7%	+4%
– Asia/Pacific	**463.9**	+10%	+10%
Operating profit	**207.2**	+9%	+10%
Adjusted operating profit[2]	**207.2**	+9%	+9%

1. A reconciliation of results for 2004 at 2004 and at 2005 rates of exchange is shown on page 40.
2. A reconciliation of adjusted operating profit with operating profit is shown on page 41.
3. All comments below are on a constant currency basis.

The principal business factors driving increased turnover in 2005 were increased selling prices to recover higher power and energy costs, increased turnover within the Linde BOC Process Plants business in the US and strong demand for gases in the steel sector for most of the year. The recovery of higher power and energy costs is estimated to have added approximately one per cent to turnover in 2005. Turnover also rose because of an increase in BOC's ownership of the business supplying nitrogen for enhanced oil recovery in Mexico and as a result of changes to the terms of a supply scheme contract in the US. These two factors added approximately five per cent to turnover in 2005 compared with 2004.

New plants had a relatively smaller impact on turnover during 2005. Those contributing additional sales included a hydrogen plant supplying Citgo in the US and a new air separation unit supplying the Sinopec and BASF joint venture petrochemical plant in Nanjing, China. New plants added less than one per cent to turnover in 2005 compared with 2004.

Operating profit increased less rapidly than turnover principally because of the factors that raised turnover without a corresponding impact on profit. These included increased prices to recover higher input costs and the changed contract.

During 2005, BOC continued to be successful in winning new on-site supply contracts with major customers in the oil and petrochemical industries and in Asia with steel customers. Three new plants are under construction for the supply of hydrogen to US refiners for the production of cleaner-burning fuels and to improve the processing of heavier crude feedstocks. When these plants are fully commissioned they are expected to approximately double BOC's worldwide hydrogen capacity. At the same time, new air separation capacity is being added to satisfy growing demand from steel and petrochemical customers in Asia. A new plant is being built for a petrochemical customer at Map Ta Phut in Thailand and several large-scale plants are under construction in China for both steel and chemical customers. One of the largest projects currently under way is the addition of a fifth production module to the complex supplying nitrogen for the re-pressurisation of oil wells in the Gulf of Mexico. This facility is already the largest nitrogen plant in the world and has already proved its worth in boosting oil production. The new module will increase nitrogen production by approximately 25 per cent. Much of this new capacity is scheduled to be commissioned in late 2006 and during 2007.

There were no operating exceptional items in 2005. Operating exceptional items in 2004 were for the integration of the industrial and medical gases businesses of BOC and Air Liquide in Japan that began in 2003.

Europe Economic conditions were mixed during 2005 with some difficult trends in the UK and Ireland partly offset by industrial growth in Poland. The adverse impact of lower merchant volumes in some sectors was to a large extent offset by further savings from improved operating efficiency.

In the UK, industrial gases demand from the steel and chemical sectors was strong in 2005, leading to better tonnage volumes. However, demand for liquefied gases declined as a result of generally sluggish activity in some manufacturing sectors exacerbated by sharp increases in energy costs. These also impacted BOC's merchant gases business. Higher power costs were generally recovered in selling prices but increased prices led some customers to reduce their consumption of industrial gases, while a few ceased production in the UK.

There has been another significant increase in UK power prices for 2006 and further selling price increases are being implemented with customers.

BOC's business in Poland continued to benefit from general economic growth and strong demand in the steel industry.

Sales volumes were lower in Ireland as some traditional industries declined while economic growth was concentrated in the service sectors.

Cryostar's business as a manufacturer of cryogenic pumps, expansion turbines and compressors continued to grow in 2005. These devices are used for a variety of industrial gas applications and for marine liquefied natural gas (LNG) tankers.

The Americas Buoyant conditions in the steel industry led to strong demand for tonnage gases in the US during the first half of 2005. Some slowdown became apparent during the second half and this, together with isolated plant outages, reduced tonnage volumes in the second half and for the year as a whole. Higher power costs were progressively recovered by increased selling prices in the merchant market for liquefied atmospheric gases and demand remained firm. Carbon dioxide sales benefited from strong demand for enhanced oil recovery rather than for food and beverage applications.

During 2005, BOC invested in new carbon dioxide capacity to satisfy demand for oil recovery in Texas and made a number of smaller investments to optimise the US supply chain network and reduce delivery costs.

In Latin America, the contribution from the joint venture supplying nitrogen to Pemex for re-pressurising its Cantarell oilfield was increased in 2005 as a result of BOC's acquisition of Duke Energy's 30 per cent interest. This transaction was completed in September 2004 and increased BOC's overall stake to 65 per cent. Construction of a fifth production module that will increase output by approximately 25 per cent is now under way and on schedule. Meanwhile some improvement in the efficiency of existing production units is expected from a routine maintenance schedule that is currently in progress.

Africa Sales volumes increased in 2005 as a result of continuing firm demand for tonnage gases in the South African steel sector and increasing consumption of liquid nitrogen by food manufacturers. Higher selling prices also contributed to increased turnover. New long-term supply contracts were signed with customers in the metals and automotive components industries. During 2006, investments will be made to fulfil these contracts and to satisfy growing demand for liquefied gases in the merchant market.

Asia/Pacific Sales growth in north Asia was supported by production from new and recently commissioned plants in China. There was also growing demand for liquefied gases in the merchant markets not only in China but also in Korea and in Taiwan, where available capacity was fully utilised. Further investment by China's leading steel and chemicals producers continued strongly in 2005 leading to opportunities for long-term supply schemes.

A new 1,400 tonnes-a-day air separation unit was commissioned by BOC's joint venture with Sinopec in Nanjing during the year and began to supply Sinopec's new joint venture with BASF when that began operation in 2005. Two new air separation plants were also commissioned in south China to supply steel customers during 2005. Two 1,400 tonnes-a-day air separation units are under construction to supply gases for expanded production at the Taiyuan Iron & Steel Corporation (TISCO), which is already the largest stainless steel producer in China and one of the biggest in the world. Construction of a further two similarly large air separation units to supply the Maanshan Iron & Steel Company (Ma Steel) began before the end of 2005.

In Japan, demand for industrial gases from the steel, chemical and glass industries remained strong in 2005. During the year, BOC's Japan Air Gases joint venture brought on stream a new 2,100 tonnes-a-day plant serving a major steel customer.

BOC's most important PGS businesses in south and south east Asia are in Thailand, Malaysia, Singapore and India. The major market sectors for PGS across the region are steel, petrochemicals and the food industry.

The Thai economy continued to expand in 2005 and BOC's business there benefited from growth of the chemical industry. Despite a continuation of US anti-dumping measures that held back prawn exports, there was some recovery in the food-freezing sector leading to increased sales of carbon dioxide and liquefied nitrogen.

MIG Production Co. Ltd (MIGP), a joint venture between BOC's Thai subsidiary Thai Industrial Gases PCL and Bangkok Industrial Gas Company Ltd has been awarded a long-term contract to supply 800 tonnes a day of oxygen to a new mono ethylene glycol project operated by TOC Glycol Co. Ltd. (TOCGC) in Map Ta Phut, Thailand. MIGP is investing US$50 million to build an air separation unit on an adjacent site to TOCGC's new mono ethylene glycol plant. Scheduled to come on-stream in 2006, the facility will produce 1,300 tonnes of oxygen a day, making it the largest air separation unit in Thailand. The excess capacity from the new facility will serve the parent companies' tonnage and merchant markets.

Business in Malaysia was supported by buoyant conditions in the steel sector for most of the year despite some softening of demand in the final quarter. Demand from the Malaysian chemical industry also improved in 2005. Business trends in Singapore were positive in 2005, led by expanding activity in the chemicals and electronics sectors.

Strong demand for industrial gases by the steel, chemicals, pharmaceuticals and glass sectors coupled with positive selling price trends led to accelerated growth in India.

BOC's subsidiary, BOC India Ltd, has been awarded the contract for supplying the gases requirements for an expansion programme being undertaken by Jindal Vijaynagar Steel Limited at Bellary in Southern India. BOC India Ltd has signed a fifteen-year agreement to supply 1,400 tonnes a day of oxygen and nitrogen and is building a new 855 tonnes-a-day air separation unit at Bellary, which is due to be commissioned in 2006. Management sees this latest investment of up to US$40 million as a major move in developing its strategy in southern India.

Elsewhere in the region, business developed well in Pakistan but growth in the Philippines was constrained by product availability. Production of oxygen at BOC's plant at Gresik in Indonesia was limited during 2005 by the availability of natural gas to generate power. Use of diesel fuel as an alternative led to less efficient operation.

In Australia economic growth continued in 2005 but at a slower rate than in 2004 and there was relatively little new plant investment. World commodity prices remained firm leading to sustained demand from the mineral processing and steel industries for tonnage gases. Higher energy and labour costs in 2005 were generally recovered by increased selling prices.

During 2005, BOC renewed its long-term contract to supply a leading titanium dioxide pigment manufacturer.

The Government of Western Australia's environmentally friendly fuel cell bus project, which began in 2004 with three hydrogen-fuelled buses operating in the city of Perth, was commercialised in 2005. BOC's hydrogen purification plant and re-fuelling facility supports BP in this project.

Water services Further business was secured during 2005 with industrial rather than municipal customers, in accordance with BOC's strategic objectives for this business. Much of the new business continued to be with food manufacturers but there was also increasing interest for water services in the chemicals and refining sectors.

Industrial and Special Products (ISP)

	2005 £ million	Change on 2004	Change on 2004[1] (constant currency)
Turnover	**1,721.7**	–3%	–4%
– Europe	**467.0**	+4%	+3%
– Americas	**322.3**	–24%	–23%
– Africa	**272.3**	+18%	+19%
– Asia/Pacific	**660.1**	–3%	–4%
Operating profit	**289.4**	+14%	+13%
Adjusted operating profit[2]	**289.4**	+7%	+6%

1. A reconciliation of results for 2004 at 2004 and at 2005 rates of exchange is shown on page 40.
2. A reconciliation of adjusted operating profit with operating profit is shown on page 41.
3. All comments below are on a constant currency basis.

Turnover was lower in 2005 as a result of the disposal of BOC's packaged gas business in the US in July 2004 and the disposal of part of the Unique Gas business in Thailand in December 2004. These disposals accounted for a ten per cent decrease in turnover for 2005 compared with 2004. The effect of disposals on turnover was partly offset by growth in Europe, Africa and the south Pacific region.

The elimination of overhead costs following the US packaged gas disposal helped towards an increase in operating profit. This together with new business won was reflected in a £15 million increase in north American adjusted operating profit in 2005. Other factors supporting profitability were the extension of 'best commercial practice' and 'best operating practice' business efficiency programmes to more parts of the world.

Further progress was made with the refurbishment of retail stores – particularly in South Africa and Australia – during 2005 and this led to increased sales. Retail outlets also supported the growth of BOC's safety products business. At the same time further comprehensive safety product contracts were won with major customers.

New user-friendly product packages, including lightweight cylinders for emergency services, continued to drive sales growth of medical gases. Turnover of medical gases for BOC's major subsidiaries, joint ventures and associates (excluding Japan) increased by seven per cent in 2005. There was also good growth in the special products and services business, which includes scientific gases, refrigerant gases and other packaged chemicals. Special gases turnover increased by 11 per cent in 2005 on the same basis.

Higher petroleum prices in 2005 presented a challenge to margins in the liquefied petroleum gas businesses in Australia and South Africa but most of the cost increases were recovered in higher selling prices.

Demand for helium remained strong worldwide, driven by increasing use of medical imaging. New helium capacity is expected to come into production in Qatar in 2006. This will make more product available to BOC but at a higher price than existing supplies.

There were no operating exceptional items in 2005. Operating exceptional items in 2004 were for the integration of the industrial and medical gases businesses of BOC and Air Liquide in Japan that began in 2003, as well as for the restructuring of the ISP business in the US following the disposal of the packaged gas business.

Europe Increased turnover reflected growing sales of medical and special products in the UK and generally favourable business trends in Poland. The UK industrial market remained flat, but BOC's business was expanded by increased sales of welding products. Increased energy costs were recovered by increased selling prices.

Growth in the medical gases business was once again driven by the introduction of new lightweight cylinder packages and by winning hospital facilities management contracts.

Increased turnover of special products was based largely on growing sales of gas mixtures for scientific applications and additional helium business. New capacity is being added to satisfy additional requirements for Siemens Magnet Technology (formerly Oxford Magnet Technology) the leading MRI scanner manufacturer. BOC already manages Siemens' helium requirements during manufacturing and will now provide on-site services for Siemens magnets in hospitals. Additional sales also resulted from the acquisition of Calor's aerosol propellants and hydrocarbon refrigerants business in the UK.

Growth of BOC's Sureflow hospitality gas and cellar services business was curtailed by lower sales of draught beer in the UK during 2005. Additional business was gained in Ireland by providing cellar services for a major brewery chain.

Changes in the provision of domiciliary oxygen in England and Wales were announced by the National Health Service in 2005. BOC was awarded one of the 11 regional contracts and from February 2006 will supply all forms of domiciliary oxygen to patients for the Eastern region. It is expected that this will lead to a reduction of BOC's home oxygen sales in the UK over the next two years. However, the majority of BOC's UK medical gases business is with hospitals and the emergency services, which is unaffected by this change.

The Americas The disposal of BOC's US packaged gas business was completed on 30 July 2004 when initial cash proceeds of US$175 million were received. This business had turnover of approximately US$240 million in 2003.

The ISP business in the US now consists of bulk medical gases, bulk supplies to distributors, tube trailer and liquefied helium. BOC's US overhead costs were reduced following the disposal, as the business was then concentrated on a much smaller number of customers. As a result the US business became profitable in 2005.

During 2005, new distributor channels were added, new helium business was secured in the US and new bulk industrial contracts were won with biotechnology and laser welding customers.

Buoyant conditions in the oil and gas industry helped towards an improved performance in Canada during 2005.

BOC's global helium business grew strongly in 2005 with increasing demand in China and Korea. During 2006 the first supplies from a new source in Qatar will enable these markets to be served more efficiently. However the financial impact is expected to be negative initially as additional volumes will be offset by higher feedstock costs.

Growth in Latin America was driven by increased sales in Venezuela and Colombia, where the medical sector is the most important. However there was also growth in the industrial markets served by BOC's associated company based in Chile.

Africa Lower interest rates continued to stimulate South African domestic consumption and manufacturing output during 2005, leading to better turnover for the African region. Operating profit also increased but by somewhat less than turnover, which was additionally inflated by higher liquefied petroleum gas (LPG) prices.

Turnover grew in every part of the South African business but was led by particularly strong sales of safety products. During 2005 Afrox Safety was launched as a business brand and an on-site safety services business was acquired. Sales of scientific gases increased but from a relatively low base.

Despite the challenge of a strong South African rand, export business also grew considerably. Plans are in place to expand production of welding products for local use and particularly for export.

Other African countries also produced satisfactory results with particularly good performances in Kenya and Zambia.

Asia/Pacific Most of the countries in south and south east Asia achieved good results in 2005 with especially strong performances in India, Thailand and Bangladesh. Results in India were additionally supported by a profit from the disposal of some land in Bangalore.

At the same time, trading conditions during 2005 were difficult in Malaysia and industrial activity continued to decline in Hong Kong as production drifted to mainland China. This trend also continued to affect Taiwan but to a lesser extent.

BOC's industrial products business remains relatively undeveloped in China. Few attractive opportunities have been identified but growing demand for helium provides a better prospect.

The growth of automobile production stimulated demand for welding gases and investment in special gases and packaged chemicals production facilities supported increased sales of these products in Asia generally.

In Japan, both turnover and adjusted operating profit were similar to a year ago.

An improved performance in the south Pacific region was driven by demand from the natural resources sector and increased sales of safety products while consumption of welding products and gases by the manufacturing sector grew more slowly. This reflects somewhat slower growth in the Australian economy than in 2004.

Growth was focused in the mining regions of Western Australia, Queensland and Papua New Guinea. BOC was also successful in winning significant contracts to supply safety and personal protective products to Xstrata in Australia and to New Zealand Steel. These added to similar contracts won with Western Mining in 2004.

The construction of a new special gases centre is under way at Wagga Wagga, in Australia, to meet the increasing demand for packaged chemicals such as ammonia, ethylene oxide and sulphur dioxide. Meanwhile the gradual re-development of BOC's retail Gas and Gear stores that began in 2004 continued in 2005 and is now approximately two thirds completed.

BOC's joint venture company supplying liquefied petroleum gas in Australia faced the twin challenges of a sharp rise in input costs and the warmest winter on record in 2005. Lower consumption for heating applications therefore led to a decline in volumes.

BOC Edwards

	2005 £ million	Change on 2004	Change on 2004[1] (constant currency)
Turnover	**826.0**	+1%	+2%
Operating profit	**17.4**	–63%	–63%
Adjusted operating profit[2]	**38.1**	–20%	–21%

1. A reconciliation of results for 2004 at 2004 and at 2005 rates of exchange is shown on page 40.
2. A reconciliation of adjusted operating profit with operating profit is shown on page 41.
3. All comments below are on a constant currency basis.

The upturn in semiconductor equipment spending that had helped BOC Edwards' order intake and financial performance in 2004 was not repeated in 2005. At the same time, margins continued to be adversely affected by weakness of the US dollar, which is the currency in which much of BOC Edwards' revenue is earned. The adjusted operating profit for 2005 would have been approximately £9 million more if transactions had been conducted at the exchange rates of a year ago. Adjusted operating profit was therefore lower in 2005, despite some initial benefit from cost reduction programmes.

Where new semiconductor or liquid crystal display (LCD) business was placed, BOC was generally successful in retaining or improving its market share. Demand for integrated subsystems combining vacuum and exhaust management technologies grew in 2005. BOC Edwards is now launching a new plasma abatement system for the destruction of ozone-depleting PFC chemicals, which are found in the exhaust streams after etch processes in semiconductor, LCD and solar cell manufacture. BOC Edwards also became a leading supplier of subsystems for immersion lithography. For the latest generation of LCD fabrication units, BOC Edwards has also launched its own iFxK and iHxK high-capacity pumping systems. For semiconductor applications, a new cost-effective turbomolecular pumping system, whose magnetic bearings are controlled without the use of sensors, was developed.

Demand for component cleaning services and electronic materials was slightly lower as some semiconductor production rates were reduced in 2005 to reduce stock levels. During 2005 BOC Edwards formed a joint venture to extend its component cleaning business into Taiwan.

While nitrogen trifluoride prices continued to fall in 2005, BOC Edwards made good progress with its alternative technology of on-site fluorine generation systems for cleaning vapour deposition chambers. Production of fluorine generators has already been established in Korea to achieve lower production and distribution costs to serve the expanding customer base in Asia.

In October 2004 BOC Edwards expanded its electronic materials offering to include wet chemicals for flat panel display, semiconductor, and solar cell customers throughout Asia, by purchasing a 50 per cent ownership in Asia Union Electronic Chemical Corporation (AUECC). This company also formed a joint venture with Shanghai Huayi (Group) Company to supply wet process chemicals to the growing electronics manufacturing industry in China. Through the joint venture, AUECC will use Shanghai as a base to produce, package and distribute a full range of ultra high-purity process chemicals for the semiconductor and flat panel display industries.

In 2005 BOC Edwards retained strong positions in the bulk gases markets of Taiwan and China and improved its position in Korea. New production capacity was added to the existing pipeline network in the Hsinchu business park in Taiwan and additional business was obtained in the business parks at

Suzhou, China. BOC Edwards has also established a position supplying customers in the new Cheng Du park in China. In Korea, BOC won potentially significant gases business with Samsung, having previously been a major supplier of semiconductor equipment. BOC's joint venture company also won new business with semiconductor manufacturers in Singapore.

There was better demand for vacuum equipment from the chemicals industry and from the aerospace industry for metallurgical applications in 2005. A general improvement in Asian markets also helped towards better results from BOC Edwards' general vacuum business. Vacuum pump production was expanded in the Czech Republic and some system assembly operations were established in Brazil during 2005.

Deliveries of pharmaceutical freeze-drying and packaging systems were at a higher level than in 2004. The establishment of a new low-cost manufacturing base in China has opened up new possibilities for business with the fast-growing pharmaceutical industry in Asia generally and particularly in India.

Exceptional costs of £20.7 million were charged within BOC Edwards during 2005. Some £14 million relates to the impairment of goodwill. The remainder is a charge for restructuring. Savings of approximately £5 million are targeted from this restructuring.

Operating exceptional items in 2004 were for the integration of the industrial and medical gases businesses of BOC and Air Liquide in Japan that began in 2003.

Afrox hospitals

	2005 £ million	Change on 2004	Change on 2004[1] (constant currency)
Turnover	**275.1**	–36%	–38%
Operating profit	**37.2**	–38%	–39%
Adjusted operating profit[2]	**37.2**	–38%	–39%

1. A reconciliation of results for 2004 at 2004 and at 2005 rates of exchange is shown on page 40.
2. A reconciliation of adjusted operating profit with operating profit is shown on page 41.
3. All comments below are on a constant currency basis.

The disposal of the majority shareholding in Afrox Healthcare Limited to a consortium led by two major black empowerment investors was completed on 22 March 2005. African Oxygen Limited (Afrox), BOC's subsidiary in South Africa, retains a significant interest in the hospitals business through a 20 per cent holding in the new company. Until disposal, Afrox Healthcare Limited was fully consolidated into the BOC Group accounts. For the second half of 2005, a 20 per cent share of the results of the new company, with its adjusted operating profit and net interest charge, was included in the BOC Group profit and loss account. The comparisons above are therefore distorted by this change.

After adjusting for this disposal and change of accounting treatment, the underlying performance of the Afrox hospitals business remained positive during 2005.

The disposal proceeds were received by Afrox in March and distributed to The BOC Group and Afrox minority shareholders by means of a special dividend in June, followed by a share buy-back in July 2005.

Gist

	2005 £ million	Change on 2004	Change on 2004[1] (constant currency)
Turnover	**315.9**	+8%	+8%
Operating profit	**24.5**	–2%	–2%
Adjusted operating profit[2]	**24.5**	–2%	–2%

1. A reconciliation of results for 2004 at 2004 and at 2005 rates of exchange is shown on page 40.
2. A reconciliation of adjusted operating profit with operating profit is shown on page 41.
3. All comments below are on a constant currency basis.

While the market for distribution services remained difficult in the UK throughout 2005, Gist continued to expand sales with existing customers and won new business. The higher turnover was not reflected in better operating profit, principally because of increased pension costs. Gist accounts for a substantial proportion of BOC's UK workforce and the impact of pension costs is therefore significant.

Food business with Marks & Spencer, Gists' major customer, expanded in 2005 as more new retail outlets were opened. Logistic operations for the Ocado home food service in association with Waitrose also continued to grow. Existing services for Carlsberg (UK) were expanded in 2005 and new business was won with Woolworths.

In September 2005 the Van Dongen group of logistics companies based in the Netherlands was acquired. This adds to Gist's primary distribution operations, bringing products from food manufacturers into the supply chain. It also extends the reach into continental Europe, which is becoming an increasing source of food products for UK retailers. This wider network has already generated additional business between the UK and continental Europe from a number of existing and new customers.

In November 2005, Gist was awarded an extension to its food logistics contract with Marks & Spencer. The contract covers the retailer's growing food business until 2011, confirming it as one of the UK's largest food logistics contracts.

Corporate

Corporate costs increased in 2005 partly as a result of additional spending on procedures to ensure compliance with Sarbanes-Oxley legislation and discretionary spending on litigation support in the US. The corporate charge also included a provision of £4.3 million for environmental clean-up in the US.

Operating review (comparing 2004 with 2003)

Group

Turnover including the Group share of joint ventures and associates was £4,599.3 million in 2004, up six per cent compared with £4,323.2 million in 2003. Operating profit was £559.5 million, up 28 per cent compared with £438.6 million in 2003. After charging operating and non-operating exceptional items totalling £92.0 million and net interest and other financing items of £72.6 million, profit before tax was £412.3 million, up 17 per cent compared with £351.9 million in 2003. Earnings per share were 53.5p, up 20 per cent compared with 44.5p in 2003. Excluding the exceptional items, adjusted operating profit for the year was £576.9 million, adjusted profit before tax was £504.3 million and adjusted earnings per share were 63.2p.

Comparisons of 2004 with 2003 were affected by exchange rate movements. For the currencies that principally affect the Group's results, movements in the Australian dollar and the South African rand were favourable and movements in the US dollar and Japanese yen were adverse. If the 2003 results had been translated at the rates applied to 2004, turnover would have been reduced by £88.8 million. There would have been an increase in operating profit of £3.3 million and a decrease in adjusted operating profit of £2.2 million. Adjusted profit before tax would have been £2.9 million higher and adjusted earnings per share would have been 0.2p lower.

The table set out below summarises results reported both under UK GAAP and as adjusted. Results for 2003 are shown both as reported in that year and on a constant currency basis.

	2004	2003	2003 (at 2004 exchange rates)[1]
Turnover including share of joint ventures and associates (£ million)	4,599.3	4,323.2	4,234.4
Operating profit (£ million)	559.5	438.6	441.9
Adjusted operating profit (£ million)[2]	576.9	505.6	503.4
Profit before tax (£ million)	412.3	351.9	360.3
Adjusted profit before tax (£ million)[2]	504.3	418.9	421.8
Earnings per share	53.5p	44.5p	44.9p
Adjusted earnings per share[2]	63.2p	52.9p	52.7p

1. A reconciliation of turnover, operating profit and adjusted operating profit for 2003 at 2003 and at 2004 rates of exchange is shown on page 40.
2. A reconciliation of adjusted results with UK GAAP results is shown on page 41 and in the profit and loss account on page 86.

Exceptional items in 2004 amounted to a charge of £92.0 million. This comprised a loss of £79.5 million on disposal of the US packaged gas business, a charge of £14.8 million for restructuring the remaining business in the US following the disposal, a charge of £2.6 million relating to the integration of the industrial and medical gases businesses of BOC and Air Liquide in Japan, and a profit of £4.9 million on the disposal of fixed assets.

Exceptional items in 2003 comprised £43.2 million for a litigation settlement, costs of £15.5 million for completion of restructuring programmes and £8.3 million relating to the integration of the BOC and Air Liquide businesses in Japan.

Adjusted return on capital employed for the year to 30 September 2004 was 15.4 per cent. Return on capital employed for the year to 30 September 2004 was 14.9 per cent. Free cash flow (as defined on page 41) was £257.9 million in 2004. Net cash flow, after acquisitions, disposals and other investing activities, and including exceptional cash items, was £339.2 million in 2004. A reconciliation of these measures is shown on page 41.

A first interim dividend for 2004 of 15.5p per share was paid in February 2004 and a second interim dividend of 24.5p per share was paid in August 2004. In aggregate this was a 2.6 per cent increase over the annual dividend of the previous year.

Capital expenditure by subsidiaries (including interest capitalised) was £256.1 million in 2004, compared with £281.2 million in 2003. This was covered by cash inflow from operating activities. Capital expenditure by joint ventures and associates was £109.0 million in 2004, of which the BOC share was £49.2 million. Equivalent expenditure in 2003 was £81.4 million, of which the BOC share was £36.1 million. The Group also made acquisitions of businesses of £50.9 million in 2004 and proceeds from disposals were £98.3 million. Equivalent items in 2003 were £135.5 million and £3.9 million respectively.

Process Gas Solutions (PGS)

	2004 £ million	Change on 2003	Change on 2003[1] (constant currency)
Turnover	1,275.2	+3%	+9%
Operating profit	189.5	+7%	+14%
Adjusted operating profit[2]	190.3	+3%	+10%

1. A reconciliation of results for 2003 at 2003 and at 2004 rates of exchange is shown on page 40.
2. A reconciliation of adjusted operating profit with operating profit is shown on page 41.
3. All comments below are on a constant currency basis.

Increased turnover reflected strong demand worldwide for both steel and nonferrous metals. In addition, sales from new production facilities accounted for approximately £14 million of the increase in turnover between 2003 and 2004.

Metal production increased in 2004 and world metal prices firmed as a result of strong demand from China. This benefited BOC's steel and nonferrous metal customers in all the key markets throughout the year.

For 2004 as a whole, the food sector was buoyant outside the US despite the temporary consequences of avian flu in Asia and the imposition of US import tariffs on prawns.

The recovery in the electronics packaging industry created exceptionally strong demand for industrial gases in the electronics packaging sector. BOC was a leading beneficiary of this because of its strong position in Asian markets.

Several significant new supply scheme contracts were won in 2004. BOC's hydrogen business with refiners will be substantially increased with a new plant to supply both a Sunoco refinery at Toledo, Ohio, and a nearby BP refinery. The hydrogen will be used by both BP and Sunoco in the production of ultra-low sulphur gasoline and diesel fuels.

Outside the US, significant new business in the chemical sector was won with the Sinopec Shanghai Petrochemical Company. BOC will form a joint venture to invest in existing assets and then add further air separation capacity. BOC's subsidiary in Thailand is to invest in a venture establishing a 1,300 tonnes-a-day plant to supply TOC Glycol Co. Ltd. (TOCGC) in Map Ta Phut and to increase merchant capacity in the area.

New business with steel customers was mainly concentrated in Asia. In January 2004, BOC announced that its joint venture with the Taiyuan Iron and Steel Corporation (TISCO) would expand its existing 1,500 tonnes-a-day capacity with the construction of two new 1,400 tonnes-a-day air separation units.

In the UK, BOC supplies Corus at its Port Talbot, Scunthorpe, Rotherham and Redcar plants. BOC is to increase its industrial gases supply to the Port Talbot strip products plant by 30 per cent to increase steel production locally.

Selling prices were generally firm during 2004 and sufficient to offset input cost inflation except in parts of north Asia.

Operating exceptional items in 2004 were for the integration of the industrial and medical gases businesses of BOC and Air Liquide in Japan that began in 2003.

Europe Turnover increased in all parts of Europe except for Ireland. Adjusted operating profit increased significantly, mainly as a result of more efficient plant operation and careful control of costs.

In the UK, manufacturing activity remained generally weak but customer closures and relocations that had affected business in 2003 were less evident in 2004. Rising steel production led to increased demands for oxygen.

Price increases were generally sufficient to cover higher input costs in 2004. Further increases are being implemented in 2005 to cover sharply higher electricity prices in the UK following the expiry of a fixed price supply contract.

Cryostar manufactures cryogenic pumps, expansion turbines and compressors for a variety of industrial gas applications and for marine liquefied natural gas (LNG) tankers. As in 2003, turnover and adjusted operating profit increased in 2004 principally as a result of demand for shipboard compression units on LNG tankers and following continued investments for gases plants in Asia.

North America Turnover increased as a result of including a full year of syngas production for Celanese at Clear Lake, Texas and the start-up of a new plant supplying hydrogen to Citgo's refinery at Lemont, Illinois, in October 2003.

Adjusted operating profit was lower as a result of reduced carbon dioxide volumes to our food and dry ice customers, and reduced argon demand from the stainless steel and wholesale sectors.

In general, demand for industrial gases from steel customers was strong in 2004. Liquid nitrogen volumes for food freezing applications strengthened during the year, mitigating the reduced carbon dioxide volumes into this sector. BOC's carbon dioxide business with beverage customers continued to make good progress in 2004 and new business was won.

Selling prices remained generally firm and significant increases in fuel and energy costs were largely recovered with surcharges or general price rises.

Latin America Revenues increased across the region during 2004, although business in Venezuela continued to be affected by political uncertainty. In Brazil, BOC's new 400 tonnes-a-day plant entered production serving CST, the world's biggest producer of slab steel.

The benefits of re-pressurising the Pemex Cantarell oilfield in the Gulf of Mexico with nitrogen from BOC's joint venture company continued to be realised during the year. In May 2004 BOC agreed to buy Duke Energy's 30 per cent ownership interest in the joint venture company for US$59.7 million in cash. This increased BOC's overall stake to 65 per cent on completion in September 2004.

Africa Turnover increased and adjusted operating profit was further improved by cost savings and firm pricing trends leading to better margins. Although the stronger rand adversely affected platinum and gold mining in 2004, strong demand and firmer prices led to increased activity in the steel industry.

Japan The combination of BOC's and Air Liquide's industrial and medical gases businesses in Japan took effect from January 2003. This distorts the comparison of turnover and profit for BOC's three lines of business between 2004 and 2003 and with earlier years. The results of Japan Air Gases were consolidated on an equity basis throughout 2004 and for the last three quarters of 2003. In 2004 turnover increased mainly as a result of equipment sales and adjusted operating profit increased faster as a result of achieving integration cost savings as planned.

North Asia Turnover and adjusted operating profit increased in 2004 but at a more modest pace than in 2003. Production plants across the region were almost fully utilised and little new capacity came on stream in 2004.

In China, turnover and adjusted operating profit increased in line with economic trends but further growth was constrained by available production capacity and by some unplanned shutdowns, mainly at customers' plants.

BOC announced a new joint venture with Sinopec Shanghai Petrochemical Company Limited (SPC), a subsidiary of Sinopec Corporation, to meet the industrial gases needs of SPC in the Jinshan District of Shanghai.

Economic conditions were stable in Korea but increased turnover and adjusted operating profit came from some additional argon and hydrogen capacity to supply customers near Pohang.

Turnover in Taiwan increased as a result of full capacity utilisation but adjusted operating profit increased significantly as a result of improved efficiency in plant operations.

Hong Kong also enjoyed a better economic climate in 2004 for the same reasons and adjusted operating profit was sharply better.

South and South East Asia These regions came under the same business unit management during 2004. The economies continued to be buoyant across both regions during the year, helped by generally strong steel demand and a more active electronics industry in Singapore, Malaysia and the Philippines.

The SARS infection that had adversely affected 2003 was no longer an issue in 2004 but in Thailand and Malaysia the food sector was hit by an outbreak of avian flu. The Thai shrimp industry was further affected by the imposition of US tariffs on imports.

In September 2004, BOC's subsidiary in Thailand announced a major investment in new joint venture air separation capacity to supply oxygen for ethylene glycol production and to increase the availability of products for sale in the expanding merchant market around Map Ta Phut.

South Pacific Turnover and adjusted operating profit were higher than a year ago. The Australian and New Zealand economies remained generally strong in 2004. The strength of local currencies led to some further customer plant closures but firm commodity prices for minerals and particularly for steel enabled leading customers to prosper. There was some increase in tonnage volumes but volumes overall were similar to a year ago.

Electricity prices increased in eastern Australia and more so in New Zealand. Increased costs were passed through to tonnage customers and progressively recovered in the merchant markets. At the same time, BOC's major plants in Australia achieved significant cost savings as a result of implementing a global plant optimisation programme.

During 2004 BOC outsourced the transport of its bulk products to Australia's leading transport company, while retaining control of distribution and scheduling. This change was made only after ensuring that there would be no diminution of safety standards or the quality of service to customers.

A hydrogen purification plant and bus re-fuelling facility to support BP in the Government of Western Australia's environmentally friendly fuel cell bus trial came into operation during September 2004. Three hydrogen-fuelled buses will be operating in the city of Perth. The trial is to continue for at least the next two years.

Water services BOC acquired Environmental Management Corporation (EMC), a US water services company in October 2002. Turnover increased modestly in 2004 but the business remained close to breakeven after the amortisation of goodwill as a result of planned costs to increase business development resources.

BOC's strategy for water services is to focus on its industrial customers. Significant new business was won during 2004, including a multiyear contract for process and waste water services to a major US beef producer. Tightening regulations for proteins in effluent seem likely to create fresh demands for water treatment in the food industry.

Industrial and Special Products (ISP)

	2004 £ million	Change on 2003	Change on 2003[1] (constant currency)
Turnover	1,782.3	+2%	+3%
Operating profit	253.9	+7%	+5%
Adjusted operating profit[2]	269.5	+11%	+10%

1. A reconciliation of results for 2003 at 2003 and at 2004 rates of exchange is shown on page 40.
2. A reconciliation of adjusted operating profit with operating profit is shown on page 41.
3. All comments below are on a constant currency basis.

Nearly all regions delivered better results in 2004 with increased turnover in most countries and an overall improvement in operating margin. Robust economic conditions supported a further improvement in the south Pacific region and Africa delivered better results despite the handicap of the stronger currency on manufacturing and mining. There was also some improvement in the US manufacturing economy.

At the same time further progress was made in successfully integrating the businesses recently acquired in Canada and Poland.

Sales to the medical sector grew further in 2004 as a result of both gases and liquid helium sales. Heliox, a new low-density breathing mixture was introduced in the UK and in Australia. This product enables patients with obstructed airways to breathe more easily and thereby provides time to treat the underlying problems. Helium is also used to cool the coils of superconducting magnets in MRI scanners. BOC not only sells the liquid nitrogen and helium cryogens but offers a related CryoFill service, taking responsibility for filling customers' magnets. Helium sales also increased in Taiwan, Thailand and China, where significant growth potential has been identified and where an important distributor agreement was signed with Meike. The cost of producing and purchasing helium continued to increase rapidly during 2004 but BOC was largely successful in recovering higher costs in selling prices to customers. BOC installed helium recovery systems at the University of Liverpool in the UK and at Trane in the US during 2004.

Consistent progress was made in growing refrigerant sales. The alliance with Hudson Technologies for the reclaim of contaminated refrigerants began operation in the UK during 2004 and will be applied in South Africa in 2005.

BOC's major liquefied petroleum gas (LPG) businesses in Australia and South Africa were notably successful in managing volatile input costs and sustaining margins during 2004 as LPG prices increased sharply.

Sales of industrial products increased in aggregate although some developed markets continued to reflect weak manufacturing activity. Business development was helped by upgrading the retail environment of outlets in some major markets and by the continued introduction of safety products to the markets in the UK, Australia and South Africa.

Operating exceptional items in 2004 were for the integration of the industrial and medical gases businesses of BOC and Air Liquide in Japan that began in 2003, as well as for the restructuring of the ISP business in the US following the disposal of the packaged gas business.

Europe Turnover and adjusted operating profit increased further in 2004. Manufacturing activity continued to decline in the UK but BOC maintained a strong position in the market. Improved service levels enabled selling price increases to be implemented. At the same time costs were reduced through improved productivity.

Modest increases in industrial product sales were helped by rejuvenation of retail outlets in the UK. Medical product sales increased as a result of gaining additional National Health Service business and continued demand for lightweight oxygen cylinders. The range of lightweight cylinders will be expanded by introducing additional sizes during 2005.

The new business supplying helium to Oxford Magnet Technology for medical imaging devices began in 2003 and performed well throughout 2004. It was also the first full year of the refrigerant reclaim service in the UK, based on an exclusive global licence with Hudson Technologies. A range of gases for scientific applications was introduced during the year and some additional sales were generated following the launch of a mail order catalogue for gases and related products. BOC's Sureflow beverage dispense gas operation was expanded by new business for Heineken outlets in Ireland during 2004.

BOC's business in Poland was enlarged from February 2003 with the acquisition of Praxair's Polish business. 2004 was therefore the first full year of the expanded business and there were further integration benefits.

North America The BOC Group announced on 27 January 2004 that it had signed a letter of intent to sell its US packaged gas business to Airgas. This business had turnover of approximately US$240 million in 2003. The disposal was completed on 30 July 2004 upon receipt of initial cash proceeds of US$175 million.

Following this transaction, the ISP business in north America consists of bulk medical gases, bulk supplies to distributors, tube trailer and liquefied helium in the US as well as the Canadian packaged gas business. In total these elements currently generate turnover of some US$450 million a year.

The impending disposal of the US packaged gas business created a challenging business environment for a significant part of the year. US sales volumes and adjusted operating profit were lower in the period prior to the disposal.

Turnover increased in Canada principally as a result of the acquisition of Air Products Canadian gases and related products business with effect from April 2003. Cost synergies arising from the integration further boosted adjusted operating profit in 2004.

Latin America Turnover increased significantly and margins improved. Growth across the region was driven principally by sales of medical products supplemented by sales of BOC-branded cutting and welding equipment. Sales of packaged chemicals increased in Colombia and Venezuela.

Results improved strongly in Venezuela, despite a continuation of political unrest. BOC's associated company achieved better results in Chile but there was a sharper improvement in Argentina.

Selling price increases offset inflation in Venezuela and Chile but the trends were less favourable in Colombia during 2004. A new customer service centre was opened in Venezuela and new business systems were successfully implemented in Venezuela and Colombia during the year.

Africa Important sections of South African industry were depressed during 2004 because of the stronger currency. Rand exchange rates reduced the profitability of gold mining and manufacturing for export in particular. At the same time the cost of imported goods was lowered making them more competitive with those manufactured locally. However lower interest rates began to stimulate domestic consumption towards the end of the year.

Despite the more difficult market conditions, adjusted operating profit improved significantly on the basis of a modest improvement in turnover. Margins improved as a result of better productivity and operating efficiency, partly offset by increased transport costs arising from the temporary shutdown of some key supplier facilities. Sales of cutting and welding products increased in South Africa and so did both the sales volume and the turnover of liquefied petroleum gas (LPG). Turnover of special products, including refrigerants, grew particularly rapidly.

Export sales of welding products manufactured by Afrox, BOC's South African subsidiary, also increased significantly. There was a modest improvement in adjusted operating profit despite the currency disadvantage. Sales of the AfroxPac emergency oxygen kit for underground miners were substantially lower in 2004 as order intake reflected weak activity in the gold mining sector.

A programme to renovate the Afrox retail network in South Africa with the development of a number of "Gas & Gear" outlets and a range of safety products is under way. In addition a range of diving gases and a fire suppression product have been launched in South Africa.

Good progress was made in growing both turnover and adjusted operating profit in the other southern African countries during 2004. A new carbon dioxide plant supported growth in Nigeria.

Japan The basis of accounting for BOC's business in Japan changed during 2003 as a result of a merger. Full details can be seen in the PGS section on page 49. In 2004 ISP's turnover in Japan was slightly less than the previous year but adjusted operating profit was higher through cost savings following the merger and from some asset disposals.

South and South East Asia These regions came under the same business unit management during 2004. In aggregate there were modest improvements in both turnover and adjusted operating profit. In Taiwan, buoyant activity in manufacturing and infrastructure development was reflected in higher turnover and adjusted operating profit. There were also sharply better results from the industrial products business in Thailand but ammonia margins were under strong competitive pressure and liquefied petroleum gas (LPG) selling prices remained subject to restrictive regulation. Hong Kong continued to be affected by the migration of manufacturing to mainland China and in Singapore shipbuilding and construction activity failed to improve in 2004. Competition intensified in the Malaysian market for industrial gases. Demand for helium was strong throughout Asia.

In south Asia, turnover increased and adjusted operating profit was further boosted by an asset disposal. Trading conditions in Bangladesh were adversely affected by a combination of political uncertainty, strikes and floods.

South Pacific Turnover and adjusted operating profit increased in 2004 and margins were improved by holding down costs. The economic environment remained favourable across the region. Manufacturing activity was buoyant in Australia despite a challenging environment for export-oriented manufacturers created by the stronger currency. New projects in the oil and gas sector and in mining generated increased demand for welding and safety products. During 2004 BOC secured major contracts with Western Mining to meet its requirements for safety products across Australia.

The economy also continued to grow in New Zealand but somewhat less rapidly than in Australia. There was also an improvement in the Pacific Islands, while gold mining activity and oil refining investment led to increased business in Papua New Guinea.

Major initiatives in 2004 included an agreement with the Australian CSIRO to commercialise ethanedinitrile, a gas that can be used to sterilise soil and timber, and which management believes has significant potential. The acquisition of OccCorp, an injury management provider, gives BOC entry to a largely untapped market by combining BOC's safety services and products.

A dedicated refrigerant reclaim fleet was established to help customers comply with new refrigeration regulations that make it mandatory to recover, return and safely dispose of hydrofluoro-carbons. BOC's new Heliox gas mixture, which helps the treatment of patients with airway obstructions, and Inhalo, the new lightweight cylinder, were both successfully launched into the medical market.

BOC commenced an extensive redevelopment program of its Gas & Gear stores, supporting traditional industrial customers and new customers alike, giving a stronger retail position, providing better visibility, higher traffic flow, attractive merchandising and design.

The price of liquefied petroleum gas (LPG) was particularly volatile during 2004. BOC's associated company in Australia, Elgas, was notably successful in preserving sales margins in these difficult circumstances and adjusted operating profit was increased. Elgas expanded through the acquisition of a leisure gas business during the year. The potential impact of Government plans to remove an excise tax exemption for automobile gas in the period from 2008 to 2012 was softened by a subsequent decision to delay the introduction by three years and by an agreement to provide capital allowances to encourage car owners to convert their vehicles to use LPG fuel. Automobile gas is a minor part of Elgas turnover.

BOC Edwards

	2004 £ million	Change on 2003	Change on 2003[1] (constant currency)
Turnover	816.5	+19%	+27%
Operating profit	46.8	+492%	+588%
Adjusted operating profit[2]	47.8	+158%	+181%

1. A reconciliation of results for 2003 at 2003 and at 2004 rates of exchange is shown on page 40.
2. A reconciliation of adjusted operating profit with operating profit is shown on page 41.
3. All comments below are on a constant currency basis.

Operating exceptional items in 2004 were for the integration of the industrial and medical gases businesses of BOC and Air Liquide in Japan that began in 2003.

Conditions improved in most of BOC Edwards' key markets during 2004. Orders for semiconductor equipment began to pick up in the first quarter leading to increased sales in subsequent quarters. At the same time a major expansion of liquid crystal display (flat panel) manufacturing facilities got under way. This provided fresh business opportunities for both gases and equipment. Sales of chemical management equipment for new semiconductor fabrication plants improved only slightly and profitability continued to be affected by competitive market conditions. Demand for scientific equipment vacuum systems and for pharmaceutical packaging machines was better in 2004 but sales of vacuum systems for aerospace metallurgy applications remained at a low level.

At the beginning of 2004, high levels of capacity utilisation encouraged a number of semiconductor manufacturers to add fresh capacity or upgrade existing facilities. This led to increased orders, which were reflected in higher turnover and adjusted operating profit from the second quarter onwards.

BOC Edwards was successful in winning new equipment business with the majority of semiconductor fabrication facilities for which construction began in 2004. These included several investments in Taiwan, Korea, Japan, China, Europe and the US.

New pumping and exhaust systems were introduced for semiconductor, flat panel display and other vacuum applications. A new range of iGX pumps for the semiconductor industry provides better control and monitoring capabilities and use less power than before. BOC Edwards also launched high capacity pumps of its own design and manufacture for flat panel applications. New turbomolecular and scroll pumps were designed for scientific instrumentation. Wet chemical abatement systems were introduced to expand and complement the capabilities of BOC Edwards' exhaust abatement systems.

Increased production of semiconductors was reflected in better demand for electronic materials.

Production of nitrogen trifluoride was expanded further in 2004 to over 100 tonnes a year. New investments in semiconductor facilities also provided opportunities for nitrogen supply contracts. BOC Edwards has become one of the leading suppliers of bulk gas to the growing semiconductor industry in China and continued to benefit from the expansion of semiconductor manufacturing in Taiwan, Japan and Singapore. New nitrogen generators were installed at several customer sites and further capacity was added to satisfy growing demand from customers within the Hsinchu science park in Taiwan.

Accelerated investment in new flat panel display production facilities led to significant orders for large capacity pumping systems in both Taiwan and Korea. Gas supply contracts were also signed with a number of display manufacturers in Taiwan and Japan. Liquid crystal display production leads to substantial demand for chamber cleaning chemicals. Onsite fluorine generation equipment is now installed at a number of semiconductor and flat panel manufacturers. A full commercial-scale generator is functioning at LG Philips' new sixth generation plant in Korea.

Demand for pharmaceutical freeze-drying and packaging equipment picked up in 2004 leading to better sales and adjusted operating profit. A new non-contact check-weighing machine was introduced. Nuclear magnetic resonance technology allows every package to be checked, enables packing lines to operate at higher speeds and facilitates immediate correction of any deviation from specification.

The basis of accounting for BOC's gases business in Japan changed during 2003 as a result of a merger. Full details can be seen in the PGS section on page 49. Electronic gases turnover increased significantly in 2004 as a result of the pick up in the semiconductor industry. The benefit of increased turnover on gases adjusted operating profit was amplified by synergy benefits arising from the merger.

Contracts were won in Asia and Europe furthering a strategy to expand the range of value-added services to electronic manufacturers. These include gases management, chemicals supply, support services and materials logistics. Other developments included an improved offering of gases and vacuum systems for lithography and supercritical carbon dioxide cleaning technology.

Afrox hospitals

	2004 £ million	Change on 2003	Change on 2003[1] (constant currency)
Turnover	432.1	+22%	+9%
Operating profit	59.8	+30%	+16%
Adjusted operating profit[2]	59.8	+30%	+16%

1. A reconciliation of results for 2003 at 2003 and at 2004 rates of exchange is shown on page 40.
2. A reconciliation of adjusted operating profit with operating profit is shown on page 41.
3. All comments below are on a constant currency basis.

Adjusted operating profit increased faster than turnover as a result of careful control of overhead costs and positive pricing trends. Hospital occupancy rates remained similar to a year ago. Acquisitions were a minor factor in the turnover increase. The Lifecare chronic care facilities and Afrox occupational health services both delivered a good performance in 2004.

The change to a new reimbursement system that began during 2003 was completed in 2004. The previous system of paying health care providers a fee for their services changed to a fixed payment for each kind of procedure as well as a per day tariff structure.

Gist

	2004 £ million	Change on 2003	Change on 2003[1] (constant currency)
Turnover	293.2	no change	+1%
Operating profit	25.1	−14%	−14%
Adjusted operating profit[2]	25.1	−14%	−14%

1. A reconciliation of results for 2003 at 2003 and at 2004 rates of exchange is shown on page 40.
2. A reconciliation of adjusted operating profit with operating profit is shown on page 41.
3. All comments below are on a constant currency basis.

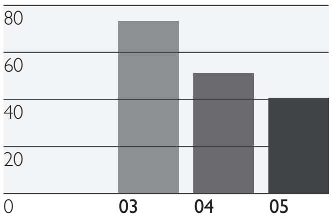
The comparison of turnover and adjusted operating profit between 2003 and 2004 is distorted by a non-recurrent item during 2003. In 2003 a gain of some £4.1 million arising principally from the termination of operations for the Marks & Spencer General Merchandise business was credited to adjusted operating profit. The termination of this business also eliminated some £26 million of turnover in 2004 compared with 2003. After adjusting for this item, underlying turnover grew principally as a result of increased food business for Marks & Spencer, as well as new contracts and the expansion of activity with Ocado and Carlsberg UK. On the same basis, adjusted operating profit in 2004 was at a similar level to 2003.

Primary food distribution operations were also expanded in 2004 when Gist took on the transport operations of John Rannoch foods, one of the leading suppliers of poultry products to Marks & Spencer. Gist manages the complex supply chain for all of Marks & Spencer's chilled and ambient foods. During 2004, a major investment was made to expand a chilled food facility in Kent to meet the demands of the growing network of M&S Simply Food stores.

Financial review

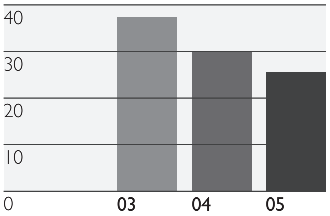
Net debt/equity

Percentage



Net debt/capital employed

Percentage



Corporate transactions and restructuring

In South Africa the disposal of Afrox Healthcare Limited to a consortium lead by two major black empowerment investors was completed on 22 March 2005. African Oxygen Limited, BOC's subsidiary in South Africa, retains a significant interest in the hospitals business through a 20 per cent holding in the new company. The gain on disposal of £84.9 million has been recognised as an exceptional item. African Oxygen Limited has distributed the proceeds of the disposal to its shareholders through a buy back of shares and a special dividend. The amount of the special dividend payable to minority shareholders was some £54 million, which is included in the total dividends paid to minorities in subsidiaries within the Group cash flow statement.

The sale of BOC's packaged gas business in the US to Airgas Inc was completed in July 2004. Part of the consideration was payable subject to certain conditions and accordingly was not recognised in 2004. This remaining consideration amounting to US$20 million was received in November 2005 and has been recognised in 2005 as an exceptional item. The disposal of the business in 2004 resulted in a loss of £79.5 million plus associated restructuring costs of £14.8 million.

In 2005 £20.7 million has been charged for restructuring in BOC Edwards. This comprises £13.9 million of goodwill impairment and severance costs. Savings of approximately £5 million are targeted from this restructuring during 2006. Further costs are anticipated from this programme in 2006 leading to additional benefits.

Group expenditure on acquisitions of businesses was £57.1 million (2004: £50.9 million). The main acquisitions during 2005 were G Van Dongen Holding BV, to expand Gist's primary business into Europe, and an additional equity investment in Compania de Nitrogeno de Cantarell (CNC) in proportion to BOC's existing 65 per cent equity holding. The main acquisition in 2004 was to increase BOC's holding in CNC.

Financial indicators

The trends of financial indicators which, taken together, are a measure of the performance and efficiency of the Group's finance and tax structures, are:

	2005	2004	2003
Interest cover (times)[1]	**7.1**	6.3	4.6
Adjusted interest cover (times)[2]	**7.4**	6.5	5.3
Net debt/equity (%)	**40.9**	51.2	73.4
Net debt/capital employed (%)	**25.6**	29.9	37.4
Group tax rate (%)	**26.9**	24.7	27.4
Adjusted Group tax rate (%)[3]	**26.0**	29.0	29.0

Adjusted means excluding exceptional items.

1. Interest on net debt covered by operating profit.
2. Interest on net debt covered by adjusted operating profit.
3. The adjusted tax charge expressed as a percentage of adjusted profit before tax.

The ratios are commented on below in the appropriate section.

Liquidity and capital resources

Cash flows The Group's cash flows from operating, investing and financing activities, as reflected in the Group cash flow statement on page 88, are summarised in the following table:

	2005 £ million	2004 £ million	2003 £ million
Net cash inflow from operating activities	**665.5**	758.5	700.1
Dividends from joint ventures and associates	**51.1**	79.1	35.0
Returns on investment and servicing of finance	**(131.6)**	(91.2)	(94.4)
Tax paid	**(118.4)**	(98.2)	(90.7)
Total provided by operating activities	**466.6**	648.2	550.0
Capital expenditure and financial investment	**(299.7)**	(204.2)	(227.0)
Acquisitions and disposals	**128.8**	92.5	(118.3)
Total used by investing activities	**(170.9)**	(111.7)	(345.3)
Decreases in debt	**(165.7)**	(180.7)	(128.7)
Shares issued	**9.6**	12.4	(2.6)
Equity dividends paid	**(204.1)**	(197.3)	(192.1)
Net sales/(purchases) of short-term investments	**14.3**	(20.8)	16.2
Total used for financing activities	**(345.9)**	(386.4)	(307.2)
(Decrease)/increase in cash	**(50.2)**	150.1	(102.5)

Cash flow from operations Total cash generated by operating activities in 2005 was £466.6 million compared to £648.2 million in 2004. The decrease was associated with a lower net cash inflow from operating activities of £665.5 million (2004: £758.5 million) primarily as a result of an approximate £70 million impact of the disposal of the Afrox hospitals business part way through the year. Returns on investment and servicing of finance increased significantly in 2005 compared with 2004. The 2005 total included approximately £54 million for the minority interest element of the special dividend paid by African Oxygen Limited following the disposal of its majority shareholding in Afrox Healthcare Limited in March 2005. The 2005 tax paid includes approximately £15 million in connection with this transaction. In 2004, the increase in cash provided by operating activities to £648.2 million (2003: £550.0 million) was driven by higher operating profit before exceptional items of £576.9 million in 2004 (2003: £505.6 million) and improved working capital management offsetting the impact of higher contributions to the UK pension scheme. Higher dividends from joint ventures and associates in 2004 of £79.1 million (2003: £35.0 million), which included a second dividend from Japan Air Gases, also helped to improve cash flows.

Investing Cash used by investing activities was £170.9 million in 2005 (2004: £111.7 million). The increase in capital expenditure and financial investment over the prior year reflects a higher level of expenditure in new supply scheme projects, principally in Asia/Pacific and the Americas. The higher net cash inflow from acquisitions and disposals in 2005 reflects the proceeds from the sale by African Oxygen Limited of its majority shareholding in Afrox Healthcare Limited in March 2005. In 2004, the reduction in cash used by investing activities to £111.7 million (2003: £345.3 million) reflected a lower level of expenditure on acquisitions in 2004 compared to 2003, proceeds from the divestment of the US packaged gas business in July 2004 and receipts of £53.0 million from capital restructuring of Japan Air Gases Ltd.

Financing Overall, net debt decreased by £122.7 million as a result of a net cash inflow of £91.6 million, a £9.6 million inflow from the issue of shares, an inflow of £34.7 million for the net debt acquired/disposed on business acquisitions and disposals and £(13.2) million for the effect of exchange rate and inception of finance leases. Decreases in debt in 2005 principally relate to the repayment of £168.6 million of medium term notes. In 2004, net debt decreased by £405.7 million as a result of a net cash inflow of £339.2 million, a £12.4 million inflow from the issue of shares, an outflow of £4.7 million for the net debt acquired/disposed on business acquisitions and disposals and £58.8 million for the effect of exchange rate and other movements. Decreases in debt in 2004 principally related to the repayment of £125.0 million of 6.75% bonds due in 2004 and £42.6 million net repayment of commercial paper.

The Group has access to a range of funding. Debt finance is raised by issuing bonds, commercial paper, other obligations to investors and through borrowings from banks.

As well as medium and long-term borrowings, the Group maintains short-term borrowings, principally in the form of commercial paper and bank borrowings. At 30 September 2005, the Group had US$450 million (£254 million) of committed multi-currency facilities with a group of relationship banks maturing in 2008. In October 2005 these facilities were replaced with US$600 million (£339 million) of committed multi-currency facilities maturing in 2010. These facilities provide back-up for the issue of commercial paper as well as general liquidity for the Group. Additional committed facilities are maintained by the principal operating units in the Group.

At 30 September 2005, the gearing ratio (net debt including finance leases as a percentage of capital employed) was 25.6 per cent compared with 29.9 per cent in 2004 and 37.4 per cent in 2003. The net debt/equity ratio was 40.9 per cent, compared with 51.2 per cent in 2004 and 73.4 per cent in 2003.

The Group has access to a diverse range of debt finance including commercial paper, public bonds and bank borrowings which, it believes, will be available to meet long-term financing needs. The Group has sufficient facilities to cover likely borrowing needs. Management anticipates that capital expenditure in 2006 will be at a higher level than in 2005 and will be covered by cash inflow from operating activities and existing sources of financing.

Management of financial risks

The board of directors sets the treasury policies and objectives of the Group which include controls over the procedures used to manage currency, interest rate and credit risk. The approach to managing risk is set out below. This approach is expected to continue during the next financial year. On a day-to-day basis, Group treasury carries out these policies, with regular review meetings with the Group finance director. Specific and significant activities need approval from the finance committee, which includes any two directors of the company.

The Group does not undertake any trading activity in financial instruments nor does it enter into any leveraged derivative transactions.

Currency risk The Group faces currency risk principally on its net assets, most of which are in currencies other than sterling. Currency movements can therefore have a significant effect on the Group's balance sheet when translating these foreign currency assets into sterling. In order to reduce this effect the Group manages its borrowings, where practicable and cost effective, to hedge its foreign currency assets.

Where possible, hedging is done using direct borrowings in the same currency as the assets being hedged or through the use of other hedging methods such as currency swaps. Group borrowings are currently held in a wide range of currencies and, after swaps, 79 per cent of net debt (2004: 82 per cent) is denominated in the principal currencies affecting the Group: US dollars, Australian dollars, Japanese yen, South African rand and sterling.

The aggregate of the notional principal values of currency swaps was £341.7 million (2004: £593.1 million) spread over a range of currencies. The fair value of such swaps is included in note 21 b) i) to the financial statements.

The balance sheets of overseas operations are translated into sterling at the closing rates of exchange for the year and any exchange difference is dealt with as a movement in reserves. This is explained more fully in the accounting policy note on page 91. The profit and loss accounts of overseas businesses are translated at average rates of exchange and this translation impact directly affects the profit and loss account of the Group.

The Group manages its currency flows to minimise currency transaction exchange risk and forward contracts are used as appropriate to hedge net currency flows and selected individual transactions. The Group's foreign exchange cover is mainly managed in the UK, Australia, Japan and South Africa. The UK manages the cover for exposures on net trade flows of the Group's companies in the US and certain other countries. The aggregate principal amount of forward cover outstanding at 30 September 2005 amounted to £222.6 million (2004: £224.4 million).

Interest rate risk At 30 September 2005, the Group's net debt position after interest rate hedging activity included a net exposure of £36.6 million (2004: £74.6 million) to floating interest rates. Based on the Group's 2005 year end level and composition of net debt, an increase in average interest rates of one per cent per annum would result in a decrease in future earnings, before tax, of £0.4 million per annum (2004: £0.7 million).

In order to manage interest rate risk the Group maintains both floating rate and fixed rate debt.

At 30 September 2005, there was a 4:96 ratio (2004: 8:92) between floating and fixed rate net debt. Underlying borrowings are arranged on both a fixed rate and a floating rate basis and, where appropriate, the Group uses interest rate swaps to vary this mix and to manage the Group's interest rate exposure.

At 30 September 2005, the aggregate of the notional principal values of swap agreements which affect the floating rate/fixed rate mix was £286.4 million (2004: £285.3 million). The fair value of such swaps is included in note 21 b) i) to the financial statements.

Foreign exchange risk At 30 September 2005, the Group had outstanding forward exchange contracts totalling £222.6 million (2004: £224.4 million) in respect of its actual and forecast transaction exposures. The fair value of these contracts at 30 September 2005 amounted to a gain of £0.2 million (2004: a gain of £7.5 million). A ten per cent appreciation of sterling would increase the fair value of these contracts by £15.2 million (2004: £11.0 million).

In addition to these forward contracts, the Group is exposed to foreign exchange movements on its net debt position. At 30 September 2005 net debt, after currency swaps, comprised net sterling liabilities of £153.2 million (2004: £104.6 million) and net currency liabilities of £686.5 million (2004: £857.8 million). Based on the Group's 2005 year end level and composition of net debt, a ten per cent appreciation of sterling would result in a reduction in the value of net currency liabilities of £62.4 million (2004: £78.0 million).

Counterparty risk Cash deposits and other financial instruments give rise to credit risk on the amounts due from counterparties. Credit risk is managed by limiting the aggregate amount and duration of exposure to any one counterparty depending upon its credit rating and by regular reviews of these ratings. The possibility of material loss arising in the event of non-performance by a counterparty is considered unlikely by management.

The currency and interest rate hedging profile of the Group's borrowings at 30 September 2005 is shown in note 21 to the financial statements. Further information on financial risk management is also given in note 21 to the financial statements.

Interest on net debt

The net charge before the Group's share of interest of joint ventures and associates was £47.6 million in 2005 (2004: £70.5 million, 2003: £75.8 million), which, after excluding interest income from loans to joint ventures and associates, represented 7.2 per cent of average net borrowings during the year. After taking into account interest capitalised of £1.1 million (2004: £0.1 million, 2003: £0.8 million) and the Group's share of the net interest of joint ventures and associates of £29.1 million (2004: £17.9 million, 2003: £20.3 million), the net charge was £76.7 million. Adjusted interest cover (the number of times that the interest charge on net debt is covered by adjusted operating profit) increased to 7.4 times (2004: 6.5 times, 2003: 5.3 times).

Net interest on pension financing items

The interest on pension scheme liabilities was £128.9 million in 2005 (2004: £117.4 million, 2003: £110.2 million). The expected return on pension scheme assets was £147.1 million in 2005 (2004: £133.2 million, 2003: £119.6 million). The increase in the expected return on scheme assets was a result of the increased value of the Group's pension assets. This reflects the increase in the value of world equity markets and the impact of the additional cash contributions made by the Group to the UK pension scheme.

Debt maturity profile

The maturity profile of the commitments relating to the Group's gross borrowings and the estimated associated interest cost, if the debt runs to the full term, is as follows:

	2005		2004	
	Principal £ million	**Interest £ million**	Principal £ million	Interest £ million
More than five years	**303.9**	**82.7**	320.5	111.2
Three to five years	**202.2**	**58.0**	260.9	76.6
One to three years	**265.4**	**82.4**	347.1	93.9
Within one year	**259.2**	**52.7**	262.1	64.6
Total	**1,030.7**	**275.8**	1,190.6	346.3

At 30 September 2005, the Group had US$450 million (£254 million) of committed multi-currency facilities with a group of relationship banks maturing in 2008. In October 2005 these facilities were replaced with US$600 million (£339 million) of committed multi-currency facilities maturing in 2010. These facilities provide back-up for the issue of commercial paper as well as general liquidity for the Group. Additional committed facilities are maintained by the principal operating units in the Group.

Additional information on the Group's gross borrowings can be found in note 20. Details of the Group's share of net debt of joint ventures and associates, the majority of which is non-recourse, are given in note 13 a).

Other contractual obligations

The maturity of other contractual obligations of the Group is as follows:

	Other creditors (excluding deferred income) £ million	Operating leases £ million	Unconditional purchase obligations £ million	Total other contractual cash obligations £ million
More than five years	3.0	59.9	371.2	434.1
Three to five years	10.7	25.9	116.9	153.5
One to three years	5.2	49.1	137.0	191.3
Within one year	872.3	40.6	71.4	984.3
Total	891.2	175.5	696.5	1,763.2

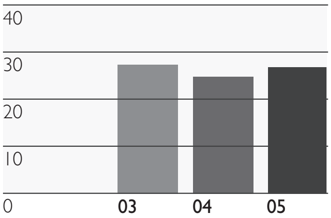
See also note 25 to the financial statements for further information on operating leases and unconditional purchase obligations.

Off-balance sheet arrangements

The Group has provided guarantees of £49.3 million to third parties at 30 September 2005 as shown in note 26 a) to the financial statements. The guarantees include performance bonds in the Cantarell joint venture, a guarantee of the borrowings of a joint venture in China and other guarantees provided in the ordinary course of business. Other than disclosed, there are no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on the Group's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Total group tax rate

Percentage



Taxation

The tax charge on profit before exceptional items for 2005 of £131.5 million is calculated in accordance with UK accounting standards, including FRS19 (deferred tax), under which full provision is made for deferred taxes.

The effective tax rate on adjusted profit in 2005 was 26 per cent (2004: 29 per cent, 2003: 29 per cent). The main reason for the reduction in the tax rate was the resolution of various matters with the US tax authorities, including the utilisation of tax losses. The total tax rate in 2005 was 26.9 per cent (2004: 24.7 per cent, 2003: 27.4 per cent). The Group pays corporation tax in the UK at a rate of 30 per cent. Additional information on tax rates is shown in note 4 to the financial statements.

The Group is currently liable to pay federal tax at the rate of 35 per cent in the US. This is reduced by the existence of tax credits. In the other principal subsidiaries, the tax rate is typically between 29 per cent and 42 per cent.

Contingencies

The Group monitors all contingent liabilities including matters relating to litigation and the environment via a process of consultation and evaluation which includes senior management, internal and external legal advisers and internal and external technical advisers. This process results in conclusions with respect to potential exposure and provisions are made or adjusted accordingly. Management believes that the Group has adequately provided for contingencies which are likely to become payable in the future.

Legal proceedings

BOC 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 litigation to which BOC Group companies are party cannot be readily foreseen, but the directors believe that such litigation should be disposed of without material adverse effect on the Group's financial condition or profitability.

Welding fumes litigation A US subsidiary of BOC, The BOC Group, Inc., currently is party to a number of lawsuits in the US for alleged injuries resulting from exposure to manganese, asbestos and/or toxic fumes in connection with the welding process. The BOC Group, Inc. has not manufactured welding rods in the US since 1986 when the welding electrodes business was sold. The BOC Group, Inc. ceased selling welding rods in the US manufactured by others when the sale of the US packaged gas business, including the operations that distributed packaged gases and welding equipment, was completed in July 2004.

Manganese litigation At 30 September 2005, there were a total of approximately 8,574 claimants ('Total Claimants') in pending manganese related cases in both US federal and state courts that name The BOC Group, Inc. as a defendant, a net decrease of approximately 1,100 claimants from 30 September 2004. The BOC Group, Inc. is typically one of several defendants in these cases that claim compensatory and punitive damages, in most cases for unspecified amounts, for alleged neurological injury, including

Parkinson's disease, through exposure to manganese in welding fumes. Of the Total Claimants, approximately 4,607 claimants have filed in, or been transferred for pre-trial purposes to, the federal district court in the Northern District of Ohio, where a multi-district litigation (MDL) proceeding has been commenced, and approximately 50 claimants are in process to be transferred to or from the MDL. The MDL proceeding is a vehicle for coordinating pre-trial proceedings in cases pending in different federal district courts in the US. It is currently contemplated that the MDL court will try three cases during the MDL proceeding. The first such case is currently scheduled for February 2006. In addition to the cases in federal court, The BOC Group, Inc. is a defendant in a number of similar cases pending in state courts, which are in different stages of procedural development, and certain cases are scheduled for trial from time to time. The BOC Group, Inc. has been a co-defendant in other manganese related claims that have been resolved as follows. From 1 January 1997 to 30 September 2005, 3,965 claims were dismissed. Through 30 September 2005, seven cases were tried to final jury verdicts in favour of the defendants, including The BOC Group, Inc., and one case was tried to a final jury verdict in favour of the plaintiffs, which is being appealed.

Asbestos litigation At 30 September 2005, there were a total of approximately 15,966 claimants in pending asbestos related cases that name The BOC Group, Inc. as a defendant, a net decrease of approximately 600 from 30 September 2004. The BOC Group, Inc. is typically one of a large number of defendants in these cases that claim compensatory and punitive damages, in most cases for unspecified amounts, for alleged injuries, including cancer, through exposure to asbestos in welding fumes or from welding consumables. A very small number of these claimants allege injuries from exposure to asbestos in non-welding rod products and premises. The BOC Group, Inc. has been a co-defendant in other asbestos related claims that have been resolved as follows. From 1 January 1997 to 30 September 2005, 11,776 claims were dismissed and 75 claims were dismissed on summary judgments. Through 30 September 2005, nine cases were tried to final jury verdicts in favour of the defendants, including The BOC Group, Inc., and one case was tried to a final jury verdict in favour of the plaintiffs, which is being appealed.

The BOC Group, Inc. believes that it has strong defences to the claims asserted in all of the various manganese and asbestos related cases and intends to defend vigorously such claims. In the manganese related claims, The BOC Group, Inc. believes that recent relevant scientific literature, based on epidemiological studies, strongly supports its defence of such claims. Based on its experience to date, together with its current assessment of the merits of the claims being asserted and applicable insurance, BOC believes that continued defence and resolution of the welding fumes litigation will not have a material adverse effect on its financial condition or profitability and no provision has been made. Nonetheless, it is not possible to predict either the number of future claims or the number of claimants that any future claims may present. In addition, the outcome of welding fume cases, either involving BOC or other defendants, is inherently uncertain and always difficult to predict, and BOC cannot provide any assurances that any future resolutions of these types of claims will necessarily be consistent with its experience to date. In the event of an adverse outcome to any of the proceedings, a liability would be recognised if it was considered likely that it would give rise to an outflow of future economic benefits. Where there is applicable insurance, this would be recognised when its recoverability was virtually certain.

Fluorogas litigation In February 2003, the company was notified that a jury verdict in the US District Court for the Western District of Texas (the District Court) was obtained for US$132 million against Fluorogas Limited, The BOC Group, Inc. and The BOC Group plc. The verdict arose primarily out of an alleged breach of a memorandum of understanding by Fluorogas Limited before it was acquired by The BOC Group plc in September 2001. In March 2003, the court also awarded interest and costs against the defendants, making them jointly and severally liable for a total of US$174 million. A bond for the full amount was posted with the District Court as part of the normal appeals process.

In August 2004, the appellate court reversed the entire judgement against the BOC entities and all but US$170,000 in reliance damages against Fluorogas Limited. In addition, the appellate court remanded for reconsideration by the District Court an award of attorney's fees on the US$170,000 recovery.

Fluorogas Limited was placed in administration under the Insolvency Act of 1986 pursuant to an order of an English Court. In January 2005 the parties resolved the outstanding matters to their satisfaction. The appeal bond was released and Fluorogas Limited applied for, and received, a discharge from the administration order.

Insurance

Operational management is responsible for managing business risks. Several Group departments advise management on different aspects of risk and monitor results. Insurance cover is held against major catastrophes. For any such event, the Group will bear an initial cost before external cover begins.

Inflation

Over the last three years, inflation has not had a material impact on the revenue or profit of the Group.

Critical accounting policies

The principal accounting policies affecting the results of operations and financial condition are set out on pages 91 and 92 of the financial statements. The application of certain of these policies requires assumptions or subjective judgements by management. Management bases these on a combination of past experience and any other evidence that is relevant to the particular circumstances.

The application of these assumptions and judgements affects the reported amounts of profit during the year and the assets and liabilities at the balance sheet date. Actual results may differ from the estimates calculated using these assumptions and judgements. Management believes that the following are the critical policies where the assumptions and judgements made could have a significant impact on the consolidated financial statements.

Tangible fixed assets A significant part of the capital employed of the Group, particularly in the Process Gas Solutions and Industrial and Special Products lines of business, is invested in tangible fixed assets. The nature of the business demands significant capital investment to renew or increase production capacity or to enable the business to achieve greater productivity and efficiency.

It is the Group's policy to depreciate tangible fixed assets, except land, on a straight line basis over the effective lives of the assets. This ensures that there is an appropriate matching of the revenue earned with the capital costs of production and delivery of goods and services. A key element of this policy is the estimate of the effective life applied to each category of fixed assets which, in turn, determines the annual depreciation charge. In deciding the appropriate lives to be applied, management takes into account various factors including, among other things, the accumulated experience of the effective asset lives from historic business operations and an assessment of the likely impact of any changes in technology.

While Group earnings in any period would fluctuate if different asset lives were applied, in some cases the original estimated life of an asset is closely related to contractual arrangements with large customers. Some of the earnings impact of choosing a different asset life would be mitigated, as the different life may reflect different contractual arrangements with such customers. Nevertheless, variations in the effective lives could impact the earnings of the business through an increase or decrease in the depreciation charge. It is estimated that a change of one year in the effective life of all plant, machinery, vehicles and cylinders would have an impact of between £15 million and £20 million on annual Group operating profit. A change in the effective life of buildings would have only a negligible impact.

Intangible fixed assets In a similar manner to tangible fixed assets, management uses its judgement to determine the extent to which goodwill arising from the acquisition of a business has a value that will benefit the performance of the Group over future periods. It is the Group's policy to amortise goodwill on a straight line basis over its useful economic life. This takes into account, among other things, the maturity of the business acquired and its product and customer base. Any change in these assumptions would have an impact on the earnings of the Group.

It is estimated that a change of one year in the useful economic life of all goodwill would have an impact of approximately £1 million on annual Group operating profit.

Retirement benefits Results of the Group include costs relating to the provision of retirement benefits for employees. It is the directors' responsibility to set the assumptions used in determining the key elements of the costs of meeting such future obligations. The assumptions are based on actual historical experience and are set after consultation with the Group's actuaries. They include the assumptions used for regular service costs and for the financing elements related to the pension schemes' assets and liabilities. Whilst management believes that the assumptions used are appropriate, a change in the assumptions used would affect both the operating profit and net interest cost of the Group.

There are a number of elements used in the assumptions and these vary for the different countries in which the Group operates. There may also be an inter-dependency between some of the assumptions, making it potentially misleading to consider any approximate impact on Group results of a change in any one assumption in isolation. Nevertheless, for the UK and US schemes together, it is estimated that an absolute 0.25 per cent change in the assumptions on rates of inflation, discount rates and return on equities in pension scheme assets would individually result in changes of approximately £6 million, £3 million and £3 million respectively in the total pension cost in annual Group profit before tax. A similar change in the assumptions on all other schemes would have only a negligible impact.

Environmental provisions In certain parts of the business, mainly in the US, the Group has obligations to carry out environmental clean-ups at former and current production sites. Many of these obligations will not arise for a number of years, and the costs are difficult to predict accurately. Management uses its judgement and experience to provide an appropriate amount for the likely cost of such clean-ups, and the amounts, if material, are discounted to present values. Both the amount of anticipated costs, and the interest rates used to discount such costs, are subjective. The use of different assumptions would impact the earnings of the Group.

It is estimated that a change of one per cent in the interest rate used to discount such costs would have an impact of approximately £1 million on annual Group profit before tax.

Current asset provisions In the course of normal trading activities, management uses its judgement in establishing the net realisable value of various elements of working capital – principally stocks, work-in-progress and accounts receivable. Provisions are established for obsolete or slow moving stocks, bad or doubtful debts and product warranties. Actual costs in future periods may be different from the provisions established and any such differences would affect future earnings of the Group.

The provisions are established at levels appropriate to the circumstances within individual Group business units, and not on a Group-wide systematic basis. It is therefore considered that any estimate of the impact on annual Group operating profit of any change in such provisions may not be meaningful. Nevertheless, a change of ten per cent in the level of provision for bad and doubtful debts at 30 September 2005 would have an impact of approximately £3 million on annual Group operating profit.

The areas covered by critical accounting policies under UK GAAP do not materially differ from those under US GAAP. Further details of the differences between UK and US GAAP are given in note 30 to the financial statements.

Accounting

The Group's accounting policies are based on accounting principles generally accepted in the UK (UK GAAP). During the year, the following new UK standards were issued:

FRS22 – Earnings per share
FRS23 – The effects of changes in foreign exchange rates
FRS24 – Financial reporting in hyperinflationary economies
FRS25 – Financial instruments: Disclosure and presentation
FRS26 – Financial instruments: Measurement
FRS27 – Life assurance
FRS28 – Corresponding amounts
RS1 – Operating and financial review

None of these standards are effective for the Group for the financial year ended 30 September 2005. The accounts for the financial year ended 30 September 2005 have therefore been prepared on an accounting basis consistent with that applied in the financial year ended 30 September 2004. With effect from 1 October 2005 the Group's accounting policies will be based on International Financial Reporting Standards, as outlined in the following section.

International Financial Reporting Standards

In accordance with EU legislation, the Group is required to adopt International Financial Reporting Standards (IFRS) in accounting periods commencing on or after 1 January 2005. Accordingly, IFRS will first apply to the Group's financial statements for the financial year commencing 1 October 2005. Results for the quarter ending 31 December 2005, which will be announced in February 2006, will be presented on an IFRS basis. In January 2006 the Group intends to present results for each quarter of the financial year to 30 September 2005 restated on an IFRS basis.

The Group established an IFRS project team in 2003. This is overseen by a formal steering committee, which includes the Group finance director. There have been regular reports on progress to the audit committee and executive management board. A comprehensive training programme has been undertaken covering Group finance personnel worldwide. The Group's auditors have been kept informed of, and consulted on, the development of the IFRS project and the preparation and implementation of the new Group accounting policies.

The Group is still in the process of finalising the full effects of adopting IFRS but management is confident that all areas have been identified where significant differences will arise between UK GAAP and IFRS. These areas are set out below. This is based on the IFRS that are expected to be in effect for the year to 30 September 2006. However, it is possible that there could be further changes to IFRS and interpretations prior to this date. The Group has elected to adopt early the amendment to IAS19 as set out below, but does not currently intend to adopt early any other IFRS or interpretations.

The principal differences which management expects to affect the Group are as follows:

a) Goodwill. Under UK GAAP, goodwill is amortised over a period up to a maximum of 20 years. Under IFRS, goodwill is not amortised but instead is reviewed for impairment annually.
b) Share based payments. Under UK GAAP the cost of share options is calculated by reference to their intrinsic value, which means that there is no charge for options granted at the market price. Under IFRS, the Group will record a charge for the fair value of all share options including Save As You Earn schemes.

c) Taxation. Preliminary estimates indicate that the tax rate will be slightly higher under IFRS and the impact will be fully quantified as part of the restated results to be announced in January 2006.

d) Pensions. The Group has already adopted FRS 17 under UK GAAP. The equivalent IFRS is IAS 19 and the Group intends to adopt early the amendment to IAS 19 allowing for immediate recognition of actuarial gains and losses in a Statement of Recognised Income and Expense. Accordingly, the impact of accounting for pensions under IFRS will be similar, although not identical, to UK GAAP and as a result management does not expect a significant impact on earnings. There will be a difference in presentation in the balance sheet, and differences relating to the calculation of certain assets and liabilities. Under UK GAAP, net pension assets or liabilities are shown after deduction of the appropriate deferred tax. Under IFRS, net pension assets or liabilities are shown before the deduction of any deferred tax, which is then included with other deferred tax items.

e) Foreign exchange. There are certain differences in the requirements of IAS 21 compared to UK GAAP in respect of functional currencies and in relation to the accounting for foreign exchange on loans between Group companies. This is an area where there may be increased volatility in the Group's ongoing results on an IFRS basis compared to UK GAAP arising from exchange gains and losses.

f) Financial instruments. The Group will adopt IAS 39 on 1 October 2005 in line with the exemption under IFRS 1. This standard impacts the accounting for a range of financial instruments and embedded derivatives. The Group has few financial instruments and they are predominantly related to managing currency and interest rate risk. The Group has reviewed its financial instruments and has concluded that at present they meet the requirements to enable it to apply hedge accounting. Embedded derivatives typically arise from escalation clauses in contracts with customers to recover cost increases. Whilst the impact is not material at 1 October 2005, embedded derivatives may give rise to greater volatility in the Group's earnings arising from marking to market the underlying derivative.

The adoption of IFRS will also result in a number of changes to the presentation of the financial statements including disclosures. For example, the Group's share of the post-tax profit arising in joint ventures and associates will be shown as one line in the income statement rather than as part of Group turnover, operating profit and interest. There will be a number of other presentational changes including reclassifications within the balance sheet and a change to the layout of the cash flow statement.

Overall, management believes that the impact of IFRS on earnings and net assets will be broadly neutral subject to the effects of IAS 21 and IAS 39 as noted above. Cashflows and the underlying economics of the business will not change.

US GAAP

The financial statements of the Group have been prepared in accordance with UK GAAP, which differs in certain respects from US GAAP.

The US accounting information in note 30 to the financial statements gives a summary of the principal differences between the amounts determined in accordance with the Group's accounting policies (based on UK GAAP) and amounts determined in accordance with US GAAP, together with the reconciliation of net profit and shareholders' funds from a UK GAAP basis to a US GAAP basis and a movement in shareholders' funds on a US GAAP basis.

The net income for the year ended 30 September 2005 under US GAAP was £326.7 million (2004: £297.7 million, 2003: £264.3 million), compared with the net profit of £367.0 million in 2005 (2004: £264.0 million, 2003: £219.1 million) under UK GAAP. Shareholders' funds at 30 September 2005 under US GAAP were £2,122.2 million (2004: £1,920.1 million), compared with £1,942.0 million (2004: £1,675.3 million) under UK GAAP. The difference primarily results from the differing accounting treatment of pensions, goodwill, financial instruments, investments, fixed asset revaluations, deferred tax and variable interest entities.

Related party transactions

During the year, interest income of £13.8 million (2004: £7.3 million, 2003: £7.6 million) was received from the Cantarell joint venture in Mexico.

During the year, the Group was invoiced £45.9 million in respect of purchases of production plants from Linde BOC Process Plants in the US. At 30 September 2005, £1.9 million was payable in respect of these invoices. No material purchases were made in 2004 or 2003.

The Group had no other material related party transactions that might reasonably be expected to influence decisions made by the users of these accounts.

Exchange rates

The majority of the Group's operations are located outside the UK and operate in currencies other than sterling.

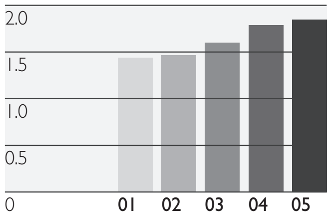
The effects of fluctuations in the relationship between the various currencies are extremely complex and variations in any particular direction may not have a consistent impact on the reported results. In terms of average rates for the year, in 2005 sterling strengthened against two of the four principal currencies affecting the Group: by three per cent against the US dollar and by two per cent against the Japanese yen. Sterling weakened by two per cent against the Australian dollar and by three per cent against the South African rand.

In 2004, sterling strengthened against the US dollar and the Japanese yen. Sterling weakened against the Australian dollar and the South African rand.

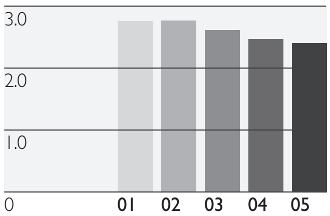
In 2003, sterling strengthened against the US dollar and the Japanese yen. Sterling weakened against the Australian dollar and the South African rand.

Average exchange rates:

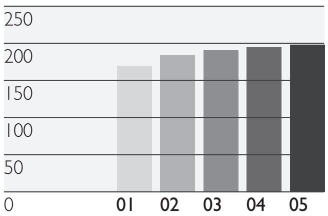
US dollar



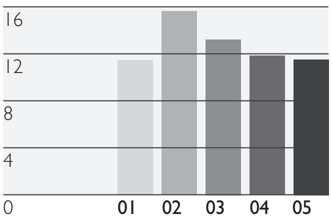
Australian dollar



Japanese yen



South African rand



The rates of exchange to sterling for the currencies which have principally affected the Group's results over the last five years were:

	2005	2004	2003	2002	2001
US dollar					
At 30 September	**1.77**	1.81	1.66	1.57	1.47
Average for the year	**1.85**	1.79	1.60	1.47	1.44
Highest rate during year	**1.95**	1.90	1.69	1.58	1.50
Lowest rate during year	**1.73**	1.66	1.54	1.41	1.37
Australian dollar					
At 30 September	**2.32**	2.50	2.45	2.89	2.98
Average for the year	**2.41**	2.47	2.62	2.77	2.76
Highest rate during year	**2.56**	2.68	2.89	3.00	3.03
Lowest rate during year	**2.27**	2.33	2.40	2.54	2.62
Japanese yen					
At 30 September	**200.51**	199.44	185.60	191.45	175.09
Average for the year	**198.20**	195.17	191.01	184.34	170.04
Highest rate during year	**205.25**	206.90	199.49	193.05	181.26
Lowest rate during year	**189.75**	180.80	182.17	173.82	153.13
South African rand					
At 30 September	**11.25**	11.72	11.57	16.58	13.24
Average for the year	**11.54**	11.85	13.24	15.64	11.47
Highest rate during year	**12.46**	13.33	16.41	19.49	13.26
Lowest rate during year	**10.77**	10.75	11.40	13.00	10.54

The average for the year is an average of daily rates. On 12 November 2005, the latest practicable date for inclusion in this report and accounts, the rates of exchange to sterling for the principal currencies were as follows: US dollar 1.74; Australian dollar 2.38; Japanese yen 206.55; South African rand 11.75.

The highest and lowest rates of exchange for sterling against the US dollar for the last six months were:

	May	June	July	August	September	October
High	1.90	1.84	1.77	1.81	1.84	1.79
Low	1.82	1.79	1.73	1.77	1.76	1.75

Principal operating companies

The following operating companies principally affect the amount of profit or assets of the Group:

- The BOC Group Inc., a wholly-owned Delaware corporation and a subsidiary of The BOC Group Inc., a wholly-owned Nevada corporation;
- BOC Limited, a wholly-owned English company;
- BOC Limited, a wholly-owned Australian company;
- Gist Limited, a wholly-owned English company;
- Japan Air Gases Ltd, a Japanese company, in which the Group's Japanese 99 per cent owned subsidiary holds 45 per cent;
- African Oxygen Limited, a South African company, in which the Group's shareholding is 56 per cent.

Supplier payment policy

The Group applies a policy of agreeing and clearly communicating the terms of payment as part of the commercial arrangements negotiated with suppliers and then paying according to those terms. In addition the UK-based businesses have committed to the 'Better Payment Practice Code'. A copy of the code can be obtained from the Department of Trade and Industry, DTI Publications Orderline, Admail 528, London SW1W 8YT.

For UK businesses, of amounts owing to suppliers, trade creditors represents 58 days at 30 September 2005.

Going concern

The directors are confident, after having made appropriate enquiries, that both the company and the Group have adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts. Management believes that its current credit facilities provide sufficient working capital to meet the present requirements of its existing businesses and that the gearing ratio is appropriate given the nature of the Group's activities.

Substantial holdings

Details of substantial holdings of Ordinary shares at 12 November 2005 are shown on page 141.

The BOC Group results for the 6 months and quarter to 31 March 2006

	2006	2005	*Change as reported*	*Change at constant currency (3, 4)*
Excl. exceptional and certain re-measurement items (1, 4)				
6 months to 31 March				
Total revenue (2)	£2,465.2m	£2,331.2m	*+6%*	*+2%*
Total adjusted operating profit (2)	£303.4m	£291.1m	*+4%*	*0%*
Adjusted profit attributable to equity shareholders	£183.5m	£165.9m	*+11%*	*+8%*
Adjusted earnings per share	36.6p	33.6p	*+9%*	*+6%*
2nd quarter to 31 March				
Total revenue (2)	£1,241.1m	£1,151.9m	*+8%*	*+3%*
Total adjusted operating profit (2)	£152.4m	£143.6m	*+6%*	*+1%*
Adjusted profit attributable to equity shareholders	£92.7m	£83.2m	*+11%*	*+8%*
Adjusted earnings per share	18.4p	16.9p	*+9%*	*+6%*

Statutory results				
6 months to 31 March				
Group revenue	£1,986.8m	£1,948.7m	*+2%*	*- 2%*
Group operating profit	£208.9m	£335.2m	*- 38%*	*- 40%*
Profit attributable to equity shareholders	£165.0m	£216.1m	*- 24%*	*- 26%*
Group earnings per share	32.9p	43.7p	*- 25%*	*- 27%*
2nd quarter to 31 March				
Group revenue	£1,013.3m	£968.1m	*+5%*	*0%*
Group operating profit	£95.9m	£215.9m	*- 56%*	*- 58%*
Profit attributable to equity shareholders	£75.7m	£133.8m	*- 43%*	*- 45%*
Group earnings per share	15.0p	27.0p	*- 44%*	*- 46%*

Notes

1. Results excluding exceptional and certain re-measurement items are used by management to measure performance. They are shown in order to reveal business trends more clearly than statutory results, which include such items. (See note 4, page 22)
2. 'Total' figures include The BOC Group's share of joint ventures and associates.
3. In order to show underlying business trends, results are also compared at constant exchange rates to eliminate the effects of translating overseas results into sterling at varying rates.
4. Unless otherwise stated, all the commentaries that follow are on the basis of total adjusted results that exclude exceptional and certain re-measurement items and comparisons are at constant exchange rates (with the exclusion of Zimbabwe, where hyperinflation distorts constant currency comparisons). Segment results are shown on this basis below.
5. Full statutory results are on pages 10 to 25.

BUSINESS SEGMENT RESULTS

All comparisons that follow are on the basis of constant exchange rates and total adjusted results. Adjusted operating profits exclude exceptional and certain re-measurement items. 'Total' figures include The BOC Group's share of joint ventures and associates. A reconciliation of 'Group' to 'Total' revenue and operating profit is shown on pages 17 to 21. Comparisons are made with the same period a year ago unless stated otherwise. The second quarter means the fiscal quarter to 31 March.

	6 months to 31 March 2006				**Fiscal second quarter**			
Business segments £ million	**Total revenue**		**Total adjusted operating profit**		**Total revenue**		**Total adjusted operating profit**	
Process Gas Solutions	851.2	*+16%*	115.9	*+11%*	421.6	*+15%*	59.3	*+12%*
Industrial and Special Products	936.4	*+8%*	149.7	*+2%*	474.8	*+11%*	74.3	*+5%*
BOC Edwards	443.4	*+6%*	26.5	*+32%*	229.5	*+10%*	15.0	*+50%*
Afrox hospitals	47.5	*- 80%*	8.2	*- 74%*	25.0	*- 80%*	3.7	*- 80%*
Gist	186.7	*+22%*	14.0	*+15%*	90.2	*+23%*	5.6	*- 8%*
Corporate			(10.9)				(5.5)	
Group total	**2,465.2**	***+2%***	**303.4**	***+0%***	**1,241.1**	***+3%***	**152.4**	***+1%***

PROCESS GAS SOLUTIONS (PGS)

PGS continued to perform strongly during the second quarter, with improved sales volumes, cost recovery and better plant reliability, leading to a 16 per cent improvement in total revenue and an 11 per cent increase in total adjusted operating profit for the first half of 2006.

Selling price increases to recover higher energy costs in the UK and the US together with increased revenue in BOC's plant engineering joint venture in the US accounted for some 7 per cent of the increase in total revenue during the first six months without a corresponding effect on adjusted operating profit.

Increased revenue in Europe during the second quarter, as in the first quarter, was mainly as a result of higher selling prices to recover higher energy costs. There was also some increase in tonnage volumes in the UK but this was partly offset by lower merchant volumes. BOC's Cryostar pump and turbine engineering business continued to grow strongly during the second quarter mainly reflecting sales of industrial gas equipment and spares. Sales volumes of air separation gases were particularly strong in north America and firm pricing allowed full recovery of higher energy costs.

In north Asia, total revenue and adjusted operating profit in the second quarter and for the half year were higher as a result of strong demand in China together with additional revenues from the air separation joint venture at Nanjing that was not in full production a year ago. Revenues and operating profit increased in the south and south east Asia region, helped by the sale of a gases plant to a joint venture in India during the second quarter.

The PGS business in Africa continued to perform strongly in the second quarter. New projects are in execution to support growing demand.

In the south Pacific region, revenue growth was held back and adjusted operating profit was slightly reduced by a periodic maintenance shutdown at BP's Bulwer Island refinery in the second quarter. Planned maintenance was carried out at the BOC hydrogen and air separation plants and these were re-started on schedule.

A significant programme of investment in plants is in progress around the world to satisfy new supply scheme contracts as well as growing demand in the merchant markets.

The hydrogen plant supplying BP and Sunoco in Toledo, Ohio, began production during March 2006. In China the commissioning process for the first new air separation unit for the Taiyuan Iron and Steel supply scheme is under way and construction of the second unit is proceeding on schedule.

BOC is also planning to invest in a new 700 tons a day air separation unit in south central Wisconsin as a way to improve service to its Midwestern customers in southern Wisconsin, western Ohio, Illinois and Indiana. Demand for poultry processing, combustion and petrochemical applications has grown steadily in recent years.

It is the second new air separation plant BOC will begin building this year in the US. The other, located in Cartersville, Georgia, is expected to begin operating in the third quarter of 2007.

In April 2006 BOC and Shanghai Petrochemical Co. Ltd. (SPC), a subsidiary of Sinopec Group, signed an agreement to form a 50/50 gases joint venture. The JV, BOC-SPC Gases Company Ltd., will invest more than £45 million in acquiring four air separation units (ASUs) from SPC and building a new large ASU capable of producing 1,400 tonnes a day of oxygen. The JV will supply SPC and third party customers with a total of more than 5,000 tonnes a day of oxygen, nitrogen and argon.

INDUSTRIAL AND SPECIAL PRODUCTS (ISP)

Total revenue growth of 8 per cent in ISP for the half year was driven primarily by particularly strong performances in the south Pacific region, north America and southern Africa during the second quarter, while conditions in Europe remained challenging. Some 3 per cent of the increase in total revenue for the half year was as a result of higher selling prices to recover increased energy costs so the underlying increase was approximately 5 per cent. Total adjusted operating profit was up 2 per cent for the first six months and up 5 per cent in the second quarter.

In Europe, there was some improvement in revenue in the UK, Ireland and Poland but a lower adjusted operating profit reflected weakness of the UK manufacturing economy coupled with increased pension costs.

Both revenue and adjusted operating profit grew strongly in the US and Canada. Buoyant demand led to increased sales volumes and increased input costs were well recovered in higher selling prices. Growth in Canada continued to be driven by demand from the oil and gas sector in the western region.

BOC's global helium business performed better during the second quarter following the negative impact of increased helium feedstock costs during the planned ramp up of production from a new source in Qatar in the first quarter.

In southern Africa BOC's business built on a buoyant first quarter with another year on year increase in the second quarter. Demand for industrial products, as well as for medical and hospitality gases improved in the favourable South African economic climate.

In April 2006 BOC won contracts, worth £70 million in revenue over their lifetimes, to supply oxygen and carbon dioxide to a major shipbuilding complex near Shanghai in China. BOC will build an air separation unit on Changxing Island to supply industrial oxygen. A joint venture with Jiangsu Huayang Liquid Carbon Company Ltd, a Sinopec subsidiary, will supply the liquid carbon dioxide.

In the south Pacific region firm demand, coupled with increased selling prices, led to better total revenues and adjusted operating profit for both the second quarter and for the first six months. Weaker volumes partly due to higher feedstock prices had a negative impact in the Australian liquefied petroleum gas business.

BOC EDWARDS

With increased sales of semiconductor equipment, revenue picked up strongly in the second quarter, leading to a 6 per cent increase in revenue and a 32 per cent increase in adjusted operating profit for the first six months. This was after absorbing a £2.5 million charge for cost overruns on pharmaceutical equipment projects in the first quarter. The improved performance in the second quarter reflected better sales of semiconductor equipment and the benefits of the restructuring announced in 2005. Exchange rate movements had little impact on margins in the second quarter.

The intake of orders for semiconductor equipment was greater in the second quarter than in the first and over 45 per cent more than a year ago.

Restructuring programmes are underway to deliver further cost savings during the second half of fiscal 2006 and in 2007. These include the transfer of some manufacturing operations from the UK to the Czech Republic and to India.

AFROX HOSPITALS

The Afrox hospitals business continued to perform strongly in the second quarter but comparisons with a year ago are distorted by the disposal of BOC's controlling interest with effect from the end of March 2005. Until disposal, Afrox Healthcare Limited was fully consolidated into The BOC Group accounts. Since then, a 20 per cent share of the results of the new company has been included in the BOC Group income statement as African Oxygen Limited (AOL), BOC's subsidiary in South Africa, retains a 20 per cent interest in the new company. This disposal reduced The BOC Group's first half earnings per share by approximately 1p.

GIST
Revenues increased for both the second quarter and for the first six months reflecting the growth of existing business and particularly as a result of the acquisition of Van Dongen in September 2005 as well as new business with Woolworths.

Operational performance continued to be strong throughout the six months and supported the growth of Marks and Spencer's food business and the expansion of Ocado.

Adjusted operating profit for the first six months was higher than a year ago but this included a net gain of £4.6 million after the disposal of a distribution centre in Swindon. If this gain is excluded, adjusted operating profit was lower than a year ago partly because of increased pension costs and Sarbanes-Oxley compliance costs.

During the first quarter Gist's Hemel Hempstead distribution depot, which serves Marks & Spencer, suffered disruption as a result of the Buncefield oil terminal explosion and fire. Despite this, customer service levels were maintained during the crucial Christmas period. Additional costs incurred as a result were predominantly recovered during the second quarter.

Gist has recently been awarded a two year extension to its warehousing and Hong Kong air freight contracts for Marks & Spencer International. In the UK, a new facility near Bristol will begin to serve 13 Marks & Spencer stores in south west England from June 2006, with a planned expansion to cover a total of 31 stores later in the year.

IMPACT OF EXCHANGE RATES
Exchange rate movements had a positive impact in the second quarter, as they did in the first. The US dollar and associated currencies strengthened and benefited results for both PGS and ISP. The South African rand and the Australian dollar helped results for ISP but for the Group as a whole the benefit was partly offset by a weaker Japanese yen.

Foreign currency translation was £45.5 million positive to total revenue and £5.9 million positive to total adjusted operating profit in the second quarter and £79.3 million positive to total revenue and £10.2 million positive to total adjusted operating profit for the half year.

EXCEPTIONAL ITEMS
Exceptional items include costs of £16.8 million relating to the proposed take-over by Linde and £5.3 million of restructuring costs.

CASH FLOW, BORROWINGS AND TAX
Operating cash flow for the 6 months to 31 March 2006 was £241.9 million. This was an improvement of £26.2 million compared with the £215.7 million achieved in the comparative period last year. The higher operating cash flow was achieved in spite of increased pensions contributions. Operating profit was slightly higher than last year, but the main reason for the improved performance was a lower outflow in working capital which was some £28 million better than last year.

Investing activities utilised £203.0 million of cash. £206 million was invested in new property, plant and equipment, with some £32 million of cash generated from the disposal of similar items. Of the total capital expenditure, approximately half was in the Process Gas Solutions line of business, reflecting continuing expenditure on new supply scheme projects in Asia and the Americas. There were no significant business acquisitions or disposals in the 6 months ended 31 March 2006, although the Group's cash flow benefited from the receipt, in November 2005, of the final payment of US$20 million in respect of the disposal, in July 2004, of the US packaged gas business. Additional investments in joint ventures relates mainly to the Cantarell joint venture in Mexico. In the comparative period last year, net investing activities generated a cash inflow as the Group received the proceeds from the disposal of its South African subsidiary's majority shareholding in Afrox Healthcare Limited.

Cash flow from financing activities showed an inflow of £39.7 million in the first half. The main reason for this was the significant inflow of funds from the issue of share capital because of the exercise of employee share options.

Net borrowings at 31 March 2006 were £849.5 million, compared with £879.2 million at 31 December 2005 and £839.7 million at 30 September 2005. The move to IFRS, including the adoption of IAS 32 and IAS 39 with effect from 1 October 2005, has had two significant effects on the presentation of net borrowings. Firstly, interest accrued on items within net borrowings are now presented as part of the asset or liability itself, rather than as a separate payable or receivable. This had the impact of increasing net borrowings at 31 March 2006 by £26.9 million. Secondly, items of cash and deposits can now only be offset with liabilities when there is both a legally enforceable right to offset the items and where there is the intention to settle on a net basis. This has resulted in the reported balances for cash and deposits and for short-term borrowings being higher than in previous periods. These changes are presentational. They do not impact on the overall level of net borrowings of the Group, nor do they have any impact on financing costs. Existing arrangements with banks whereby interest is calculated on a net basis remain unaffected.

Excluding the presentational impact of including £26.9 million of accrued interest in the total net borrowings, overall net borrowings have declined by some £17 million in the six months to 31 March 2006. The impact of movements in the value of foreign currencies relative to sterling was not significant.

At 31 March 2006 the ratio of net debt to equity was 35.9 per cent compared with 41.2 per cent at 30 September 2005.

Net interest on net debt was covered 10.2 times by adjusted operating profit (excluding exceptional items) for the 6 months to 31 March 2006. For the whole financial year ended 30 September 2005, net interest on net debt was covered 9.0 times by adjusted operating profit.

At 31 March 2006, adjusted return on capital employed (excluding exceptional items) was 15.9 per cent, the same as at 30 September 2005. Return on capital employed was 14.8 per cent compared with 18.5 per cent at 30 September 2005.

The effective rate of tax on total adjusted profit for the 6 months to 31 March 2006 was 27.5 per cent, compared with 26.0 per cent for the financial year ended 30 September 2005. The total rate of tax on profit for the 6 months to 31 March 2006 was 28.6 per cent, compared with 27.0 per cent for the whole financial year ended 30 September 2005.

THE OFFER

On 6 March 2006 the Boards of directors of Linde and BOC announced that they had reached agreement on the terms of a pre-conditional recommended cash offer by Linde for the entire issued and to be issued share capital of BOC. Copies of the full announcement and a subsequent letter to BOC shareholders are available on The BOC Group website (www.boc.com).

Under the terms of the Offer, BOC shareholders will receive 1,600 pence in cash for each BOC Share and BOC ADS holders will receive 3,200 pence in cash for each BOC ADS (each BOC ADS representing two BOC Shares). The Offer values BOC's existing issued share capital at approximately £8.2 billion.

It is intended that the Offer, the making of which remains subject to certain pre-conditions, will be implemented by way of a Court-approved scheme of arrangement under section 425 of the Companies Act.

The Offer will not be made until regulatory clearances have either been obtained from both US and European competition authorities or until such pre-conditions have been waived by Linde.

A loan note alternative (interest-bearing debt securities) will also be made available to all BOC shareholders other than to those in restricted territories.

DIVIDENDS

If the pre-conditions to the Offer by Linde are not satisfied on or before 31 May 2006, BOC will be permitted to pay a second interim dividend up to a maximum of 27 pence per share. The amount of the second interim dividend would be equal to 3.375 pence per share for each consecutive period of seven days (but shall not accrue for part of such a period) during the period commencing on 1 June 2006 and ending on the earlier of either 26 July 2006 or the date on which Linde announces the satisfaction of the pre-conditions. The effect of this is that if the pre-conditions are satisfied on or before 6 June 2006, no part of the dividend will either accrue or be paid.

The Dividend Reinvestment Plan for ordinary shareholders and the Global Invest Direct Plan for American Depository Receipt (ADR) holders have been suspended for the second interim dividend.

OUTLOOK

The continued strong trading performance during the first half of 2006 reinforces the Board's view that the Group is both well positioned to grow and to make steady progress as it continues to pursue its investment plans.

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ILLUSTRATIVE FINANCIAL INFORMATION (LINDE INCLUDING BOC)

Illustrative Financial Information
(Linde including BOC)

Introduction

The Linde Group has prepared an illustrative balance sheet as of March 31, 2006 and an illustrative income statement for the period from January 1 to December 31, 2005 and from January 1 to March 31, 2006 to present by way of example the probable effects of the acquisition of The BOC Group plc, Windlesham, UK (''BOC'') during the periods specified above (the ''Illustrative Financial Information (Linde including BOC)''). Due to the specific factors outlined below, the Illustrative Financial Information (Linde including BOC) does not represent what is commonly understood under ''pro forma financial information'' within the meaning of the Commission Regulation (EC) No. 809/2004 of April 29, 2004. According to the current status of the takeover process during which Linde aims to acquire all of the shares of BOC, BOC as the target company is not permitted (inter alia pursuant to Rule 20 of the City Code on Takeovers and Mergers) to disclose to Linde or to otherwise make accessible to Linde certain financial and other information. This information includes in particular the details of the accounting principles applied in the financial data prepared according to IFRS and information concerning a number of BOC's assets required for a purchase price allocation. Even if this exchange of information were possible before the acquisition, reliable results would not be available before the completion of the takeover due to the time required to incorporate this information into the financial data (even once all information is available, IFRS 3 ''Business Combinations'' allows for a period of up to 12 months for completing the purchase price allocation). Due to a lack of access to BOC's financial information, Linde is unable to prepare ''pro forma financial information'' in accordance with Annex II of Commission Regulation (EC) No. 809/2004 of April 29, 2004 and IDW AcPS 1.004 ''Preparation of Pro forma Information'' the ''Accounting Practice Statement on the Preparation of Pro Forma Information'' promulgated by the German Institute of Auditors (IDW). For information on the restrictions applicable to this Illustrative Financial Information (Linde including BOC), see also below under a) Uniform Accounting and Measurement Principles and b) Allocation of the Purchase Price to the Acquired Assets and Liabilities. Linde has prepared the following unaudited Illustrative Financial Information (Linde including BOC) to model the effects of the planned acquisition of BOC.

The following financial statements were used to determine the published financial data for preparing the Illustrative Financial Information (Linde including BOC):

- the published IFRS consolidated financial statements of Linde AG as of December 31, 2005 audited in accordance with Section 315a of the German Commercial Code (HGB), and the unaudited, published IFRS consolidated interim financial statements of Linde AG as of March 31, 2006,

- the unaudited, published restatement of financial information relating to BOC's transition to IFRS as of September 30, 2005; the unaudited, published IFRS consolidated interim financial statements of BOC as of December 31, 2005; and the unaudited, published IFRS consolidated interim financial statements of BOC as of March 31, 2006.

In addition to the companies consolidated in the consolidated financial statements of Linde AG, the Illustrative Financial Information (Linde including BOC) also includes the companies consolidated in the consolidated financial statements of BOC. For purposes of the income statement, the assumption was made that the acquisition had taken place effective January 1, 2005. In contrast, for purposes of the illustrative balance sheet as of March 31, 2006, the assumption was made that the acquisition had taken place effective January 1, 2006.

All adjustments regarding BOC are based exclusively on publicly available information, because up to the time of preparation of the Illustrative Financial Information (Linde including BOC), no transfer of control within the meaning of IFRS 3 ''Business Combinations'' had taken place. Moreover, all adjustments relate exclusively to preliminary estimates and are based on management assumptions that are considered to be plausible. All adjustments based on the material assumptions outlined below are described in the attached notes.

Because the Illustrative Financial Information (Linde including BOC) assumes the hypothetical acquisition of BOC as of January 1, 2005 or January 1, 2006, the Illustrative Financial Information (Linde including BOC) does not comply with International Financial Reporting Standards (IFRS), but instead solely reflects the assumptions and adjustments to the historical base figures of the Linde Group and BOC listed below and made by Linde AG.

The explanations do not include:

- any synergies or cost savings which could occur in the future or are expected as the result of the acquisition of BOC, and
- any cash or non-cash expenses which the Linde Group would have to assume upon acquiring BOC but for which the amount and time period cannot be determined.

Due to their insignificance for the Linde Group's financial conditions and results of operations, the pending acquisition of Spectra Gases, Inc., New Jersey, USA, of Karbogaz Korbondioksit ve Kurubuz A.S., Istanbul, Turkey and other smaller acquisitions since January 1, 2005 were not included retrospectively. Moreover, divestments of business units planned in connection with the acquisition and disposals due to antitrust regulations were also not included in the Illustrative Financial Information (Linde including BOC).

At the time of preparation of the information, only publicly available information concerning BOC was available to the Linde Group. This fact results in the restrictions set out below in respect of the information, which must be taken into account when reviewing the corresponding figures.

a) Uniform accounting and measurement principles

The historical figures for the Illustrative Financial Information (Linde including BOC) were prepared by Linde, as well as BOC, in accordance with International Financial Reporting Standards (IFRS). Due to the fact that only publicly available information on BOC was available, no adjustments could be made to ensure the application of uniform accounting and measurement principles.

This type of adjustment could, however, prove to be necessary after all information becomes available. The base figures for Linde and BOC in the illustrative balance sheet as of March 31, 2006 and the illustrative income statement from January 1 to December 31, 2005 and January 1 to March 31, 2006 are therefore not comparable.

b) Allocation of the Purchase Price to the Acquired Assets and Liabilities

The Illustrative Financial Information (Linde including BOC) is based on the assumption that the purchase method is applied to the acquisition in line with IFRS 3 "Business Combinations." The rules concerning purchase price allocation and subsequent accounting for goodwill are derived from the application of IFRS 3 "Business Combinations," IAS 36 "Impairment of Assets," and IAS 38 "Intangible Assets." IFRS requires that all assets, liabilities and contingent liabilities be measured at fair value at the time of acquisition ("purchase price allocation"). This includes in particular intangible assets that were not capitalized in BOC's financial statements to date (e.g., brand name, customer lists, etc.)

No detailed purchase price allocation could be performed because only publicly accessible information was available until the date of publication of the Offering Circular. As a result, Linde AG's assumption for the purposes of the Illustrative Financial Information (Linde including BOC) was that the entire difference (purchase price less equity before purchase price allocation is allocated to goodwill.

Investors assessing the Illustrative Financial Information (Linde including BOC) should note that after BOC is actually acquired, a purchase price allocation will in any case lead to the recognition of hidden reserves and charges in the assets, liabilities and contingent liabilities of BOC, and therefore also to reduced earnings due to depreciation/amortization expense. Depending on which assets are affected, the depreciation/amortization periods differ, which complicates the analysis further.

For a better approximation of the effects of the purchase price allocation yet to be performed, bandwidths for potential hidden reserves and charges to be recognized were calculated based on a selection of comparable acquisitions between 2001 and 2005. These calculated bandwidths of hidden reserves and charges to be recognized could differ substantially from the actual results of a purchase price allocation at BOC. Due to the varying quantities of publicly available information concerning the comparable transactions, bandwidths can only be given for the entirety of the intangible assets, tangible assets and other assets. Furthermore, Linde was unable to include possible hidden charges on liabilities or contingent liabilities in the analysis.

Results of purchase price allocations for comparable transactions

(in € million)

Indicative purchase price	**12,076**								
Difference between purchase price and acquired equity before purchase price allocation	9,069								
				Potential depreciation/ amortization in year 1 after transaction (12 months)			**Potential depreciation/ amortization in year 2 after transaction (12 months)**		
Potential recognition of hidden reserves									
Intangible assets	2,712	–	3,553	108	–	213	108	–	213
Tangible assets	1,148	–	2,067	276	–	579	149	–	310
Other assets	214	–	719	0	–	0	0	–	0
Effect from deferred taxes	**–1,181**	**–**	**–1,838**	**–111**	**–**	**–230**	**–75**	**–**	**–152**
Resulting goodwill	6,176	–	4,568						
Potential earnings effects after deferred taxes				**273**	**–**	**562**	**182**	**–**	**371**

The results of purchase price allocations for comparable transactions presented above can deviate substantially from the actual conditions, because to date only publicly accessible information on BOC has been available. The future depreciation/amortization in the Linde Group after initial consolidation of BOC could therefore differ substantially from the bandwidths outlined above.

The Illustrative Financial Information (Linde including BOC) was prepared for purely illustrative purposes. The Illustrative Financial Information (Linde including BOC) contains uncertainties and assumptions, and for this reason, this information is not an indicator of the actual financial condition and results of operations that would have resulted if the structure assumed for the Illustrative Financial Information (Linde including BOC) had already existed as of January 1, 2005 or until March 31, 2006. Moreover, the intention of presenting this information is not to forecast the future financial condition or results of operations.

Assumptions Underlying the Preparation of the Illustrative Financial Information (Linde including BOC)

1. Acquisition cost of the BOC shares

As announced by Linde's management on March 6, 2006, Linde intends to acquire all outstanding shares of BOC at a cash purchase price of 1,600 pence per share. The ancillary costs of the acquisition were assumed to amount to a flat 1% of the acquisition costs. A precise determination was not possible at the time of preparation of the Illustrative Financial Information (Linde including BOC). In accordance with the disclosures in the financial statements of BOC as of September 30, 2005 and the assumptions regarding the acquisition, these are the costs of the acquisition of all shares of BOC:

Acquisition costs – The BOC Group plc

Shares (in millions) / € million	
Shares issued	503
Treasury shares	5
Shares outstanding	**498**
Offering price for the shares outstanding	GBP 16.00
Exchange rate as of January 1, 2006	0.6872
Acquisition costs for the shares outstanding	**EUR 11,595**

Stock options (in millions)	
Employee options	5
Management options	23
Long-term incentive program	3
Total number of stock options	**31**
Avg. option value (in pence)	800
Acquisition costs for the outstanding stock options	**GBP 496**
less option value	248
Exchange rate as of January 1, 2006	0.6872
Acquisition costs for the outstanding stock options	**EUR 361**
Ancillary acquisition costs flat 1% of acquisition costs	120
Ancillary acquisition costs, total	**120**
Acquisition costs, total	**12,076**

2. *Financing of the acquisition of the BOC shares*

The Linde Group intends to finance the acquisition of BOC by way of a mix of borrowed capital, hybrid capital, equity and the disposal of certain activities. As announced on March 6, these funds are broken down as follows:

Equity	€1.4 – 1.8 billion
Hybrid capital	€1.2 – 1.6 billion
Bank loans and sales of certain activities	€12.0 billion

The bridge loan available to the Company consists of the following tranches with different maturities and currencies:

Tranche A1	GBP 1,400,000,000	3.5 years
Tranche A2	GBP 2,000,000,000	5.0 years
Tranche B	GBP 5,500,000,000	2.5 years
Revolving Credit Facility (RCF) Tranche	EUR 2,000,000,000	5.0 years

For purposes of the Illustrative Financial Information (Linde including BOC), the assumption was made that the capital increase in the amount of €1.8 billion and the issuance of hybrid capital totaling €1.3 billion have already occurred and that Tranche B of the bridge loan is not drawn down in this amount. The utilization of the RCF tranche is reduced by the amount of the difference between the bridge loan and the acquisition costs for the BOC shares. This tranche serves as a general reserve and, if necessary, can be used for ongoing financing of the Group; it was therefore not taken into account for purposes of the Illustrative Financial Information (Linde including BOC).

In view of the assumption for purposes of the Illustrative Financial Information (Linde including BOC) that the transaction had been concluded as of January 1, 2005 or January 1, 2006, the average interest rates for 2005 or the first quarter of 2006 were assumed for the variable interest rate portion of the financing. If the bridge loan is utilised, or the hybrid capital issued, the actual amount of interest to be paid can deviate from the assumptions made, because partially variable interest rates have been agreed or, as applicable, a deviating interest rate has priority in the case of actual issuance of the hybrid capital.

As a result, the following adjustments were made to the Illustrative Financial Information (Linde including BOC) in line with the above-mentioned assumptions regarding the purchase price and the underlying financing structure:

Description	Currency	Amount of the available credit facility	Amount in EUR	Interest type	Interest rate 2005	Interest rate 2006	Spread (in %)	Interest rate total 2005	Interest rate total 2006
Equity	EUR	1,800,000,000	1,800,000,000	n/a	n/a	n/a	n/a	n/a	n/a
Hybrid capital	EUR	1,300,000,000	1,300,000,000	10y Swap EURIBOR	3.4854%	3.5205%	4.00%	7.484%	7.5205%
Tranche B	GBP	3,307,990,000	4,167,627,775	3m LIBOR	4.7575%	4.7227%	0.40%	5.1575%	5.1227%
RCF tranche	EUR	2,000,000,000	0	3m EURIBOR	2.1840%	2.6140%	0.55%	2.7340%	3.1640%
Tranche A1	GBP	1,400,000,000	1,979,917,975	3m LIBOR	4.7575%	4.7227%	0.50%	5.2575%	5.2227%
Tranche A2	GBP	2,000,000,000	2,828,454,250	3m LIBOR	4.7575%	4.7227%	0.55%	5.3075%	5.2727%
Total financing			**12,476,000,000**						

The Illustrative Financial Information (Linde including BOC) assumes that the financing costs are fully tax deductible. Accordingly, an average tax rate for the combined Group based on the figures for fiscal 2005 was assumed:

Average Group tax rate

(in € million)	
Tax expense in fiscal 2005	
Linde Group	279
BOC	193
	472
Earnings before taxes on income (EBT)	
Linde Group	789
BOC	848
	1,637
Hypothetical tax rate of the combined Group	29%

3. *Foreign currency translation of BOC's financial statements*

Foreign currency translation is performed based on the functional currency concept pursuant to IAS 21 "The Effects of Changes in Foreign Exchange Rates." According to this concept, BOC's assets and liabilities are translated at the rate prevailing on the reporting date of March 31, 2006, while income and expenses are translated at the weighted average rate for fiscal 2005 or the first quarter of 2006. The resulting translation differences are recognized directly in equity.

		Avg. rate on the balance sheet date		Avg. annual rate	
Exchange rate €1 =	ISO code	December 31, 2005	March 31, 2006	2005	Three months ended March 31, 2006
UK	GBP	0.687200	0.697300	0.683087	0.686544

4. *Purchase price allocation with regard to the initial consolidation of BOC*

In accordance with IFRS 3 "Business Combinations," the purchase price for the BOC shares to be acquired must be allocated to the corresponding assets, liabilities and contingent liabilities ("purchase price allocation"). No purchase price allocation could be performed for purposes of this Illustrative Financial Information (Linde including BOC), because only publicly accessible data was available as of the date of this offering circular. The total difference in the amount of €9.1 billion was reported as goodwill. Investors reviewing the Illustrative Financial Information (Linde including BOC) should note that once all information is available (after the actual acquisition of BOC), the purchase price allocation to be performed will lead to the recognition of hidden reserves and charges in the assets, liabilities and contingent liabilities of BOC. This will result in reductions in profits due to the depreciation/amortization that have to be undertaken then (for more information, see Introduction, b) Allocation of the Purchase Price to the Acquired Assets and Liabilities).

5. *Other consolidation measures*

The joint venture "Linde BOC Process Plants LLC" has been operated by Linde and BOC since September 2002. Plants were planned and built by the two companies as part of this joint venture. In addition, Linde also planned and constructed additional plants for BOC during the time periods presented in the Illustrative Financial Information (Linde including BOC). In view of these assumptions, intercompany profits and losses had to be eliminated. No additional consolidation measures were necessary due to the complementary businesses of the two groups.

6. *Uniform financial statement reporting date*

BOC's reporting date for its financial statements is September 30, while Linde's fiscal year ends on December 31. For purposes of a uniform financial statement reporting date, BOC's income statement was adjusted for purposes of the Illustrative Financial Information (Linde including BOC) to the period from January 1 to December 31, 2005 by adding/subtracting the first/last quarter.

Reconciliation of the income statement of BOC to a fiscal year from January 1 to December 31, 2005

in € million	**BOC Group Oct. 1, 2004 – Sept. 30, 2005**	**BOC Group Oct. 1, 2004 – Dec. 31, 2004**	**BOC Group Oct. 1, 2005 – Dec. 31, 2005**	**BOC Group Jan. 1, 2005 – Dec. 31,**
Sales	5,497	1,436	1,425	5,486
Cost of sales and other operating costs	4,852	1,261	1,260	4,851
Other operating income	28	7	9	30
Operating profit (EBIT)	**673**	**182**	**174**	**665**
Interest income	50	10	10	50
Interest charges	108	27	19	100
Net interest	**–58**	**–17**	**–9**	**–50**
Other financial result	229	21	24	232
Financial result	**171**	**4**	**15**	**182**
Earnings before taxes on income	**844**	**186**	**189**	**847**
Taxes on income	196	48	44	192
Net income	**648**	**138**	**145**	**655**
Minority interests	–101	–18	–14	–97
Net income after minority interests	**547**	**120**	**131**	**558**

The figures from BOC's consolidated interim financial statements as of March 31, 2006 were used for the illustrative balance sheet as of March 31, 2006. BOC's quarterly results for the relevant period were used for the illustrative income statement for the period from January 1 to March 31, 2006.

Illustrative Financial Information (Linde including BOC) for Fiscal 2005

Summary illustrative income statement from January 1 to December 31, 2005*)

in € million	Published financial data: Linde Group Jan. 1 – Dec. 31, 2005	Published financial data: BOC Group Jan. 1 – Dec. 31, 2005	Consolidation and other adjustments	Combined Group (Linde, including BOC)
Sales	9,501	5,486	–207[a)]	14,780
Cost of sales and other operating costs	8,797	4,851	–188[a)]	13,460
Other operating income	209	30	–	239
Operating profit (EBIT)	**913**	**665**	**–19**	**1,559**
Interest income	75	50	–	125
Interest charges	199	100	566[b)]	875
Net interest	**–124**	**–50**	**–566**	**–740**
Other financial result	–	232	–	232
Financial result	**–124**	**182**	**–566**	**–508**
Earnings before taxes on income	**789**	**847**	**–585**	**1,051**
Taxes on income	279	192	–170[a)]	301
Net income	**510**	**655**	**–415**	**750**
Minority interests	–9	–97	–	–106
Net income after minority interests	**501**	**558**	**–415**	**644**
Earnings per share in €	4.19			4.28
Earnings per share in € – fully diluted –	3.96			4.09
Avg. no. of ordinary shares	119,564		37,000[c)]	156,564
Avg. no. of ordinary shares, full dilution	129,660		37,000[c)]	166,660

*) This is not pro forma financial information within the meaning of the European Commission Regulation (EC) No. 809/2004 of April 29, 2004

Notes to the summary illustrative income statement for the period from January 1 to December 31, 2005:

a) Recognition of the elimination of intercompany profits and of the sales and cost of sales arising from the planning and construction of plants by Linde for BOC.

In fiscal 2005, sales totaling €207 million and the corresponding cost of sales of €188 million were generated with BOC and were eliminated in ''other adjustments''. Deferred tax effects of €6 million were recognized as a result and based on an average tax rate for the Group of 29%.

b) Recognition of the interest expense in the amount of €566 million from the financing of the BOC acquisition.

In calculating the financing costs, the Company assumed that the capital increase of €1.8 billion and the issuance of hybrid capital in the amount of €1.43 billion had been completed as of January 1, 2005. The RCF tranche is considered to be not utilized for purposes of the Illustrative Financial Information (Linde including BOC). Interest is charged at the interest rates listed (see Introduction to the Illustrative Financial Information (Linde including BOC)). The spread on the agreed interest rates depends on the one hand on the completion of additional equity measures (capital increase and issuance of hybrid capital) and on the other hand on the rating received from a recognized rating agency. For purposes of the Illustrative Financial Information (Linde including BOC), the assumption was made that the additional equity measures were completed on the one hand, and that a rating of BBB–/Baa3 can be obtained on the other hand. Accordingly the following interest expenses for the individual tranches of the bridge loan were assumed:

Description	Amount in EUR	Interest type	Interest rate 2005	Spread (in %)	Interest rate total 2005	Interest expense for 12 mos.
Equity	1,800,000,000	n/a	n/a	n/a	n/a	n/a
Hybrid capital . .	1,300,000,000	10y Swap EURIBOR	3.4854%	4.00%	7.4854%	97,310,200
Tranche B	4,167,627,775	3m LIBOR	4.7575%	0.40%	5.1575%	214,947,070
RCF tranche . . .	0	3m EURIBOR	2.1840%	0.55%	2.7340%	0
Tranche A1	1,979,917,975	3m LIBOR	4.7575%	0.50%	5.2575%	104,094,980
Tranche A2	2,828,454,250	3m LIBOR	4.7575%	0.55%	5.3075%	150,121,341
	12,076,000,000					**566,473,591**

In addition, the tax income of €164 million on the recognized financing costs was also recognized. This assumes a tax rate of 29% (for information on how the tax rate was calculated, see "Assumptions Underlying the Preparation of the Illustrative Financial Information (Linde including BOC)"). This further assumes that the financing costs included are fully tax deductible in the combined Group. Because the Illustrative Financial Information (Linde including BOC) presents a hypothetical situation, the financing costs could be tax deductible only to a lesser extent after the actual acquisition of BOC due to changes in tax laws or other circumstances.

c) Recognition of the increase in the number of ordinary shares due to the planned capital increase.

As outlined in the "Assumptions Underlying the Preparation of the Illustrative Financial Information (Linde including BOC)," it is assumed that the capital increase had already occurred as of January 1, 2005. The assumption includes the issue of a total of 37,000,000 ordinary shares.

Illustrative Financial Information (Linde including BOC) for Q1 2006

Summary illustrative income statement from January 1 to March 31, 2006*)

in € million	Published financial data: Linde Group Jan. 1 - Mar. 31, 2006	BOC Group Jan. 1- Mar. 31, 2006	Consolidation and other adjustments	Combined Group (Linde, including BOC)
Sales	2,415	1,476	–40[a)]	3,851
Cost of sales and other operating costs	2,237	1,328	–37[a)]	3,528
Other operating income	47	8	–	55
Operating profit (EBIT)	**225**	**156**	**–3**	**378**
Interest income	23	11	–	34
Interest charges	41	18	141[b)]	200
Net interest	**–18**	**–7**	**–141**	**–166**
Other financial result	1	15	–	16
Financial result	**–17**	**8**	**–141**	**–150**
Earnings before taxes on income	**208**	**164**	**–144**	**228**
Taxes on income	73	42	–42[a)]	73
Net income	**135**	**122**	**–102**	**155**
Minority interests	–1	–12	–	–13
Net income after minority interests	**134**	**110**	**–102**	**142**
Earnings per share in €	1.12			0.91
Earnings per share in € – fully diluted –	1.05			0.87
Avg. no. of ordinary shares	119,864		37,000[c)]	156,864
Avg. no. of ordinary shares, full dilution	130,171		37,000[c)]	167,171

*) This is not pro forma financial information within the meaning of the European Commission Regulation (EC) No. 809/2004 of April 29, 2004

Summary Illustrative Consolidated Balance Sheet as of March 31, 2006*)

in € million	Published financial data: Linde Group	BOC Group	Consolidation and other adjustments	Combined Group (Linde, including BOC)
Goodwill	2,821	203	9,069[d)]	12,093
Other intangible assets	316	120	–	436
Tangible assets	3,707	3,786	–3[a)]	7,490
Other non-current assets	1,606	1,312	–	2,918
Non-current assets	**8,450**	**5,421**	**9,066**	**22,937**
Inventories	1,201	449	–	1,650
Other receivables and assets	2,113	1,142	–	3,255
Cash and cash equivalents and securities	877	736	–	1,613
Current assets	**4,191**	**2,327**	**–**	**6,518**
Total assets	**12,641**	**7,748**	**9,066**	**29,455**
Equity excluding minority interests	**4,555**	**3,207**	**–1,309[e)]**	**6,453**
Minority interests	52	188	–	240
Total equity	**4,607**	**3,395**	**–1,309**	**6,693**
Provisions for pensions and similar obligations	1,128	674	–	1,802
Other non-current provisions	119	123	–	242
Deferred tax liabilities	354	301	–[a)]	654
Other non-current liabilities	2,447	1,041	10,417[d)]	13,905
Non-current liabilities	**4,048**	**2,139**	**10,416**	**16,603**
Other current provisions	1,402	53	–41[b)]	1,414
Other current liabilities	2,584	2,161	–	4,745
Current liabilities	**3,986**	**2,214**	**–41**	**6,159**
Total equity and liabilities	**12,641**	**7,748**	**9,066**	**29,455**

*) This is not pro forma financial information within the meaning of the European Commission Regulation (EC) No. 809/2004 of April 29, 2004

Notes to the summary illustrative income statement from January 1 to March 31, 2006 and the summary illustrative balance sheet as of March 31, 2006:

a) Recognition of the elimination of intercompany profits and of sales and the cost of sales arising from the planning and construction of plants by Linde for BOC.

In the first quarter of 2006, sales totaling €40 million and the corresponding cost of sales of €37 million were generated with BOC and were eliminated by way of adjustments. Tangible assets were reduced accordingly by €3 million. Deferred tax effects of €1 million were recognized as a result based on an average tax rate for the Group of 29%.

b) Recognition of the interest expense of €141 million from the financing of the BOC acquisition.

In calculating the financing costs, the Company assumed that the capital increase of €1.8 billion and the issuance of hybrid capital in the amount of €1.3 billion had been completed as of January 1, 2006. The RCF tranche is considered not to be utilized for purposes of the Illustrative Financial Information (Linde including BOC). Interest is charged at the interest rates listed (see Notes to the Illustrative Financial Information (Linde including BOC)). The spread on the agreed interest rates depends on the one hand on additional equity measures and on the other hand on the rating received from a recognized rating agency. For purposes of the Illustrative Financial Information (Linde including BOC), the assumption was made that the additional equity measures were completed on the one hand, and that a rating of BBB-/Baa3 can be obtained on the other hand. Accordingly the following interest expenses for the individual tranches of the bridge loan were assumed:

Description	Amount in EUR	Interest type	Interest rate 2006	Spread (in %)	Interest rate total 2006	Interest expense for 3 months
Equity	1,800,000,000	n/a	n/a	n/a	n/a	n/a
Hybrid capital	1,300,000,000	10y Swap EURIBOR	3.5205%	4.00%	7.5205%	24,441,625
Tranche B	4,167,627,775	3m LIBOR	4.7227%	0.40%	5.1227%	53,373,871
RCF tranche	0	3m EURIBOR	2.6110%	0.55%	3.1640%	0
Tranche A1	1,979,917,975	3m LIBOR	4.7227%	0.50%	5.2227%	25,851,344
Tranche A2	2,828,454,250	3m LIBOR	4.7227%	0.55%	5.2727%	37,284,048
Total	**12,076,000,000**					**140,950,880**

In addition, the tax income of €41 million on the recognized financing costs was also recognized. This assumes a tax rate of 29% (for information on how the tax rate was calculated, see "Assumptions Underlying the Preparation of the Illustrative Financial Information (Linde including BOC)"). This further assumes that the financing costs included are fully tax deductible in the combined Group. Because the Illustrative Financial Information (Linde including BOC) presents a hypothetical situation, the financing costs could be tax deductible only to a lesser extent after the actual acquisition of BOC due to changes in tax laws or other circumstances.

The financing expense of €141 million was recognized in other non-current liabilities, and the deferred tax receivable was recognized as a reduction in other current provisions in the summary illustrative balance sheet as of March 31, 2006.

c) Recognition of the increase in the number of ordinary shares due to the planned capital increase.

As outlined in the "Assumptions Underlying the Preparation of the Illustrative Financial Information (Linde including BOC)," it is assumed that the capital increase was completed as of January 1, 2006. The assumption includes the issue of a total of 37,000,000 ordinary shares.

d) Recognition of the BOC acquisition and the corresponding consolidation measures to be performed.

Concerning the financing of the BOC acquisition, the assumption was made as outlined in the Introduction that liabilities totaling €10,276 million and accrued interest of €141 million had to be recognised in the illustrative balance sheet. The carrying amount of the investment was recognized in the amount of €12,076 million and eliminated as part of the consolidation of the companies (i.e. the purchase price allocation). At the time of preparation of this Offering Circular, only publicly accessible information was available; no purchase price allocation was performed due to a lack of reliable data. The total difference between BOC's equity before the purchase price allocation and the carrying amount of the investment was allocated to goodwill by way of adjustments (€9,069 million).

e) Recognition in equity of the capital increase and the other items recognized in profit or loss.

For purposes of the illustrative balance sheet as of March 31, 2006, it was assumed that the capital increase in the amount of €1.8 billion was already completed and as a result the equity has been increased. Moreover, the entries from the consolidation and other adjustments to be included in net profit or loss and the financing of the share purchase totaling €102 million were also recognized. BOC's capital consolidation had a negative effect of €3,007 million on the share capital.

RECENT DEVELOPMENTS AND OUTLOOK

We continued to perform well during the three months ended March 31, 2006. Since the beginning of 2006, we have experienced no material adverse changes with respect to our continuing economic development. Consolidated sales in this period amounted to €2,415 million, an increase of 14.0% against the prior-year period. Our operating result (EBIT) for the same period increased 36.4% to €225 million, and net income after minority interests increased 50.6% to €134 million.

Both of our business segments contributed to this growth. Sales in our Gas and Engineering business segment for the three months ended March 31, 2006 amounted to €1,494 million, an increase of 12.1% over the same period in 2005. The operating result (EBIT) in our Gas und Engineering business segment for the three months ended March 31, 2006 amounted to €211 million, an increase of 24.9% compared to the same period in 2005. Sales in our Material Handling business segment for the three months ended March 31, 2006 amounted to €922 million, an increase of 19.6% compared to the same period in 2005. The operating result (EBIT) in our Material Handling business segment for the three months ended March 31, 2006 amounted to €47 million, an increase of 80.8% compared to the same period in 2005.

During 2006, we issued a pre-conditional offer to acquire all shares of BOC for 1,600 pence per share in cash. The offer is subject to approval by the U.S. anti-trust authorities, or their waiver of the approval requirement. Once the acquisition offer has been issued, it is also subject to the approval of the shareholders of BOC. We currently believe that the transaction can be completed within the third quarter of 2006. The cash funds needed for the acquisition will be made available under a credit facility for a total of £8,900,000,000 and €2,000,000,000. This acquisition loan will be refinanced by a capital increase of up to approximately €1.8 billion, by issuing the Bonds in the amount of approximately €1.3 billion described herein, and through bonds, bank loans, and the sale of some of our business areas.

On the basis of our positive performance during the three months ended March 31, 2006, we expect that during financial year 2006 we will be able to increase our consolidated sales and production compared to financial year 2005, with a simultaneous proportional increase in inventories and costs. We expect earnings to improve further, in terms of the net income of our Group in its current configuration. This projection, however, does not take account of the effects of the above acquisition for financial year 2006. In our future earnings performance, we expect, over the medium term, that the acquisition of BOC is likely to cause a deterioration of our financial result and that amortization will be increased in the process of allocating the purchase price to previously undisclosed reserves.

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